AMARIN CORP PLC\UK
Form 424B5
January 05, 2011
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Registration No. 333-170505

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 5, 2011

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 23, 2010)

American Depositary Shares

Representing Ordinary Shares

We are offering American Depositary Shares, or ADSs. Each ADS represents one of our ordinary shares, par value £0.50 per share. Our ADSs are listed on The NASDAQ Capital Market under the symbol AMRN . On January 4, 2011, the last reported sale price of our ADSs on The NASDAQ Capital Market was $7.70 per share.

Investing in our ADSs involves a high degree of risk. Please read Risk Factors beginning on page S-4 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER ADS	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Amarin Corporation plc, Before Expenses	$	$

Delivery of the ADSs is expected to be made on or about January , 2011. We have granted the underwriters an option for a period of 30 days to purchase up to an additional ADSs solely to cover over-allotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $ and the total proceeds to us, before expenses, will be $.

Joint Book-Running Managers

Jefferies **Leerink Swann**

Co-Lead Manager

Canaccord Genuity

Prospectus Supplement dated January , 2011.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the

accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the sections of this prospectus supplement and accompanying prospectus entitled Where You Can Find More Information and Incorporation of Certain Information by Reference.

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About This Prospectus Supplement

This prospectus supplement and the accompanying prospectus form part of a registration statement on Form F-3 that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. This document contains two parts. The first part consists of this prospectus supplement, which provides you with specific information about this offering. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined.

In this prospectus supplement, the Company, we, us, and our and similar terms refer to Amarin Corporation plc and its subsidiaries on a consolidated basis. References to our ordinary shares refer to the ordinary shares of Amarin Corporation plc. References to ADSs refer to American Depositary Shares, each of which represents one ordinary share of Amarin Corporation plc.

All references in this prospectus supplement to our consolidated financial statements include, unless the context indicates otherwise, the related notes.

The industry and market data and other statistical information contained in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference are based on management s own estimates, independent publications, government publications, reports by market research firms or other published independent sources, and, in each case, are believed by management to be reasonable estimates. Although we believe these sources are reliable, we have not independently verified the information. None of the independent industry publications used in this prospectus supplement, the accompanying prospectus or the documents we incorporate by reference were prepared on our or our affiliates behalf, and none of the sources cited by us consented to the inclusion of any data from its reports, nor have we sought their consent.

This prospectus supplement, the accompanying prospectus, and the information incorporated herein and therein by reference includes trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement or the accompanying prospectus are the property of their respective owners.

Cautionary Statement About Forward-Looking Information

Certain information set forth in this prospectus supplement, set forth in the accompanying prospectus or incorporated by reference in this prospectus supplement, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are intended to be covered by the safe harbor created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as believe, expect, may, will, should, wou could, seek, intend, plan, estimate, goal, anticipate, project or other comparable terms. Forward-looking statements involve inheren uncertainties which could cause actual results to differ materially from those in the forward-looking statements, as a result of various factors including those risks and uncertainties included in this prospectus supplement under the caption Risk Factors, and those risks and uncertainties described in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. We urge you to consider those risks and uncertainties in evaluating our forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. We further caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein or in the accompanying prospectus (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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Prospectus Summary

The following summary of our business highlights some of the information contained elsewhere in or incorporated by reference into this prospectus supplement or the accompanying prospectus. Because this is only a summary, however, it does not contain all of the information that may be important to you. You should carefully read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, which are described under Where You Can Find More Information and Incorporation of Certain Information by Reference in this prospectus supplement and the accompanying prospectus. You should also carefully consider the matters discussed in the section in this prospectus supplement entitled Risk Factors and in the accompanying prospectus and in other periodic reports incorporated herein by reference.

Our Company

We are a clinical-stage biopharmaceutical company focused on developing improved treatments for cardiovascular disease. Our development programs capitalize on our work in the field of lipid science and the therapeutic benefits of essential fatty acids in cardiovascular disease. We are currently focusing our efforts on our lead candidate, AMR101. AMR101 is believed to have an impact on a number of biological factors in the body such as anti-inflammatory mechanisms, cell membrane composition and plasticity, triglyceride levels and regulation of glucose metabolism.

We are concurrently conducting two Phase III registration trials, referred to as the MARINE (also known as Study 16) and ANCHOR (also known as Study 17) trials. Although the trials are being run concurrently, both of the trials are separate registration trials seeking to demonstrate safety and efficacy for different indications.

Our strategy is to seek approval for two indications supported by the MARINE and ANCHOR trials. The indication being evaluated in the MARINE trial is independent of the ANCHOR trial and could potentially be submitted independently, whereas, the indication being evaluated in the ANCHOR trial is dependent upon also showing success in the MARINE trial. In order to obtain a separate indication for AMR101 based on the ANCHOR trial results, the Food and Drug Administration, or FDA, requires that we have a clinical outcomes study substantially underway at the time of filing a New Drug Application, or NDA. If we elect to seek this separate indication in our initial NDA filing and commence an outcomes study, we will need to seek additional financing, through a commercial partner or otherwise. The results of an outcomes study are not required for FDA approval of the broader indication, and an outcomes study is not required for the indication being studied in the MARINE trial.

On November 29, 2010, we reported that the MARINE trial, investigating AMR101 as a treatment for very high triglycerides ($\geq$500 mg/dL), met its primary efficacy endpoints as defined in the clinical trial protocol and demonstrated a positive safety profile. On December 16, 2010, we reported that, in the ANCHOR trial, we have completed patient randomization into the 12-week treatment period.

Corporation Information

Amarin Corporation plc (formerly Ethical Holdings plc) is a public limited company listed in the United States on the NASDAQ Capital Market. Amarin was originally incorporated in England as a private limited company on March 1, 1989 under the Companies Act 1985, and re-registered in England as a public limited company on March 19, 1993.

Our registered office is located at 110 Cannon Street, London, EC4N 6AR, England. Our principal executive offices are located at First Floor, Block 3, The Oval, Shelbourne Road, Ballsbridge, Dublin 4, Ireland and our telephone number is +353-1-6699-020. Our principal research and development facilities are located at 12 Roosevelt Avenue, Mystic, Connecticut 06355, USA. Our website address is *www.amarincorp.com*. Information contained on, or accessible through, our website is not a part of this prospectus supplement or the accompanying prospectus.

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The Offering

ADSs offered by us	ADSs
Ordinary shares to be outstanding after this offering	shares

Over-allotment option

We have granted the underwriters an option to purchase up to additional ADSs solely to cover over-allotments, if any. This option is exercisable, in whole or in part, for a period of 30 days from the date of this prospectus supplement.

Use of proceeds

We intend to use the net proceeds to prepare for the commercialization of AMR101, our filing of a New Drug Application, or NDA, and for working capital and general corporate purposes. See Use of Proceeds.

Risk Factors

This investment involves a high degree of risk. See the information contained in or incorporated by reference under Risk Factors beginning on page S-4 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement.

NASDAQ Capital Market symbol

Our ADSs are listed on The NASDAQ Capital Market under the symbol AMRN .

The number of ordinary shares to be outstanding after this offering is based on 106,856,731 ordinary shares outstanding on December 31, 2010 and excludes as of that date:

- 10,027,584 ADSs, each ADS representing one ordinary share, issuable upon exercise of options outstanding as of December 31, 2010, at a weighted average exercise price of $2.69 per share, issuable under our 2002 Stock Option Plan (the Plan);
- warrants to purchase a total of 34,024,132 ADSs, each ADS representing one ordinary share, at a weighted average exercise price of $1.50 per share; and
- 2,261,803 ADSs, each ADS representing one ordinary share, available for grant as of December 31, 2010 under the Plan.

If the underwriters over-allotment option is exercised in full, we will issue and sell an additional ADSs and will have ordinary shares outstanding after the offering.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of their over-allotment option.

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Risk Factors

An investment in our ADSs and our ordinary shares involves a high degree of risk. Before deciding whether to invest in our ADSs and our ordinary shares, you should consider carefully the risks described below, together with other information in this prospectus supplement, the accompanying prospectus, the information and documents incorporated by reference, and in any free writing prospectus that we have authorized for use in connection with this offering. Any of these risks could seriously harm our business, financial condition, results of operations or cash flow, resulting in the decline of the trading price of our ADSs and a loss of all or part of your investment.

Risks Related to this Offering

Management will have broad discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively.

We have not designated the amount of net proceeds we will use for any particular purpose. Accordingly, our management will have broad discretion as to the application of the net proceeds and could use them for purposes other than those contemplated at the time of this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Moreover, our management may use the net proceeds for corporate purposes that may not increase our profitability or our market value. See Use of Proceeds for a description of our management s intended use of the proceeds from this offering.

You will experience immediate dilution in the book value per share of the ADSs you purchase.

Because the price per share of our ADSs being offered is substantially higher than the book value per share of our ADSs, you will suffer substantial dilution in the net tangible book value of the ADSs you purchase in this offering. Based on the public offering price of $ per ADS, if you purchase ADSs in this offering, you will suffer immediate and substantial dilution of $ per ADS compared to the net tangible book value of the ADSs as of September 30, 2010. See Dilution for a more detailed discussion of the dilution you will incur in this offering.

Risks Related to Our Financial Position and Capital Requirements

We have a history of losses and anticipate that we will incur continued losses for the foreseeable future.

We have not been profitable in any of the last five fiscal years. For the fiscal years ended December 31, 2009, 2008 and 2007, we reported losses under IFRS of approximately $59.3 million, $20.0 million and $37.8 million, respectively. Substantially all of our operating losses resulted from costs incurred in connection with our development programs and from general and administrative costs associated with our operations. We expect to incur additional and increasing operating losses over the next several years. These losses, combined with expected future losses, have had and will continue to have an adverse effect on our cash resources, stockholders equity and working capital. We expect our research and development expenses to significantly increase in connection with our ongoing Phase III clinical trials for AMR101 and other studies for our product candidates. In addition, if we obtain regulatory approval for any of our product candidates, we may incur significant sales, marketing, in-licensing and outsourced manufacturing expenses, as well as continued research and development expenses. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or when we will become profitable, if at all.

We have not generated any revenue from our product candidates and may never be profitable.

Our ability to become profitable depends upon our ability to generate revenue. Unless and until marketing approval is obtained from either the U.S. Food and Drug Administration, which we refer to as the FDA, or European Medicines Evaluation Agency, which we refer to as the EMEA, for any of our product candidates, or we are otherwise able to acquire rights to products or product candidates that have received regulatory approval or are at an advanced stage of development and can be readily commercialized, we may not be able to generate sufficient revenues to attain profitability. In addition, our ability to generate profits after any FDA or EMEA approval of our product candidates is subject to our ability to contract for the manufacture of commercial quantities of our product candidates at acceptable cost levels and establish sales and marketing capabilities or identify and enter into one or more strategic collaborations to effectively market and sell our product candidates.

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Even if one or more of our product candidates is approved for commercial sale, which we do not expect to occur for several years, any approved product candidate may not gain market acceptance or achieve commercial success. In addition, we would anticipate incurring significant costs associated with commercializing any approved product. We may not achieve profitability soon after generating product sales, if ever. If we are unable to generate product revenues, we will not become profitable and may be unable to continue operations without continued funding.

Our ability to generate revenues depends on obtaining regulatory approvals for our products.

In order to successfully commercialize a product, we or our potential partners will be required to conduct tests and successfully complete clinical trials needed in order to meet regulatory requirements and to obtain applicable regulatory approvals. The costs of developing and obtaining regulatory approvals for pharmaceutical products can be substantial. Our ability to commercialize any of our products in development is dependent upon the success of development efforts in clinical studies. If these clinical trials fail to produce satisfactory results, or if we are unable to maintain the financial and operational capability to complete these development efforts, we may be unable to generate revenues. Even if we obtain regulatory approvals, the timing or scope of any approvals may prohibit or reduce our ability to commercialize products successfully. For example, if the approval process takes too long, we may miss market opportunities and give other companies the ability to develop competing products or establish market dominance. Additionally, the terms of any approvals may not have the scope or breadth needed for us to commercialize products successfully.

Our historical financial results do not form an accurate basis for assessing our current business.

As a consequence of our decision in 2009 to focus on product development for cardiovascular indications and the discontinuation of development work related to other product candidates, together with our acquisition of Ester Neurosciences Limited in December 2007, our historical financial results do not form an accurate basis upon which investors should base their assessment of our business and prospects. We are now conducting Phase III clinical trials for AMR101 and expect our research and development expenses to increase significantly over levels in recent years. Accordingly, our historical financial results reflect a substantially different business from that currently being conducted. In addition, we have not yet demonstrated an ability to obtain regulatory approval for or commercialize a product candidate. Consequently, any predictions about our future performance may not be as accurate as they could be if we had a history of successfully developing and commercializing pharmaceutical products.

We are undergoing significant organizational change. Failure to manage disruption to the business or the loss of key personnel could have an adverse effect on our business.

During 2009 and 2010 we made significant changes to both our management structure and the locations from which we operate. We opened a new office in Mystic, CT USA in September 2008 and have transitioned substantially all operating activities and functions from Dublin, Ireland to Mystic. As a result of this, key employees may be distracted from their usual role, and our business may experience a loss of continuity. Any of these factors could result in delays in development projects, failure to achieve managerial targets or other disruption to the business which could have material adverse affects on our business and results of operations.

We are highly dependent upon the efforts of our senior management. The loss of the services of one or more members of senior management could have a material adverse effect on us. As a small company with a streamlined management structure, the departure of any key person could have a significant impact and would be potentially disruptive to our business until such time as a suitable replacement is hired. Furthermore, because of the specialized nature of our business, as our business plan progresses we will be highly dependent upon our ability to attract and retain qualified scientific, technical and key management personnel. There is intense competition for qualified personnel in the areas of our activities. In this environment, we may not be able to attract and retain the personnel necessary for the development of our business, particularly if we do not achieve profitability. The failure to recruit key scientific, technical and management personnel would be detrimental to our ability to implement our business plan.

We will require substantial additional resources to fund our operations and to develop our product candidates. If we cannot find additional capital resources, we will have difficulty in operating as a going concern and growing our business.

We currently operate with limited resources. On September 30, 2010, we had a cash balance of approximately $31.4 million. Based upon current business activities and existing cash resources (including the proceeds received from this offering), we forecast having sufficient cash to fund operations for at least a period of 12 months from the date of this prospectus supplement. Our future capital requirements will depend on many factors, including the:

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- progress of pre-clinical development and laboratory testing and clinical trials;
- time and costs involved in obtaining regulatory approvals;
- number of product candidates we pursue;
- costs involved in filing and prosecuting patent applications and enforcing or defending patent claims; and
- the costs associated with commercializing our product candidates if they receive regulatory approval, including the cost and timing of developing sales and marketing capabilities, or entering into strategic collaboration with others relating to the commercialization of our product candidates.

Furthermore, in order to potentially obtain the broadest possible label for AMR101 in the United States based on the results of our clinical Study 17 (known as the ANCHOR trial), we are required to have an outcomes study substantially underway at the time of our New Drug Application, or NDA, filing. An outcomes study would likely involve considerable cost and could last for years. We do not expect that the proceeds we receive from this offering will be sufficient to fund our operations and an outcomes study through completion. Accordingly, in the event that we do not receive funding from a commercial partner for an outcomes study on acceptable terms, if at all, we will be required to seek additional capital resources to fund completion of such study or to file our NDA for a potentially narrower indication.

Our ability to execute our business strategy and sustain our infrastructure at our current level will be impacted by whether or not we have sufficient funds. Depending on market conditions and our ability to maintain financial stability, we may not have access to additional funds on reasonable terms or at all. Any inability to obtain additional funds when needed would have a material adverse effect on our business and on our ability to operate on an ongoing basis.

The continued negative economic conditions would likely negatively impact Amarin s ability to obtain financing on acceptable terms.

While we expect to seek additional funding through public or private financings, we may not be able to obtain financing on acceptable terms, or at all. In addition, the terms of any financings may be dilutive to, or otherwise adversely affect, holders of our outstanding securities. Many people believe that participants in financial markets in the United States are increasingly less willing to fund drug discovery companies like us. There can be no assurance that we will be able to access equity or credit markets in order to finance our current operations or expand development programs for any of our product candidates, or that there will not be a further deterioration in financial markets and confidence in economies. We may also have to scale back or further restructure our operations. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our research or development programs.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights.

We may seek additional capital through a combination of private and public equity offerings, debt financings and collaboration, strategic and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder.

As of December 31, 2010, there were warrants outstanding for the purchase of up to 34,024,132 ADSs (in the form of ordinary shares) with a weighted average exercise price of $1.50 per share. It is likely that we may issue additional warrants to purchase ADSs or ordinary shares in connection with any future financing. Further, as of December 31, 2010 we also had outstanding stock options to purchase 10,027,584 ADSs at an average exercise price of $2.69 per share. The exercise of any of these options or warrants will further dilute your ownership interest.

Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaboration, strategic alliance and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

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Risks Related to the Development and Commercialization of our Product Candidates

We may not be successful in developing or marketing future products if we cannot meet the extensive regulatory requirements of the FDA and other regulatory agencies for quality, safety and efficacy.

The success of our research and development efforts is dependent in part upon our ability, and the ability of our partners or potential partners, to meet regulatory requirements in the jurisdictions where we or our partners or potential partners ultimately intend to sell such products once approved. The development, manufacture and marketing of pharmaceutical products are subject to extensive regulation by governmental authorities in the U.S., the E.U., Japan and elsewhere. In the U.S., the FDA generally requires pre-clinical testing and clinical trials of each drug to establish its safety and efficacy and extensive pharmaceutical development to ensure its quality before its introduction into the market. Regulatory authorities in other jurisdictions impose similar requirements. The process of obtaining regulatory approvals is lengthy and expensive and the issuance of such approvals is uncertain. The commencement and rate of completion of clinical trials and the timing of obtaining marketing approval from regulatory authorities may be delayed by many factors, including:

- the lack of efficacy during clinical trials;
- the inability to manufacture sufficient quantities of qualified materials under current good manufacturing practices for use in clinical trials;
- slower than expected rates of patient recruitment;
- the inability to observe patients adequately after treatment;
- changes in regulatory requirements for clinical or preclinical studies;
- the emergence of unforeseen safety issues in clinical or preclinical studies;
- delay, suspension, or termination of a trial by the institutional review board responsible for overseeing the study at a particular study site;
- unanticipated changes to the requirements imposed by regulatory authorities on the extent, nature or timing of studies to be conducted on quality, safety and efficacy; and
- government or regulatory delays or clinical holds requiring suspension or termination of a trial.

Even if we obtain positive results from early stage pre-clinical or clinical trials, we may not achieve the same success in future trials. Similarly, positive results from studies in Japan of the active ingredient in AMR101 may not result in the same success in trials outside of Japan. Clinical trials that we or potential partners conduct may not provide sufficient safety and efficacy data to obtain the requisite regulatory approvals for product candidates. The failure of clinical trials to demonstrate safety and efficacy for our desired indications could harm the development of that product candidate as well as other product candidates, and our business and results of operations would suffer. For example, the efficacy results of our AMR101 Phase III clinical trials for the treatment of Huntington s disease were negative, as a result of which we revised our clinical strategy and shifted our focus of AMR101 towards the treatment of cardiovascular disease.

Any approvals that are obtained may be limited in scope, may require additional post-approval studies or may require the addition of labeling statements, such as a contraindication or a black box warning that the drug carries significant risks of serious or life-threatening adverse effects or other requirements. Any of these or similar circumstances could adversely affect our ability to earn revenues from the sale of such products. Even in circumstances where products are approved by a regulatory body for sale, the regulatory or legal requirements may change over time, or new safety or efficacy information may be identified concerning a product, which may lead to the withdrawal of a product from the market or similar use restrictions. The discovery of previously unknown problems with a product or manufacturer may result in restrictions on that product or manufacturer, including withdrawal of the product from the market, which would have a negative impact on our potential revenue stream.

After approval, our products will be subject to extensive government regulation.

Once a product is approved, numerous post-approval requirements apply. Among other things, the holder of an approved NDA is subject to periodic and other monitoring and reporting obligations enforced by the FDA and other regulatory bodies, including obligations to monitor and report adverse events and instances of the failure of a product to meet the specifications in the approved application. Application holders must also submit advertising and other promotional material to regulatory authorities and report on ongoing clinical trials.

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With respect to sales and marketing activities by our partners, advertising and promotional materials must comply with FDA rules in addition to other potentially applicable federal and local laws in the United States and in other countries. In the United States, the distribution of product samples to physicians must comply with the requirements of the U.S. Prescription Drug Marketing Act. Manufacturing facilities remain subject to FDA inspection and must continue to adhere to the FDA s current good manufacturing practice requirements. Application holders must obtain FDA approval for product and manufacturing changes, depending on the nature of the change. Sales, marketing, and scientific/educational grant programs must also comply with the U.S. Medicare-Medicaid Anti-Fraud and Abuse Act, as amended, the U.S. False Claims Act, as amended and similar state laws. Pricing and rebate programs must comply with the U.S. Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended. If products are made available to authorized users of the U.S. Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to U.S. federal and state consumer protection and unfair competition laws. Similar requirements exist in all of these areas in other countries.

Depending on the circumstances, failure to meet these post-approval requirements can result in criminal prosecution, fines or other penalties, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, or refusal to allow us to enter into supply contracts, including government contracts. In addition, even if we or our potential partners comply with FDA and other requirements, new information regarding the safety or effectiveness of a product could lead the FDA to modify or withdraw a product approval. Adverse regulatory action, whether pre- or post-approval, can potentially lead to product liability claims and increase our product liability exposure. We or our potential partners must also compete against other products in qualifying for reimbursement under applicable third party payment and insurance programs.

We may be dependent upon the success of a limited range of products.

If development efforts for our products are not successful for any indications or if they are not approved by the FDA, or if adequate demand for our products is not generated, our business will be materially and adversely affected. Even if we are able to develop additional products from our research and development efforts, the range of products we will be able to commercialize may be limited. This could restrict our ability to respond to adverse business conditions. If we are not successful in developing any future product or products, or if there is not adequate demand for any such products or the market for such product develops less rapidly than we anticipate, we may not have the ability to shift our resources to the development of alternative products. As a result, the limited range of products we intend to develop could constrain our ability to generate revenues and achieve profitability.

Our future products may not be able to compete effectively against our competitors pharmaceutical products.

The pharmaceutical industry is highly competitive. If we are successful in completing the development of any of our products, we may face competition to the extent other pharmaceutical companies have on the market or are able to develop products for the treatment of similar indications. Potential competitors in this market include companies with greater resources and name recognition than we have. Furthermore, to the extent we are able to acquire or develop additional marketable products in the future, such products will compete with a variety of other products within the United States or elsewhere, possibly including established drugs and major brand names. Competitive factors, including generic competition, could force us to lower prices or could result in reduced sales. In addition, new products developed by others could emerge as competitors to our future products. Products based on new technologies or new drugs could render our products obsolete or uneconomical.

Our potential competitors both in the United States and Europe include large, well-established pharmaceutical companies, specialty pharmaceutical sales and marketing companies and specialized cardiovascular treatment companies, including GlaxoSmithKline, which currently markets Lovaza, a prescription-grade Omega-3 fatty acid indicated for patients with very high triglycerides. In addition, we may compete with universities and other institutions involved in the development of technologies and products that may compete with ours. Many of our competitors will likely have greater resources than we do, including financial, product development, marketing, personnel and other resources. Our projected revenue streams for our product candidates, if approved, could be significantly eroded if a competing product obtains marketing approval, particularly if this approval is obtained before the approval of our product candidate.

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The success of our future products will also depend in large part on the willingness of physicians to prescribe these products to their patients. Our future products may compete against products that have achieved broad recognition and acceptance among medical professionals. In order to achieve an acceptable level of subscriptions for our future products, we must be able to meet the needs of both the medical community and end users with respect to cost, efficacy and other factors.

Our current lead product candidate is a prescription grade Omega-3 fatty acid. Omega-3 fatty acids are marketed by other companies as a dietary supplement. As a result, our lead product candidate, if approved, may be subject to substitution and competition.

Our current lead product candidate, AMR101, is a prescription grade Omega-3 fatty acid. Omega-3 fatty acids are naturally occurring substances in various foods, including fatty fish. Omega-3 fatty acids are also marketed by others as a dietary supplement. We believe the pharmaceutical grade purity of AMR101, if approved, will have a superior therapeutic profile to naturally occurring Omega-3 fatty acids and dietary supplements. However, we cannot be sure physicians will view AMR101, if approved, as superior. To the extent the price of AMR101, if approved, is significantly higher than the prices of commercially available Omega-3 fatty acids marketed by other companies as dietary supplements, physicians may recommend these commercially alternatives instead of writing prescriptions for AMR101 or patients may elect on their own to take commercially available Omega-3 fatty acids. Either of these outcomes may adversely impact our results of operations by limiting how we price our product.

In order to commercialize our future products, we may need to find a collaborative partner to help market and sell our products.

Our strategy for commercializing currently anticipates that we will enter into collaborative arrangements with one or more pharmaceutical companies that have product development resources and expertise, established distribution systems and direct sales forces to successfully market our products. If so, we will be reliant on one or more of these strategic partners to generate revenue on our behalf.

We may not be successful in finding a collaborative partner to help market and sell our products, or may be delayed in doing so, in which case we would not receive revenue or royalties on the timeframe and to the extent that we currently anticipate. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. If that were to occur, we may have to curtail the development of a particular product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we will need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we cannot raise sufficient funds, we will not be able to bring our product candidates to market and generate product revenue.

For example, in October 2009, we announced our heightened strategic and operating focus on cardiovascular disease and our cessation of research and development of product candidates to treat central nervous system disorders. As of the date of this prospectus supplement, we have not received any acceptable offers to acquire, out-license or otherwise continue the development of any of these product candidates. As a result, we wrote down the value of our central nervous system disorders program to zero as of December 31, 2009.

Potential technological changes in our field of business create considerable uncertainty.

We are engaged in the biopharmaceutical field, which is characterized by extensive research efforts and rapid technological progress. New developments in research are expected to continue at a rapid pace in both industry and academia. We cannot assure you that research and discoveries by others will not render some or all of our programs or product candidates uncompetitive or obsolete. Our business strategy is based in part upon new and unproven technologies to the development of biopharmaceutical products for the treatment of cardiovascular diseases. We cannot assure you that unforeseen problems will not develop with these technologies or applications or that any commercially feasible products will ultimately be developed by us.

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We are subject to continuing potential product liability.

In October 2003, we sold Gacell Holdings AB, the Swedish holding company of Amarin Development AB, which we refer to as ADAB, our Swedish drug development subsidiary, to Watson Pharmaceuticals, Inc. In February 2004, we sold our U.S. subsidiary, Amarin Pharmaceuticals Inc., and certain assets, to Valeant Pharmaceuticals International, or Valeant. In connection with these transactions, we provided a number of representations and warranties to Watson and Valeant regarding the respective businesses sold to them, and other matters, and we undertook to indemnify Watson and Valeant under certain circumstances for breaches of such representations and warranties. We are not aware of any circumstances which could reasonably be expected to give rise to an indemnification obligation under our agreements with either Watson or Valeant. However, we cannot predict whether matters may arise in the future which were not known to us and which, under the terms of the relevant agreements, could give rise to a claim against us.

Although we disposed of the majority of our former commercial products in 2003 and 2004, we remain subject to the potential risk of product liability claims relating to the manufacturing and marketing of our former products during the period prior to their divestiture. Any person who is injured as a result of using one of our former products during our period of ownership may have a product liability claim against us without having to prove that we were at fault. The potential for liability exists despite the fact that our former subsidiary, Amarin Pharmaceuticals Inc., conducted all sales and marketing activities with respect to such products. Although we have not retained any liabilities of Amarin Pharmaceuticals Inc. in this regard, as the prior holder of ownership rights to such former products, third parties could seek to assert potential claims against us. Since we distributed and sold our products to a wide number of end users, the risk of such claims could be material.

We do not presently carry product liability insurance to cover any such risks. If we were to seek insurance coverage, we may not be able to maintain product liability coverage on acceptable terms if our claims experience results in high rates, or if product liability insurance otherwise becomes costlier or unavailable because of general economic, market or industry conditions. If we add significant products to our portfolio, we will require product liability coverage and may not be able to secure such coverage at reasonable rates or at all.

Product liability claims could also be brought by persons who took part in clinical trials involving our current or former development stage products. A successful claim brought against us could have a material adverse effect on our business.

We may become subject to product liability claims as a result of our prior sales and marketing activities related to Permax.

Amarin was responsible for the sales and marketing of Permax from May 2001 until February 2004. On May 17, 2001, Amarin acquired the U.S. sales and marketing rights to Permax from Elan. An affiliate of Elan had previously obtained the licensing rights to Permax from Eli Lilly and Company in 1993. Eli Lilly originally obtained approval for Permax on December 30, 1988, and has been responsible for the manufacture and supply of Permax since that date. On February 25, 2004, Amarin sold its U.S. subsidiary, Amarin Pharmaceuticals, Inc., including the rights to Permax, to Valeant.

In late 2002, Eli Lilly, as the holder of the NDA for Permax, received a recommendation from the FDA to consider making a change to the package insert for Permax based upon the very rare observation of cardiac valvulopathy in patients taking Permax. While Permax has not been definitely proven as the cause of this condition, similar reports have been notified in patients taking other ergot-derived pharmaceutical products, of which Permax is an example. In early 2003, Eli Lilly amended the package insert for Permax to reflect the risk of cardiac valvulopathy in patients taking Permax and also sent a letter to a number of doctors in the United States describing this potential risk. Causation has not been established, but is thought to be consistent with other fibrotic side effects observed in Permax.

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On March 29, 2007, the FDA announced that the manufacturers of pergolide drug products will voluntarily remove these drug products, including Permax, from the market. Further information about the removal of Permax and other pergolide drug products is available on the FDA s website.

Six cases alleging claims related to cardiac valvulopathy and Permax were filed in April 2008 in the United States and currently remain pending. Eli Lilly, Valeant, Amarin Pharmaceuticals and unidentified parties are named as defendants in these cases and are defending against the claims and allegations. Amarin has not been named as a defendant or served with the complaints from these cases.

Ten other claims related to cardiac valvulopathy and Permax and one claim related to compulsive gambling and Permax are or were being threatened against Eli Lilly, Elan, and/or Valeant and could possibly implicate Amarin.

We have reviewed the position and, having taken external legal advice, consider the potential risk of significant liability arising for Amarin from these legal actions to be remote. No provision is booked in the accounts as of December 31, 2009.

Risks Related to Our Reliance on Third Parties

We rely on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet established deadlines for the completion of such clinical trials.

Our reliance on these third parties for clinical development activities reduces our control over these activities. However, if we sponsor clinical trials, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as good clinical practices, for conducting, recording, and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be delayed in obtaining regulatory approvals for our product candidates and may be delayed in our efforts to successfully commercialize our product candidates for targeted diseases.

Our supply of products for clinical trials and ultimately for commercial supply is dependent upon relationships with manufacturers and key suppliers.

We have no in-house manufacturing capacity and, to the extent we are successful in completing the development of our product candidates and/or acquiring or developing other marketable products in the future, we will be obliged to rely on contract manufacturers. We cannot assure you that we will successfully manufacture any product we may develop, either independently or under manufacturing arrangements, if any, with third party manufacturers. Moreover, if any manufacturer should cease doing business with us or experience delays, shortages of supply or excessive demands on their capacity, we may not be able to obtain adequate quantities of product in a timely manner, or at all. Manufacturers are required to comply with current NDA commitments and good manufacturing practices requirements enforced by the FDA, and similar requirements of other countries. The failure by a manufacturer to comply with these requirements could affect its ability to provide us with product.

Any manufacturing problem or the loss of a contract manufacturer could be disruptive to our operations and result in lost sales. Additionally, we will be reliant on third parties to supply the raw materials needed to manufacture our potential products. Any reliance on suppliers may involve several risks, including a potential inability to obtain critical materials and reduced control over production costs, delivery schedules, reliability and quality. Any unanticipated disruption to future contract manufacture caused by problems at suppliers could delay shipment of products, increase our cost of goods sold and result in lost sales.

In the past and currently, we purchase all supplies of the bulk compound (ethyl-EPA), which constitutes the only pharmaceutically active ingredient of AMR101, from a single supplier with a single manufacturing facility. While we have contractual freedom to source this ingredient elsewhere, there is no guarantee we will either be successful in identifying alternative supplier(s) or that these manufacturers will be qualified to manufacture the product to our specifications or that such future supplier(s) will have the manufacturing capacity to meet future requirements. All such suppliers are subject to regulatory approval. Our current supplier currently does not have sufficient manufacturing capacity to meet expected future commercial supply requirements and we cannot assure you that it or an alternative supplier will have the necessary capacity to meet our requirements or that we can contract with any such manufacturer on acceptable terms.

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We do not currently have the capability to undertake marketing or sales of any potential products.

We have not invested in marketing or product sales resources. We cannot assure you that we will be able to acquire such resources. We cannot assure you that we will successfully market any product we may develop, either independently or under marketing arrangements, if any, with other companies. To the extent that we enter into contractual relationships with other companies to market our products, if any, the success of such products may depend on the success of securing and maintaining such contractual relationships and the efforts of those other companies (and any subcontractors they engage).

We have limited personnel to oversee outsourced contract manufacturing, clinical testing and the regulatory approval process.

It is likely that we will also need to hire additional personnel skilled in the manufacturing, clinical testing and regulatory compliance process if we develop additional product candidates with commercial potential. We do not currently have the capability to conduct clinical testing in-house and do not currently have plans to develop such a capability. We outsource our clinical testing to contract research organizations. We currently have a limited number of employees and certain other outside consultants who oversee the contract research organizations involved in clinical testing of our compounds.

Legislative or regulatory reform of the health care system in the United States and foreign jurisdictions may affect our ability to profitably sell our products, if approved.

Our ability to commercialize our future products successfully, alone or with collaborators will depend in part on the extent to which reimbursement for the products will be available from government and health administration authorities, private health insurers and other third-party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of health care services to contain or reduce health care costs may adversely affect our ability to set prices for our products which we believe are fair, and our ability to generate revenues and achieve and maintain profitability.

Specifically, in both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably. Congress has passed America s Affordable Health Choices Act of 2009 and is considering a number of proposals that are intended to reduce or limit the growth of health care costs and which could significantly transform the market for pharmaceuticals products. We expect further federal and state proposals and health care reforms to continue to be proposed by legislators, which could limit the prices that can be charged for the products we develop and may limit our commercial opportunity. In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of drug products, we expect that there will be additional pressure to contain and reduce costs. These cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products and could seriously harm our business. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates, and any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

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The continuing efforts of government and other third-party payors to contain or reduce the costs of health care through various means may limit our commercial opportunity. It will be time consuming and expensive for us to go through the process of seeking reimbursement from Medicare and private payors. Our products may not be considered cost effective, and government and third-party private health insurance coverage and reimbursement may not be available to patients for any of our future products or sufficient to allow us to sell our products on a competitive and profitable basis. Our results of operations could be adversely affected by the MMA and additional prescription drug coverage legislation, by the possible effect of this legislation on amounts that private insurers will pay and by other health care reforms that may be enacted or adopted in the future. In addition, increasing emphasis on managed care in the United States will continue to put pressure on the pricing of pharmaceutical products. Cost control initiatives could decrease the price that we or any potential collaborators could receive for any of our future products and could adversely affect our profitability.

In some foreign countries, including major markets in the European Union and Japan, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical study that compares the cost-effectiveness of our product candidates to other available therapies. Such pharmacoeconomic studies can be costly and the results uncertain. Our business could be harmed if reimbursement of our products is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels.

Risks Related to Our Intellectual Property

We are dependent on patents, proprietary rights and confidentiality.

Because of the significant time and expense involved in developing new products and obtaining regulatory approvals, it is very important to obtain patent and trade secret protection for new technologies, products and processes. Our ability to successfully implement our business plan will depend in large part on our ability to:

- acquire patented or patentable products and technologies;
- obtain and maintain patent protection or market exclusivity for our current and acquired products;
- preserve any trade secrets relating to our current and future products; and
- operate without infringing the proprietary rights of third parties.

We currently have no patents that directly apply to the use of AMR101 for hyperlipidemia or cardiovascular therapy in the U.S. or Europe. We are currently prosecuting a number of patent applications in this area, but these applications have not yet resulted in issued patents for AMR101 formulation or its use in treating hyperlipidemia or cardiovascular disease, and we cannot be certain whether patents will issue or what commercial value any patents that do issue would have for us.

Although we intend to make reasonable efforts to protect our current and future intellectual property rights and to ensure that any proprietary technology we acquire does not infringe the rights of other parties, we may not be able to ascertain the existence of all potentially conflicting claims. Therefore, there is a risk that third parties may make claims of infringement against our current or future products or technologies. In addition, third parties may be able to obtain patents that prevent the sale of our current or future products or require us to obtain a license and pay significant fees or royalties in order to continue selling such products.

We may in the future discover the existence of products that infringe upon patents that we own or that have been licensed to us. Although we intend to protect our trade secrets and proprietary know-how through confidentiality agreements with our manufacturers, employees and consultants, we may not be able to prevent our competitors from breaching these agreements or third parties from independently developing or learning of our trade secrets.

We anticipate that competitors may from time to time oppose our efforts to obtain patent protection for new technologies or to submit patented technologies for regulatory approvals. Competitors may seek to challenge patent applications or existing patents to delay the approval process,

even if the challenge has little or no merit. Patent challenges are generally highly technical, time consuming and expensive to pursue. Were we to be subject to one or more patent challenges, that effort could consume substantial time and resources, with no assurances of success, even when holding an issued patent.

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If we do not obtain protection under the Hatch-Waxman Amendments and similar foreign legislation to extend our patents and to obtain market exclusivity for our product candidates, our business may be materially harmed.

We believe that the AMR101 compound is a new chemical entity in the United States and may be eligible for market exclusivity under the Food Drug and Cosmetic Act, or FDCA, as amended by the Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Amendments. A drug can be classified as a new chemical entity if the FDA has not previously approved any other new drug containing the same active agent. Under sections 505(c)(3)(E)(ii) and 505(j)(5)(F)(ii) of the FDCA, as amended by the Hatch-Waxman Amendments, a new chemical entity that is granted regulatory approval may, in the absence of patent protections, be eligible for five years of marketing exclusivity in the United States following regulatory approval. This marketing exclusivity, if granted, would preclude approval during the exclusivity period of certain 505(b)(2) applications or certain abbreviated new drug applications submitted by another company for another version of the drug. However, there is no assurance that our compounds will be considered to be new chemical entities for these purposes or be entitled to the period of marketing exclusivity. If we are not able to gain or exploit the period of marketing exclusivity, we may face significant competitive threats to our commercialization of these compounds from other manufacturers, including the manufacturers of generic alternatives. Further, even if our compounds are considered to be new chemical entities and we are able to gain five years of marketing exclusivity, another company could also gain such marketing exclusivity under the provisions of the FDCA, as amended by the Hatch-Waxman Amendments, if such company can complete a full NDA with a complete human clinical trial process and obtain regulatory approval of its product.

Despite the use of confidentiality agreements and/or proprietary rights agreements, which themselves may be of limited effectiveness, it may be difficult for us to protect our trade secrets.

We rely on trade secrets to protect technology in cases when we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. While we require certain of our academic collaborators, contractors and consultants to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary information.

Risks Related to Ownership of our ADSs and Ordinary Shares

The price of our ADSs and Ordinary Shares may be volatile.

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market prices of the securities of many pharmaceutical and medical technology companies have been especially volatile in the past, and this trend is expected to continue in the future. Our ADSs may also be subject to volatility as a result of their limited trading market.

As of December 31, 2010 we had 106,856,731 ordinary shares outstanding. As of December 31, 2010 there were 106,479,912 shares held as ADSs and 376,819 held as ordinary shares (which are not held in the form of ADSs). We issued 66.4 million ADSs and warrants to purchase an additional 33.2 million ADSs in our October 2009 private placement. There is a risk that there may not be sufficient liquidity in the market to accommodate significant increases in selling activity or the sale of a large blocf Contents

UCN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007 (Unaudited)

NOTE 1 BASIS OF PRESENTATION

These unaudited interim financial statements of UCN, Inc. and its subsidiaries (collectively UCN or the Company) have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in 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 presented herein. 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, 2007, as filed with the SEC on April 1, 2008. The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results to be expected for year ended December 31, 2008. The Company s significant accounting policies are set forth in Note 2 to the consolidated financial statements in the December 31, 2007 Annual Report on Form 10-K.

UCN s working capital requirements for the foreseeable future will vary based upon a number of factors, including the costs to expand its service offerings, the costs of marketing its services and the level of sales of the Company s current services. As of March 31, 2008, excluding current deferred revenue of $345,000 which will not require the use of cash, the Company had working capital of $494,000. As of December 31, 2007, excluding current deferred revenue of $338,000 which did not require the use of cash, the Company had working capital of $3.6 million. As of March 31, 2008, the Company also has access to additional available borrowings of $6.3 million under the Company s revolving credit facility. Available borrowings are based primarily on outstanding accounts receivable. No funds have been drawn against this credit facility. UCN s management believes that existing cash and cash equivalents, cash flow from operations, and available borrowings under the Company s revolving credit facility, will be sufficient to meet the Company s cash requirements during the next twelve months.

NOTE 2 ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Pronouncements

Fair Value Measurements In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. The Company adopted SFAS 157 on January 1, 2008. See Note 9 for discussion of fair value measurements and the impact on the Company s condensed consolidated financial statements.

Fair Value Option In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. The Company elected not to measure any additional financial assets or liabilities at fair value at the time SFAS 159 was adopted on January 1, 2008. As a result, implementation of SFAS 159 had no impact on the Company s condensed consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, *Year-End Help for Expensing Employee Stock Options* (SAB 110). SAB 110 expresses the views of the SEC regarding the use of a simplified or shortcut method, as discussed in SAB No. 107, *Share-Based Payment*, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123R. The guidance in SAB 110 was adopted on January 1, 2008, and based on management s assessment, the estimated term of the options used to determine the fair value of the options granted increased from 3.5 years to 4.4 years for standard options. This change in the estimated option term for standard plain vanilla options did not have a material impact on the Company s condensed consolidated financial statements.

NOTE 3 BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic earnings per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing the net income or loss by the sum of the weighted average number of common shares plus the weighted average common stock equivalents which would arise from the exercise of outstanding stock options and warrants, using the treasury stock method and the average market price per share during the period.

As a result of incurring a net loss for the three months ended March 31, 2008 and 2007, no outstanding common stock equivalents are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. The Company had outstanding options and warrants to purchase a total of 5,222,000 and 5,341,000 shares of common stock at March 31, 2008 and 2007, respectively. The Company had convertible debt that was convertible into 1,127,000 shares of common stock at March 31, 2007. As of March 31, 2008, the Company had no convertible debt.

NOTE 4 ACQUISITIONS

On February 9, 2007 and February 15, 2007, UCN completed the acquisitions of BenchmarkPortal, Inc. (BenchmarkPortal) and ScheduleQ, LLC (ScheduleQ), respectively. The Company 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 allocated the purchase price to the acquired tangible and intangible assets and liabilities based on their respective fair values.

In addition to the amounts paid at closing of the BenchmarkPortal acquisition, UCN agreed to pay contingent purchase price payments to BenchmarkPortal stockholders 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 does 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 BenchmarkPortal stockholders paid on a variable percentage of recurring revenue from the sale of Echo services in excess of $900,000 per quarter during the four-year period after the acquisition.

During the three months ended March 31, 2008, BenchmarkPortal stockholders earned a total of $178,000 in contingent purchase price payments that have been recorded as additional goodwill.

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In addition to the amounts paid at closing of the ScheduleQ acquisition, UCN agreed to pay contingent purchase price payments to ScheduleQ members 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.

During the three months ended March 31, 2008, former ScheduleQ members earned a total of $6,000 in contingent purchase price payments that have been recorded as additional goodwill.

The three months ended March 31, 2008 includes the acquired operations of both acquisitions. The following unaudited pro forma financial information presents the operating results for the three months ended March 31, 2007 as if both acquisitions had occurred at the beginning of that period (in thousands except per share data unaudited).

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

These pro forma results have been prepared for comparative purposes only and include certain adjustments, including additional amortization expense related to intangible assets acquired in the acquisitions, 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 period, or of results to be achieved in the future.

NOTE 5 ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Accrued payroll and other compensation	$ 1,944	$ 1,192
Accrued payphone and carrier charges	634	626
Current portion of operating lease obligations	224	78
Accrued professional fees	119	94
Other	161	130
	$ 3,082	$ 2,120

NOTE 6 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2008, UCN paid the Chairman of the Board of Directors (Chairman) $6,000 per month for consulting, marketing and capital raising activities.

Between September 2001 and January 2003, the Chairman provided three telecommunications carriers with his personal guaranty of payment up to $800,000. UCN has indemnified the Chairman for any losses for which he may become personally liable. In January and February 2008, UCN received notification that two of the three long distance carriers released the Chairman s personal guaranty, resulting in one remaining personal guaranty totaling $250,000.

NOTE 7 CAPITAL TRANSACTIONS

During the three months ended March 31, 2008, employees exercised options to purchase a total of 12,000 shares of common stock and the Company received total proceeds of $29,000.

NOTE 8 STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with SFAS No. 123R, Share-Based Payment . UCN has allocated stock-based compensation expense to the respective departments based on where the employee s regular compensation is charged as follows (in thousands):

	Three months ended March 31,	
	2008	2007
Costs of revenue	$ 2	$ 1
Selling and promotion	130	74
General and administrative	212	107
Research and development	34	14
Total	$ 378	$ 196

UCN estimated the fair value of options granted under its employee stock-based compensation arrangements at the grant date using the Black-Scholes model. Upon adoption of SAB 110 on January 1, 2008, the Company increased the estimated term of the options, used to determine the fair value of standard options granted, from 3.5 years, which was based on the short cut method, to 4.4 years, which was based on historical option activity.

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During the three months ended March 31, 2008 and 2007, there were 127,000 and 1,285,000 stock options granted, respectively. The weighted-average fair value of options granted during the three months ended March 31, 2008 and 2007 was $1.68 and $1.63, respectively. The range of exercise prices for the options granted during the three months ended March 31, 2008 and 2007 were $3.00 to $4.50 and $2.93 to $3.63, respectively.

As of March 31, 2008, there was $1.4 million of total unrecognized compensation cost related to non-vested stock-based compensation awards granted under UCN s stock option plans. The compensation cost is expected to be recognized over a weighted average period of .85 years.

NOTE 9 AUCTION RATE PREFERRED SECURITIES

As of March 31, 2008 and December 31, 2007, the Company had investments in auction rate preferred securities (ARPS), which are classified as available-for-sale securities and reflected at fair value. At December 31, 2007, the ARPS were valued based on quoted market prices and classified as current assets. In January 2008, UCN sold $1.0 million of its ARPS at the quoted market prices, which was equal to the carrying value at December 31, 2007. Subsequent to the successful sale in January, the auction events for these instruments held by the Company failed during the first quarter of 2008. Therefore, the fair values of these securities were estimated utilizing a discounted cash flow analysis as of March 31, 2008. This analysis considers, among other items, the collateralization of the underlying security investments, the creditworthiness of the counterparty, the timing of expected future cash flows and the expectation of the next time the security is expected to have a successful auction.

As a result of the temporary decline in fair value for the Company s ARPS, which UCN attributes to liquidity issues rather than credit issues, the Company has recorded an unrealized loss of $110,000 at March 31, 2008 to Accumulated other comprehensive loss. The ARPS held by the Company at March 31, 2008, totaling $890,000, were in AAA rated funds. Due to UCN s belief that the market for these instruments may take in excess of twelve months to fully recover, the Company has reclassified these investments as noncurrent and has included them as Auction rate preferred securities on the unaudited Condensed Consolidated Balance Sheet at March 31, 2008. As of March 31, 2008, UCN continues to earn interest on its ARPS based on the original investment balance of $1.0 million. Any future fluctuation in fair value related to these instruments that UCN deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive loss. If UCN determines that any future valuation adjustment is other than temporary, it would record a charge to earnings as appropriate.

UCN adopted SFAS No. 157, Fair Value Measurements, (SFAS 157) as of January 1, 2008 for financial instruments. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices in active markets;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The ARPS were the Company s only assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at March 31, 2008. The Company has classified its investment in ARPS as a Level 3 investment as these securities have significant unobservable inputs. The fair value of the investment in ARPS as of March 31, 2008 was $890,000. Based on market conditions, the Company changed its valuation methodology for ARPS to a discounted cash flow analysis during the first quarter of 2008. Accordingly, these securities changed from Level 1 to Level 3 within SFAS 157 s hierarchy.

The following table presents the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 at March 31, 2008 (in thousands):

	Auction Rate Preferred Securities
Balance at January 1, 2008	$
Transfers to Level 3	2,000
Total unrealized loss included in other comprehensive loss	(110)
Settlements	(1,000)
Balance at March 31, 2008	$ 890

NOTE 10 COMPREHENSIVE LOSS

Comprehensive loss equaled net loss of $1,674,000 for the three months ended March 31, 2007. Comprehensive loss totaled $2,840,000 for the three months ended March 31, 2008 and included unrealized losses on auction rate preferred securities. The difference between net loss and comprehensive loss for the three months ended March 31, 2008 was as follows (in thousands):

	Three Months Ended March 31, 2008
Net loss	$ (2,730)
Unrealized loss on available for sale securities	(110)
Comprehensive loss	$ (2,840)

NOTE 11 SEGMENTS

Prior to January 1, 2008, UCN managed and reported its financial results based on two customer segments: inContact and Telecom. The inContact segment included all product revenues from customers using any inContact services as well as their long distance voice and data services. The previous Telecom segment included all voice and data long distance services provided to customers not utilizing any inContact services.

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Effective January 1, 2008, UCN s management changed the way it manages the business and accordingly, UCN is changing the way it reports segments to reflect sales based on its two primary product service segments. The new segments are Software as a Service (SaaS) and Telecom, which is different than the previously reported Telecom segment. The SaaS segment includes all revenues from providing automatic call distribution, interactive voice response, data storage, email, chat, computer telephony integration, call recording, conferencing, call monitoring, and reporting to customers including UCN s all-in-one inContact suite of services. The Telecom segment includes all voice and long distance services provided to customers regardless of their use of SaaS services listed above.

UCN s performance is evaluated by its chief executive officer and other chief decision makers based on reviewing revenue and segment operating income (loss) information for each segment. UCN changed its operating and reporting structure to more effectively analyze the operating results of the different services offered by UCN. As its strategy continues to evolve, the way in which management views financial information to best evaluate performance and operating results may also change.

Operating segment revenues and profitability for the three months ended March 31, 2008 and 2007, revised to reflect the new segments, were as follows (in thousands):

	Three Months Ended March 31, 2008		
	Telecom	SaaS	Consolidated
Revenue (1)	$ 15,511	$ 4,370	$ 19,881
Costs of revenue (excluding depreciation and amortization shown separately below)	10,415	93	10,508
Selling and promotion	1,409	2,785	4,194
General and administrative	3,426	2,035	5,461
Depreciation and amortization	713	739	1,452
Research and development		958	958
Loss from operations	$ (452)	$ (2,240)	$ (2,692)

	Three Months Ended March 31, 2007		
	Telecom	SaaS	Consolidated
Revenue (1)	$ 17,678	$ 2,142	$ 19,820
Costs of revenue (excluding depreciation and amortization shown separately below)	11,497	40	11,537
Selling and promotion	1,973	1,877	3,850
General and administrative	2,894	805	3,699
Depreciation and amortization	1,202	590	1,792
Research and development		428	428
Loss from operations	$ 112	$ (1,598)	$ (1,486)

(1) SaaS segment revenue includes revenue from professional services of $256,000 and $193,000 for the three months ended March 31, 2008 and 2007, respectively.

NOTE 12 SUBSEQUENT EVENTS

On April 4, 2008, UCN entered into an equipment leasing facility with an equipment financing company (Lessor). The effective date of the lease agreement was April 1, 2008. Under the terms of the leasing facility, the Lessor has agreed to provide the Company financing of $2.8 million to lease computer related equipment and software for UCN s business operations, which the Lessor will lease to UCN in the form of a capital lease. The term of the facility is 30 months upon acceptance of the leased property by the Company. UCN made an initial deposit of $19,891 to establish the leasing facility.

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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, 2007 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 2007 Annual Report on Form 10-K, filed separately with the U.S. Securities and Exchange Commission.

Overview

UCN, Inc. (we , us , our , 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 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 pure telecom services provider to being a Software as a Service (SaaS) provider. Our SaaS offering to users consists 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. Our 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.

Results of Operations

Consolidated Revenue

Consolidated revenues increased $61,000 to $19.9 million for the three months ended March 31, 2008 from $19.8 million compared to the same period in 2007. This increase is primarily due to significant increases in SaaS segment revenue, which increased $2.2 million or 104% from the first quarter of 2007. The BenchmarkPortal acquisition in first quarter 2007 allowed us to provide customers a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ acquisition allowed 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 augmented our all-in-one hosted inContact solution and accounted for $527,000 of the $2.2 million increase in SaaS segment revenue. The increase is offset by decreased revenue in our Telecom segment, which was down $2.2 million or 12% compared to the same period in 2007. The decrease in our Telecom segment is due to expected attrition as we have focused our sales and marketing efforts on increasing customers in our SaaS segment.

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 are marketed to existing and potential customers through our multiple sales channels. As a result of these changes, we are experiencing a transition in sales mix, which we expect will continue because of our marketing commitment to promote these services.

Costs of revenue

Costs of revenue decreased $1.0 million or 9% to $10.5 million for the three months ended March 31, 2008 from $11.5 million for the same period in 2007. Consistent with other telecommunication companies, we do not include depreciation and amortization in our calculation of costs of revenue. Costs of revenue as a percentage of revenue decreased five percentage points to 53% during the quarter compared to 58% in the same period in 2007. The decrease in our costs of revenue is primarily driven by a significant decline of $2.2 million in our Telecom segment revenue that has much lower margins than our SaaS technology products and services revenue. In addition to the decline 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 routes calls in a manner that chooses the most economical path to terminate a call transaction. In addition to these measurers, we incurred very little costs to generate the $527,000 of additional revenue from the BenchmarkPortal and ScheduleQ acquisitions.

As noted above, we continue to focus most of our marketing efforts on promoting our SaaS segment technology services which carry significantly higher margins than the Telecom segment services. As a result, we expect continued improvements in margins from the sales of our inContact related technology services as we add higher gross margin SaaS segment revenue. 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 9% or $344,000 to $4.2 million during the three months ended March 31, 2008 from $3.9 million during the same period in 2007 primarily due to an overall increase in the number of sales and lead generation activities related to expanding the inContact suite of services in the market. Additionally, our sales force grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions that were completed in the middle of the first quarter of 2007.

As noted above, we continue to focus most of our marketing efforts on promoting our inContact suite of services. As a result, we expect our selling and promotion expenses will continue to increase going forward as we continue expanding our inContact suite of services in the market.

General and administrative

General and administrative expenses for the three months ended March 31, 2008 increased 48% or $1.8 million to $5.5 million compared to $3.7 million in the same period in 2007. The increase is primarily due to an overall increase in salaries and benefits as we significantly increased the number of user support and new user implementation personnel during 2007 which has affected subsequent quarters. Our general and administrative staff also grew substantially through the addition of

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employees related to the BenchmarkPortal and ScheduleQ acquisitions that were completed during the middle of the first quarter of 2007. Legal and accounting costs also increased $410,000 related to the internal investigation and restatement of previously filed financial statements. Furthermore, we moved to a new office building in the fourth quarter of 2007 which resulted in increased facility costs for the three months ended March 31, 2008 as compared to the same period in 2007.

Depreciation and amortization

Depreciation and amortization expenses decreased 19% or $340,000 to $1.5 million during the three months ended March 31, 2008 from $1.8 million during the same period in 2007. The decrease is primarily due to a significant number of intangibles related to past acquisitions becoming fully amortized during 2007.

Research and Development

Research and development expenses increased 124% or $530,000 to $958,000 during the three months ended March 31, 2008 from $428,000 during the same period in 2007. The increase is primarily due to an increase in compensation expense due to the addition of new employees in our research and development department as we continue to develop new products for our inContact suite of services.

Other expense

Interest expense decreased $145,000 or 73% during the three months ended March 31, 2008 as compared to the same period in 2007. The decrease is primarily due to paying off the outstanding balance of our revolving credit facility in the third quarter of 2007 and the conversion of the ComVest Convertible Term Note in April 2007, thereby reducing the amount of debt on which interest is incurred.

Segment Reporting

Effective January 1, 2008, we began managing and reporting our financial results based on a product-based segment rather than a customer-based segment. The new segments are SaaS and Telecom. The SaaS segment includes all revenues from providing automatic call distribution, interactive voice response, data storage, email, chat, computer telephony integration, call recording, conferencing and reporting to customers including our all-in-one inContact suite of services. The Telecom segment includes all voice and long distance services provided to customers.

Prior to January 1, 2008, we managed and reported our financial results based on two customer segments: inContact and Telecom. The inContact segment included all revenues from customers using any inContact services as well as our long distance voice and data services. The Telecom segment included all voice and data long distance services provided to customers not utilizing any inContact services.

SaaS Segment Quarterly Results

The SaaS segment revenue increased by $2.2 million or 104% to $4.4 million from $2.2 million during the quarter ended March 31, 2008 compared to the same period in 2007. The increase is a result of the selling and promotional efforts we have undertaken to expand these services in the market. Revenue related to sales of services acquired in the BenchmarkPortal and Schedule Q acquisitions in February 2007 provided $1.1 million of revenue in the current quarter, an additional $527,000 of revenue as compared to the quarter ended March 31, 2007.

We continue to focus a significant amount of our resources in expanding our inContact suite of services in the market. As a result, selling and promotion expenses in the SaaS segment increased $910,000 million or 48% during the quarter compared to the same period in 2007. General and administrative expenses increased $1.2 million or 153% during the quarter ended March 31, 2008 compared to the same period in 2007 due primarily to a significant increase in the number of user support and new user implementation personnel hired during 2007 to support our SaaS products. We also continue to develop the services provided in the segment by investing in research and development. During the quarter ended March 31, 2008, we spent $958,000 in research and development costs as compared to $428,000 for the same period in 2007 and have capitalized an additional $440,000 of costs incurred during the quarter ended March 31, 2008 related to our internally developed software.

Telecom Segment Quarterly Results

We continue to see decreases in the Telecom segment; however the attrition rates are in line with our expectations. Overall segment revenue decreased 12% to $15.5 million during the current quarter compared to the same period in 2007. These decreases were primarily due to the expected attrition of our Telecom customers as we focus our selling and marketing efforts on our SaaS revenue streams. With the decline in

revenues from the segment, we reduced overall costs in the segment. Our costs of revenue decreased 9%, selling and promotion expenses decreased 29% and depreciation and amortization expenses decreased 41% during the current quarter compared to the same period in 2007. These decreases were offset by an 18% increase in general and administrative expenses due to the significant increase in consolidated general administrative expenses.

Liquidity and Capital Resources

We experienced net losses of $2.7 million and $1.7 million for the three months ended March 31, 2008 and 2007, respectively. The primary factors affecting operations during the current quarter were: 1) continued investments in the promotion and development of our inContact suite of services; 2) $1.5 million of depreciation and amortization; 3) additional legal and auditing expenses of $411,000 associated with the internal investigation and restatement of previously filed financial statements; and 4) $378,000 of non-cash stock-based compensation expense.

Our working capital surplus of $3.3 million at December 31, 2007 decreased to $149,000 at March 31, 2008. The decrease is primarily due to a $1.1 million increase in accounts payable and accrued liabilities, a $1.1 million dollar reduction in accounts receivable and a $890,000 reclassification of our investments from short-term to long-term. These factors were offset by a $788,000 increase in cash and cash equivalents.

During the quarter-ended March 31, 2008, we generated $1.3 million of cash from operations. We used $251,000 and $221,000 of this cash for investing and financing type activities, respectively, and had an overall net cash gain of $788,000 through March 31, 2008. The positive cash flow from operations is very encouraging for us as we continue a more aggressive marketing and promotion strategy of our SaaS products. The amount that we have invested in expanding UCN has provided additional network capacity and provides additional resources to help grow our SaaS product line.

In addition to our $3.5 million of cash and cash equivalents at March 31, 2008, we also have access to additional available borrowings under our revolving credit facility that expires in May 2010. The available borrowings under the revolving credit facility were $6.3 million at March 31, 2008, resulting in total cash and additional availability under the revolving credit facility of $9.8 million at the end of the quarter.

Our SaaS segment revenue increased to $4.4 million during the quarter ended March 31, 2008, a 104% increase from the same period in 2007. This increase was a result of the selling and promotion effort we have undertaken to increase demand for these products in the market. We expect to see continued revenue growth in the SaaS segment in 2008 and 2009 due to our aggressive selling and promotion strategy to expand the market for our inContact suite of services.

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During the three months ended March 31, 2008, employees of UCN exercised options to purchase a total of 12,000 shares of common stock and the Company received total proceeds of $29,000.

Fair Value Measurements

As discussed in Note 9 to the unaudited condensed consolidated financial statements, we adopted the provisions of Statement 157 effective January 1, 2008. We utilized unobservable (Level 3) inputs in determining the fair value of our auction rate preferred securities, which totaled $890,000 at March 31, 2008.

Our auction rate preferred securities are classified as available-for-sale securities and reflected at fair value. In prior periods, due to the auction process which took place every 7-30 days for most securities, quoted market prices were readily available, which would qualify as Level 1 under Statement 157. However, due to events in credit markets during the first quarter of 2008, the auction events for most of these instruments failed, and, therefore, we have determined the estimated fair values of these securities utilizing a discounted cash flow analysis as of March 31, 2008. This analysis considers, among other items, the collateralization of the underlying securities, the expected future cash flows and the expectation of the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by us. Due to these events, we reclassified these instruments as Level 3 during the first quarter of 2008 and recorded a temporary unrealized decline in fair value of $110,000, with an offsetting entry to Accumulated other comprehensive loss. We currently believe that this temporary decline in fair value is due entirely to liquidity issues and not credit issues, because they are in AAA closed-end bond mutual funds that are over-collateralized by at least 200% and are backed by the underlying marketable securities. In addition, our holdings of auction rate preferred securities represented only twenty percent of our total cash, cash equivalent, and investment balance at March 31, 2008, which we believe allows us sufficient time for the securities to return to full value. We will re-evaluate each of these factors as market conditions change in subsequent periods.

Critical accounting policies and estimates

A summary of our 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, 2007. 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 income taxes and other contingencies as well as asset impairment, inventory valuation and collectability 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

Fair Value Measurements In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. We adopted SFAS 157 on January 1, 2008. See Note 9 for discussion of fair value measurements and the impact on our Company s condensed consolidated financial statements.

Fair Value Option In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. We elected not to measure any additional financial assets or liabilities at fair value at the time we adopted SFAS 159 on January 1, 2008. As a result, implementation of SFAS 159 had no impact on our condensed consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, *Year-End Help for Expensing Employee Stock Options* (SAB 110). SAB 110 expresses the views of the SEC regarding the use of a simplified or shortcut method, as discussed in SAB No. 107, Share-Based Payment, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123R. We adopted SAB 110 on January 1, 2008 and based on our evaluation, the estimated term of the options used in determining the fair value of options granted increased from 3.5 years to 4.4 years for standard options. This change in the estimated option term for standard plain vanilla options did not have a material impact on our condensed consolidated financial statements. However, the change could become material depending on the number of options granted in future quarters.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have investments in auction rate preferred securities, which are classified as available-for-sale securities and reflected at fair value. Due primarily to instability in credit markets, we sold $1 million of these investments during the quarter, and ended the first quarter of 2008 with investments valued at a total of $890,000, which are classified in non current assets in the unaudited Condensed Consolidated Balance Sheet as of March 31, 2008. Auction rate preferred securities held at December 31, 2007, were $2 million, all of which were classified as Short-term investments. For a complete discussion on auction rate preferred securities, including the Company s methodology for estimating their fair value, see Note 9 to the unaudited condensed consolidated financial statements.

We are exposed 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, 2008 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, 2008. 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.

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ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the Securities and Exchange Commission (SEC), and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, UCN s management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, reassessed the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008.

In our annual report on Form 10-K for the year ended December 31, 2007, we reported that, as a result of the restatement of previously issued financial statements and the identification of certain material weaknesses in the internal controls over financial reporting described in that report, which we view as an integral part of our disclosure controls and procedures, our disclosure controls and procedures were not effective as of December 31, 2007. As described below in this Item 4, we took certain steps in the first quarter of 2008 to help remediate the material weaknesses in internal control over financial reporting that existed at the end of 2007. Additional steps have been taken after the end of the quarter. As the year progresses, we will evaluate the effectiveness of the remedial measures we have taken, and we will formulate and implement additional measures we believe to be appropriate or beneficial to the process of maintaining effective internal controls over financial reporting and, therefore, effective disclosure controls and procedures. As a result of these circumstances, our Chief Executive Officer and Chief Financial Officer could not conclude, in their assessment of the effectiveness of the design and operation of our disclosure controls, that our disclosure controls and procedures were effective as of March 31, 2008.

Nevertheless, based on the measures taken in the first quarter of 2008 and the processes and procedures that were followed after the end of the quarter in the preparation of the financial information presented in this report, we believe that the unaudited consolidated financial statements included in this report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented.

Changes in Internal Control over Financial Reporting

As previously disclosed in our 2007 annual report on Form 10-K, management concluded that our internal controls over financial reporting were not effective as of December 31, 2007. We further concluded that we had certain control deficiencies, described below, that constituted material weaknesses in our internal controls over financial reporting related to our control environment and financial reporting process.

Control Environment

We did not maintain an effective tone at the top that would have facilitated an effective control environment for internal control over financial reporting. This material weakness in our control environment was a result of the following control deficiencies:

- We failed to establish a proper tone for internal control over financial reporting in 2006 and 2007 while we were transitioning from a traditional long distance reseller, which is our Telecom segment, to being a network applications provider that provides on-demand, hosted, contact handling software and related services, which was our inContact segment;

- Members of senior management had the ability to override the proper functioning of our sales and provisioning process for our services, because we failed to recognize and segregate duties that are incompatible from the standpoint of establishing effective checks and balances between senior management; and

We did not establish a tone and control consciousness in the Company that fostered effective operation of our open door policy for encouraging employees to communicate issues or concerns with any member of senior management or that instilled in our employees a belief that senior management respected and valued the silent whistleblower process as an important tool for receiving information about UCN and our operations.

Financial Reporting Process

We identified certain control deficiencies in the financial reporting process as it related to segment reporting, that gave rise to a material weakness. The control deficiencies included the following:

We did not design and maintain effective financial processes to report and verify at the end of each reporting period that for each inContact customer there was a substantive contract for purchase of inContact Services, inContact services were being used or delivered and that an appropriate price was actually paid for those services after taking into consideration price adjustments or credits that were not reasonably related to other legitimate and customary sales practices, customer maintenance or Telecom service; and

We did not generate, for senior management and persons with responsibility for accounting controls, period-end financial reports on inContact service usage and total service price adjustments or credits on a comparative basis with inContact and Telecom revenue, so that senior management and persons with responsibility for accounting controls had the type of information that would enable them to reasonably be able to detect purported inContact service sales for which there was no or little service usage and/or inContact revenue that was completely or substantially offset by pricing adjustments or credits that were given to effect a spurious inContact sale.

Management s Actions during the quarter ended March 31, 2008

During the quarter ended March 31, 2008, we began the process of implementing the following controls that management believes are reasonably likely to materially affect our internal control over financial reporting and that are intended to help address the material weaknesses described above:

We have segregated incompatible functions in the sales, pricing and provisioning processes. Duties for these functions have been segregated as follows: 1) One senior executive has the duty and authority to supervise sales activity; 2) UCN s executive committee evaluates and approves pricing; 3) A different senior executive is responsible for reviewing and executing contracts brought by the sales department and oversee implementation of the contract; and 4) A third senior executive is responsible for ensuring all customer accounts have signed contracts;

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We reformatted monthly reports so that senior management and persons responsible for accounting controls receive and review information on total service price adjustments or credits for each month during the period;

We have implemented annual training for our employees to enhance awareness and understanding of our standards and principles about the silent whistle blower program and the way we do business, contract with our customers, deliver our services and account for the revenue we receive.

We will test and evaluate the effectiveness of these new procedures and controls as the year progresses to determine whether they help remediate the material weaknesses described above. We are implementing additional controls in the second quarter of 2008. We are committed to continuing to improve our internal control processes and will continue to diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify certain of the remediation measures described above.

Other than the changes in internal controls described above, there were no other changes in our internal control over financial reporting during the three months ended March 31, 2008, that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. 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 1A. RISK FACTORS

The Private Securities Litigation Reform Act of 1995 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 software 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 in the 2007 Annual Report on Form 10-K and in subsequent reports on Form 10-Q under the Item 1A Risk Factors, actual results may differ from those in the forward-looking statements.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In the first quarter of 2008, UCN issued compensatory options to employees for the purchase a total of 112,500 shares of common stock at exercise prices ranging from $3.00 to $4.20 per share. The options are exercisable over a term of five years and vest in three annual equal 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. 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

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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 9, 2008

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

Date: May 9, 2008

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