

iBio, Inc.
Form 424B3
August 18, 2009

Filed Pursuant to Rule 424(b)(3)

File Number 333-158759

PROSPECTUS SUPPLEMENT NO. 2

Prospectus Supplement No. 2

to Prospectus dated May 13, 2009

IBIOPHARMA, INC.

This Prospectus Supplement No. 2 supplements our Prospectus dated May 13, 2009, as amended by Supplement No 1 thereto, dated May 18, 2009. The shares that are the subject of the Prospectus have been registered to permit their resale to the public by the selling stockholders named in the Prospectus. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering, except upon the exercise of warrants.

Our common stock is quoted on the OTC Bulletin under the symbol IBPM.OB. On August 17, 2009, the closing price of our common stock on the OTC Bulletin Board was \$0.90.

This Prospectus Supplement includes the following attached items:

- Current Report on Form 8-K dated August 11, 2009, as filed by us with the Commission on August 11, 2009.
- Current Report on Form 8-K dated August 10, 2009, as filed by us with the Commission on August 14, 2009.

YOU SHOULD READ THE PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT NO. 2, INCLUDING THE RISK FACTORS THAT BEGIN ON PAGE 3 OF THE PROSPECTUS.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement is August 14, 2009.

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 11, 2009**

iBioPharma, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-53125

(Commission File Number)

26-2797813

(IRS Employer Identification No.)

9 Innovation Way, Suite 100

Newark, Delaware 19711

(Address of principal executive offices, including zip Code)

(302) 355-0650

(Registrant's telephone number, including area code)

Not applicable

(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 8.01 Other Events

Significant technical advances made by the Fraunhofer U.S.A. Center for Molecular Biotechnology (CMB) have demonstrated the applicability of iBioPharma's technology for development and manufacturing of vaccines for a range of infectious diseases, including potentially pandemic strains of influenza, and dramatic reductions in manufacturing cycle times.

CMB has expressed target vaccine hemagglutinin antigens from multiple pandemic and seasonal strains at levels compatible with commercial exploitation. The expressed antigens have been purified to levels consistent with vaccine production and have been characterized in detail to show that they broadly have the physical and chemical characteristics of the native viral antigens.

This technical accomplishment is important commercially because it demonstrates that the technology is not constrained by the strain-related yield limitations often encountered with egg-based production systems, whereby some strains grow poorly in eggs. Most importantly the plant-produced antigens elicit immune responses in animal models consistent with protective efficacy. Indeed, in the case of CMB's lead H5N1 target, the plant-produced antigen has been shown to confer protection to ferrets, the most advanced model species for studying influenza.

The speed with which a new vaccine manufacturing technology can be used to produce target antigen for a vaccine in response to an infectious disease outbreak is of considerable commercial importance. CMB scientists have been able to demonstrate on a number of occasions that they can produce target antigens in less than one month from receipt of the relevant sequence information. This is a substantial improvement over conventional vaccine production technologies that have a typical manufacturing cycle time of several months. This allows for vaccines to be manufactured domestically and internationally in time to respond to pandemics, and in the context of seasonal influenza, for decisions on the strains that make up the seasonal vaccine to be delayed a few months so increasing the probability that the right strains will be included in the final seasonal vaccine. Therefore, iBioPharma believes that this commercially competitive and superior time frame is significant and important to our shareholders.

CMB has also been focusing on activities to allow for larger scale production of target vaccine antigens. In this regard, it is nearing completion of an approximately 12,000 square feet pilot plant in Newark, Delaware that will be a significant step forward in implementing this plant-based technology for vaccine production. iBioPharma expects lead influenza vaccine candidates to be manufactured in this facility for toxicology studies and planned Phase I clinical trials in 2010. The timeline for development includes filing an Investigational New Drug Application (IND) with the FDA in the first quarter of 2010 for a pandemic influenza vaccine candidate, and a second IND for an influenza vaccine in the third quarter of 2010.

Although new influenza vaccines are iBioPharma's top development priority, its technology has also been proven applicable to candidate vaccines for treatment of human papilloma virus infection and to antibodies for potential influenza therapy. The Company expects periodically to provide additional information updates on progress with these important product candidates.

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 hereunto duly authorized.

Date: August 11, 2009

IBIOPHARMA, INC.

By: /s/ Robert Erwin
Robert Erwin
President

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

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(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

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 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

Effective August 10, 2009, we changed our name from iBioPharma, Inc. to iBio, Inc. The name change was effected through a short-form merger pursuant to Section 253 of the General Corporation Law of the State of Delaware by merging a wholly-owned subsidiary (formed solely for the purpose of implementing the name change) into us. We are the surviving corporation and have amended our Certificate of Incorporation to change our name to iBio, Inc. pursuant to the Certificate of Ownership and Merger filed with the Secretary of State of the State of Delaware on August 10, 2009. Stockholder approval of the merger was not required, and our outstanding shares of common stock will not be affected by the change in name. Our board of directors also amended our amended and restated bylaws, board committee charters and code of business ethics to reflect our new name. Copies of the Certificate of Ownership and Merger and our First Amended and Restated Bylaws are attached to this Current Report on Form 8-K as Exhibit 3.1 and Exhibit 3.2, respectively.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Description
3.1	Certificate of Ownership and Merger
3.2	First Amended and Restated Bylaws

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 hereunto duly authorized.

Date: August 14, 2009

iBio, Inc.

By: /s/ Robert Erwin
Robert Erwin
President

CERTIFICATE OF OWNERSHIP AND MERGER OF

**iBioPharma Name Change Sub, Inc.,
a Delaware corporation**

with and into

**iBioPharma, Inc.,
a Delaware corporation**

It is hereby certified that:

1. iBioPharma, Inc. ("**Parent**" or the "**Corporation**") is a business corporation organized and existing under the laws of the State of Delaware.
2. Parent owns all of the issued and outstanding shares of capital stock of iBioPharma Name Change Sub, Inc. ("**Subsidiary**"), which is a business corporation organized and existing under the laws of the State of Delaware.
3. Parent hereby merges Subsidiary into Parent, with the existing certificate of incorporation of Parent continuing in effect.
4. In connection with the merger of Subsidiary into Parent, Parent hereby changes its name to iBio, Inc.
5. The following is a copy of the relevant recitals and resolutions adopted on August 10, 2009 at a duly called meeting of the Board of Directors of Parent under Section 141 of the Delaware General Corporation Law ("**DGCL**") approving the merger of Subsidiary with and into Parent under Section 253 of the DGCL:

WHEREAS, it is in the best interest for the Corporation to change its name to iBio, Inc.;

WHEREAS, the Corporation may change its name without stockholder approval under Section 253(b) of the Delaware General Corporation Law (the "**DGCL**") by forming a subsidiary, causing that subsidiary to merge into the Corporation, and including in the certificate of ownership and merger a provision that the Corporation is changing its name;

WHEREAS, the Corporation desires to form a wholly-owned subsidiary, iBioPharma Name Change Sub, Inc., a Delaware corporation (the "**Subsidiary**"), to merge with and into the Parent, so that Parent will be the surviving corporation and can change its name pursuant to Section 253 of the DGCL;

WHEREAS, there has been submitted to and considered by the members of the Board an agreement and plan of merger (the "**Merger Agreement**") by and between the Subsidiary and Parent providing for the short-form merger (the "**Merger**") of the Subsidiary with and into the Parent pursuant to the DGCL and further providing that all of the assets and liabilities of the Subsidiary will become assets and liabilities of the Parent pursuant to DGCL Section 259 and that the Parent will change its name to iBio, Inc. pursuant to DGCL Section 253(b); and

WHEREAS, the undersigned deems it advisable and in the best interests of the Corporation to approve and to consummate the Merger and that a Certificate of Ownership and Merger (the "*Merger Certificate*") be executed in accordance with DGCL Section 103 and filed with the Secretary of State of the State of Delaware and that any other appropriate documents and acts be executed, delivered and performed;

NOW, THEREFORE, BE IT:

RESOLVED, that Parent cause Subsidiary to be formed and issue 1,000 shares of its capital stock to Parent at its par value per share of \$0.001 in exchange for \$1.00 cash so that the Subsidiary will be a wholly-owned subsidiary of Parent;

RESOLVED FURTHER, that Parent, a Delaware corporation and owner of all of the outstanding shares of Subsidiary, which is also a Delaware corporation, become a party to the Merger Agreement and undertake the Merger and thereby merge Subsidiary into the Corporation pursuant to the provisions of the DGCL and take ownership of all of the assets and assume all of the liabilities of Subsidiary;

RESOLVED FURTHER, that Subsidiary shall be the disappearing corporation upon the effective date of the Merger pursuant to the DGCL and Parent shall continue its existence as the surviving corporation pursuant to the DGCL, with the existing certificate of incorporation of Parent continuing in effect;

RESOLVED FURTHER, that in connection with the Merger, Parent's name shall be changed from iBioPharma, Inc. to iBio, Inc.;

RESOLVED FURTHER, that the issued and outstanding shares of Subsidiary's capital stock shall not be converted in any manner, nor shall any cash or other consideration be paid or delivered therefor, inasmuch as Parent is the owner of all outstanding shares of Subsidiary, but each said share which is issued as of the complete effective date of the Merger shall be surrendered and extinguished;

RESOLVED FURTHER, that officers of Parent are hereby authorized to enter into the Merger Agreement on behalf of Parent and to execute the Merger Certificate and cause it to be filed with the Delaware Secretary of State; and

RESOLVED FURTHER, that the Board of Directors and the proper officers of the Corporation are hereby authorized, empowered and directed to do any and all acts and things, and to make, execute, deliver, file, and/or record any and all instruments, papers and documents which shall be or become necessary, proper or convenient to carry out or put into effect any of the provisions of the Merger herein provided for;

IN WITNESS WHEREOF, iBioPharma, Inc. has caused this Certificate of Ownership and Merger to be executed on the 10th day of August, 2009.

iBioPharma, Inc.,

a Delaware corporation

By: /s/ Robert B. Kay

Robert B. Kay

Its: Chief Executive Officer

FIRST AMENDED AND RESTATED

BYLAWS OF IBIO, INC.

(A Delaware Corporation)

Article I

STOCKHOLDERS

1.1 Place of Meetings. All meetings of stockholders shall be held at such place as may be designated from time to time by the Board of Directors, the Chairman of the Board or the Chief Executive Officer or, if not so designated, at the principal office of the corporation.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held on a date and at a time designated by the Board of Directors, the Chairman of the Board or the Chief Executive Officer (which date shall not be a legal holiday in the place where the meeting is to be held). If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these Bylaws to the annual meeting of the stockholders shall be deemed to refer to such special meeting.

1.3 Special Meetings.

(a) Special meetings of stockholders for any purpose or purposes for which meetings may be lawfully called, may be called at any time by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or by one or more stockholders holding shares in the aggregate entitled to cast not less than fifty percent (50%) of the votes at that meeting. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

(b) If a special meeting is called by anyone other than the Board of Directors, the Chairman of the Board or the Chief Executive Officer, then the request shall be in writing, specifying the general nature of the business proposed to

be transacted, and shall be delivered personally or sent by registered mail or by other written communication, including by electronic transmission, to the Chairman of the Board, the Chief Executive Officer, any Vice President or the Secretary of the corporation. Upon receipt of a written request of any person or persons who have duly called a special meeting, it shall be the duty of the Secretary of the corporation to fix the date of the meeting to be held at such date and time as the Secretary may fix, not less than ten (10) nor more than sixty (60) days after the receipt of the request, and to give due notice thereof in accordance with the provisions of Section 1.4 of these Bylaws. If the notice is not given within twenty (20) days after receipt of the request, then the person or persons requesting the meeting may give the notice. Nothing contained in this Section 1.3(b) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

1.4 Notice of Meetings. Except as otherwise provided by law, notice of each meeting of stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. Without limiting the manner by which notice otherwise may be given to stockholders, any notice shall be effective if given by a form of electronic transmission consented to (in a manner consistent with Delaware law) by the stockholder to whom the notice is given. The notices of all meetings shall state the place, date and time of the meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called. If notice is given by mail, such notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. If notice is given by electronic transmission, such notice shall be deemed given at the time specified in Section 232 of the General Corporation Law of the State of Delaware.

1.5 Voting List. The Secretary shall prepare, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

1.6 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person, present by means of remote communication in a manner, if any, authorized by the Board of Directors in its sole discretion, or represented by proxy, shall constitute a quorum for the transaction of business. A quorum, once established at a meeting, shall not be broken by the withdrawal of enough votes to leave less than a quorum.

1.7 Adjournments. Any meeting of stockholders may be adjourned from time to time to any other time and to any other place at which a meeting of stockholders may be held under these Bylaws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than 30 days if the time and place of the adjourned meeting, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.8 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise provided by law or the Certificate of Incorporation. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person (including by means of remote communications, if any, by which stockholders may be deemed to be present in person and vote at such meeting) or may authorize another person or persons to vote for such stockholder by a proxy executed or transmitted in a manner permitted by Delaware law by the stockholder or such stockholder's authorized agent and delivered (including by electronic transmission) to the Secretary of the corporation. No such proxy shall be voted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

1.9 Action at Meeting. When a quorum is present at any meeting, any matter other than the election of directors to be voted upon by the stockholders at such meeting shall be decided by the affirmative vote of the holders of shares of stock having a majority of the votes cast by the holders of all of the shares of stock present or represented and voting on such matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and voting on such matter), except when a different vote is required by law, the Certificate of Incorporation or these Bylaws. When a quorum is present at any meeting, any election by stockholders of directors shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election.

1.10 Nomination of Directors.

(a) Except for (i) any directors elected in accordance with Section 2.8 hereof by the Board of Directors to fill a vacancy or newly-created directorships, or (ii) as otherwise required by applicable law or stock market regulation, only persons who are nominated in accordance with the procedures in this Section 1.10 shall be eligible for election as directors. Nomination for election to the Board of Directors of the corporation at a meeting of stockholders may be made (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the corporation who (x) complies with the notice procedures set forth in Section 1.10(b) and (y) is a stockholder of record on the date of the giving of such notice and on the record date for the determination of stockholders entitled to vote at such meeting.

(b) To be timely, a stockholder's notice must be received in writing by the Secretary at the principal executive offices of the corporation as follows: (x) in the case of an election of directors at an annual meeting of stockholders, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the preceding year's annual meeting, a stockholder's notice must be so received not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (A) the 90th day prior to such annual meeting and (B) the tenth

day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs; or (y) in the case of an election of directors at a special meeting of stockholders, not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of (A) the 90th day prior to such special meeting and (B) the tenth day following the day on which notice of the date of such special meeting was mailed or public disclosure of the date of such special meeting was made, whichever first occurs. The stockholder's notice to the Secretary shall set forth: (x) as to each proposed nominee (i) such person's name, age, business address and, if known, residence address, (ii) such person's principal occupation or employment, (iii) the class and number of shares of stock of the corporation which are beneficially owned by such person, and (iv) any other information concerning such person that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (y) as to the stockholder giving the notice (i) such stockholder's name and address, as they appear on the corporation's books, (ii) the class and number of shares of stock of the corporation which are owned, beneficially and of record, by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the person(s) named in its notice and (v) a representation whether the stockholder intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to elect the nominee and/or (B) otherwise to solicit proxies from stockholders in support of such nomination; and (z) as to the beneficial owner, if any, on whose behalf the nomination is being made (i) such beneficial owner's name and address, (ii) the class and number of shares of stock of the corporation which are beneficially owned by such beneficial owner, (iii) a description of all arrangements or understandings between such beneficial owner and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made and (iv) a representation whether the beneficial owner intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock requirement to elect the nominee and/or (B) otherwise to solicit proxies from stockholders in support of such nomination. In addition, to be effective, the stockholder's notice must be accompanied by the written consent of the proposed nominee to serve as a director if elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required to determine the eligibility of such proposed nominee to serve as a director of the corporation. A stockholder shall not have complied with this Section 1.10(b) if the stockholder or beneficial owner, if any, on whose behalf the nomination is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee in compliance with the representations with respect thereto required by this Section 1.10.

(c) The chairman of any meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the provisions of this Section 1.10 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee in compliance with the representations with respect thereto required by this Section 1.10).

(d) Except as otherwise required by law, nothing in this Section 1.10 shall obligate the corporation or the Board of Directors to include in any proxy statement or other

stockholder communication distributed on behalf of the corporation or the Board of Directors information with respect to any nominee for director submitted by a stockholder.

(e) Notwithstanding the foregoing provisions of this Section 1.10, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the corporation.

(f) For purposes of this Section 1.10, “public disclosure” shall include disclosure in a press release reported by the Dow Jones New Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

1.11 Notice of Business at Annual Meetings.

(a) At any annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, (x) if such business relates to the nomination of a person for election as a director of the corporation, the procedures in Section 1.10 must be complied with and (y) if such business relates to any other matter, the stockholder must (A) have given timely notice thereof in writing to the Secretary in accordance with the procedures set forth in Section 1.11(b) and (B) be a stockholder of record on the date of the giving of such notice and on the record date for the determination of stockholders entitled to vote at such annual meeting.

(b) To be timely, a stockholder’s notice must be received in writing by the Secretary at the principal executive offices of the corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year’s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the preceding year’s annual meeting, a stockholder’s notice must be so received not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (A) the 90th day prior to such annual meeting and (B) the tenth day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs. The stockholder’s notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation’s books, of the stockholder proposing such business, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class and number of shares of stock of the corporation which are owned, of record and beneficially, by the stockholder and beneficial owner, if any, (iv) a description of all arrangements or understandings between such stockholder or such beneficial owner, if any, and any other person or persons (including their names) in

connection with the proposal of such business by such stockholder and any material interest of the stockholder or such beneficial owner, if any, in such business, (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting and (vi) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal and/or (B) otherwise to solicit proxies from stockholders in support of such proposal. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting of stockholders except in accordance with the procedures set forth in this Section 1.11; provided, that any stockholder proposal which complies with Rule 14a-8 of the proxy rules (or any successor provision) promulgated under the Exchange Act, and is to be included in the corporation's proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 1.11. A stockholder shall not have complied with this Section 1.11(b) if the stockholder or beneficial owner, if any, on whose behalf the nomination is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee in compliance with the representations with respect thereto required by this Section 1.11.

(c) The chairman of any meeting shall, if the facts warrant, determine that business was not properly brought before the meeting in accordance with the provisions of this Section 1.11 (including whether the stockholder or beneficial owner, if any, on whose behalf the proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's proposal in compliance with the representation with respect thereto required by this Section 1.11), and if the chairman should so determine, the chairman shall so declare to the meeting and such business shall not be brought before the meeting.

(d) Notwithstanding the foregoing provisions of this Section 1.11, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present business, such business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

(e) For purposes of this Section 1.11, "public disclosure" shall include disclosure in a press release reported by the Dow Jones New Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

1.12 Conduct of Meetings.

(a) Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in the Chairman's absence by the Vice Chairman of the Board, if any, or in the Vice Chairman's absence by the Chief Executive Officer, or in the Chief Executive Officer's absence by the President, or in the President's absence by a Vice President, or in the absence of all of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen by vote of the stockholders at the meeting.

The Secretary shall act as secretary of the meeting, but in the Secretary's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

(b) The Board of Directors of the corporation may adopt by resolution such rules, regulations and procedures for the conduct of any meeting of stockholders of the corporation as it shall deem appropriate including, without limitation, such guidelines and procedures as it may deem appropriate regarding the participation by means of remote communication of stockholders and proxyholders not physically present at a meeting. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as shall be determined; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

(c) The chairman of the meeting shall announce at the meeting when the polls for each matter to be voted upon at the meeting will be opened and closed. If no announcement is made, the polls shall be deemed to have opened when the meeting is convened and closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies or votes or any revocations or changes thereto may be accepted.

(d) In advance of any meeting of stockholders, the Board of Directors, the Chairman of the Board or the Chief Executive Officer shall appoint one or more inspectors of election to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is present, ready and willing to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by law, inspectors may be officers, employees or agents of the corporation. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law.

1.13 Action by Consent in Lieu of a Meeting. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, by any provision of statute or of the Certificate of Incorporation or of these Bylaws, the meeting and vote of stockholders may be dispensed with, and the action taken without such meeting and vote, if a consent in writing, setting forth the action so taken, shall be signed by the

holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of stock of the corporation entitled to vote thereon were present and voted.

Article II

DIRECTORS

2.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law or the Certificate of Incorporation.

2.2 Number, Election and Qualification. The number of directors of the Corporation shall be established from time to time by the Board of Directors. Election of directors need not be by written ballot. Directors need not be stockholders of the corporation.

2.3 Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III.

2.4 Terms of Office. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each director initially appointed to Class I shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2009; each director initially appointed to Class II shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2010; and each director initially appointed to Class III shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2011; provided, further, that the term of each director shall continue until the election and qualification of a successor and be subject to such director's earlier death, resignation or removal.

2.5 Quorum. A majority of the directors at any time in office shall constitute a quorum for the transaction of business. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

2.6 Action at Meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law or by the Certificate of Incorporation.

2.7 Removal. Directors of the corporation may be removed only for cause and only by the affirmative vote of the holders of a majority of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors.

2.8 Vacancies. Any vacancy or newly-created directorships in the Board of Directors, however occurring shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director and shall not be filled by the stockholders. A director elected to fill a vacancy shall hold office until the next election of the

class for which such director shall have been chosen, subject to the election and qualification of a successor and to such director's earlier death, resignation or removal.

2.9 Resignation. Any director may resign by delivering a resignation in writing or by electronic transmission to the corporation at its principal office or to the Chairman of the Board, the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some later time or upon the happening of some later event.

2.10 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall be determined from time to time by the Board of Directors; provided, that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.11 Special Meetings. Special meetings of the Board of Directors may be held at any time and place designated in a call by the Chairman of the Board, the Chief Executive Officer, two or more directors, or by one director in the event that there is only a single director in office.

2.12 Notice of Special Meetings. Notice of any special meeting of directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. Notice shall be duly given to each director (i) in person or by telephone or electronic mail at least 24 hours in advance of the meeting, (ii) by sending a telegram or telecopy or delivering written notice by hand, to such director's last known business or home address at least 48 hours in advance of the meeting, or (iii) by sending written notice, via first-class mail or reputable overnight courier, to such director's last known business or home address at least 72 hours in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting.

2.13 Meetings by Conference Communications Equipment. Directors may participate in meetings of the Board of Directors or any committee thereof by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

2.14 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent to the action in writing or by electronic transmission, and the written consents or electronic transmissions are filed with the minutes of proceedings of the Board of Directors or committee.

2.15 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members of the committee present at any

meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to

act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these Bylaws for the Board of Directors.

2.16 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

Article III

OFFICERS

3.1 Titles. The officers of the corporation shall consist of a Chief Executive Officer, a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors may from time to time determine, including a Chairman of the Board, a Vice Chairman of the Board, and one or more Vice Presidents, Assistant Treasurers, and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 Election. The Chief Executive Officer, President, Treasurer and Secretary shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

3.3 Qualification. No officer need be a stockholder. Any two or more offices may be held by the same person.

3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, each officer shall hold office until such officer's successor is elected and qualified, unless a different term is specified in the resolution electing or appointing such officer, or until such officer's earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering a written resignation to the corporation at its principal office or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some later time or upon the happening of some later event.

Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of directors then in office.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following such officer's resignation or removal, or any right to damages on account of such removal, whether such officer's compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of Chief Executive Officer, Treasurer and Secretary. Each such successor shall hold office for the unexpired term of such officer's predecessor and until a successor is elected and qualified, or until such officer's earlier death, resignation or removal.

3.7 Chairman of the Board. The Board of Directors may appoint from its members a Chairman of the Board, who need not be an employee or officer of the corporation. If the Board of Directors appoints a Chairman of the Board, such Chairman shall perform such duties and possess such powers as are assigned by the Board of Directors and, if the Chairman of the Board is also designated as the corporation's Chief Executive Officer, shall have the powers and duties of the Chief Executive Officer prescribed in Section 3.8 of these Bylaws. Unless otherwise provided by the Board of Directors, the Chairman of the Board shall preside at all meetings of the Board of Directors and stockholders.

3.8 Chief Executive Officer. The Chief Executive Officer shall have general charge and supervision of the business of the Corporation subject to the direction of the Board of Directors.

3.9 President. The President shall perform such other duties and shall have such other powers as the Board of Directors and the Chief Executive Officer (if the Chairman of the Board or another person is serving in such position) may from time to time prescribe.

3.10 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Chief Executive Officer or the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the Chief Executive Officer and when so performing shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.11 Secretary and Assistant Secretaries. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be

custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the Secretary may from time to time prescribe. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the chairman of the meeting shall designate a temporary secretary to keep a record of the meeting.

3.12 Treasurer and Assistant Treasurers. The Treasurer shall perform such duties and shall have such powers as may from time to time be assigned by the Board of Directors or the Chief Executive Officer. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories selected in accordance with these Bylaws, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.13 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

Article IV

CAPITAL STOCK

4.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any shares of the authorized capital stock of the corporation held in the corporation's treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such lawful consideration and on such terms as the Board of Directors may determine.

4.2 Shares of Stock. Shares of stock of the corporation may be certificated or uncertificated as provided under the law of the State of Delaware. Every holder of stock of the corporation shall be entitled, upon request, to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares

owned by such holder in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation by (i) in the case of certificated shares of stock, the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, or (ii) in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person's attorney lawfully constituted in writing and compliance with appropriate procedures for transferring shares in uncertificated form, and for each of (i) and (ii) above, with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require and upon payment of all necessary transfer taxes. Except as may be otherwise required by law, by the Certificate of Incorporation or by these Bylaws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these Bylaws.

4.4 Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 Record Date. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. If no record date is fixed, the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Article V

INDEMNIFICATION OF DIRECTORS AND OFFICERS

5.1 General. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

5.2 Derivative Actions. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, provided that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon applicat⁷

Other current assets

(215) 31

Other non-current assets

210 42

Trade accounts payable

(977) (2,856)

Accrued liabilities

683 (95)

Accrued commissions

(163) (71)

Deferred revenue

(264)

Net cash provided by (used in) operating activities

399 (1,840)

Cash flows from investing activities:

Decrease in restricted cash

10 641

Acquisition of BenchmarkPortal, Inc.

(500)

Contingent purchase price payments

(352)

Direct acquisition costs

(281)

Purchases of property and equipment

(1,726) (1,245)

Net cash used in investing activities

(2,849) (604)

Cash flows from financing activities:

Net borrowings and payments under line of credit

(3,333) 1,478

Principal payments on long-term debt

(437) (3,729)

Principal payments on long-term debt assumed in conjunction with the acquisition of ScheduleQ

(256)

Proceeds from exercise of options and warrants

728 141

Proceeds from shelf registration, net of offering costs

7,870

Private placement offering, net of offering costs

4,186

Debt financing costs

(186)

Payments on early extinguishment of debt

(377)

Net cash provided by financing activities

4,572 1,513

Net increase (decrease) in cash and cash equivalents

2,122 (931)

Cash and cash equivalents at the beginning of the period

4,559 5,471

Cash and cash equivalents at the end of the period

\$6,681 \$4,540

(continued)

See notes to condensed consolidated financial statements

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

	Nine months ended September 30,	
	2007	2006
Supplemental cash flow information:		
Cash paid for interest	\$ 401	\$ 594
Cash paid for income taxes	\$ 8	\$ 12
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock related to acquisition of BenchmarkPortal Inc. (Note 3)	\$ 4,500	\$
Conversion of convertible term note at \$3.00 per share for 1,126,664 share of common stock (Notes 6 and 8)	3,380	
Property and equipment financed with capital lease obligations	667	196
Issuance of common stock related to ScheduleQ acquisition (Note 3)	330	
Issuance of long-term debt related to the acquisition of ScheduleQ (Note 3)	302	
Assumption of long-term debt issued to the acquisition of ScheduleQ (Note 3)	256	
Cashless warrant exercise (Note 8)	189	
Warrants issued to lender for approval of BenchmarkPortal acquisition (Note 3)	83	
Contingent purchase price payments to BenchmarkPortal stockholders included in accounts payable (Note 4)	56	
Property and equipment included in accounts payable	113	146
Fee charged by lender for approval of BenchmarkPortal acquisition applied to revolving credit facility (Note 3)	40	
Fee charged by lender for modification of certain debt covenants applied to revolving credit facility	35	
Issuance of warrants with debt agreement		542
		(concluded)

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

See notes to condensed consolidated financial statements

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UCN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006 (Unaudited)

NOTE 1 BASIS OF PRESENTATION

These unaudited interim financial statements of UCN, Inc. and its subsidiaries (collectively "UCN") have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of management, these financial statements and accompanying notes contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods shown. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 28, 2007. The results of operations for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

UCN experienced net losses of \$5.3 million and \$5.9 million for the nine months ended September 30, 2007 and 2006, respectively. The primary factors affecting operations during the year were: 1) continued investments in the promotion and development of inContact to bring these services to market; 2) \$4.7 million of depreciation and amortization; 3) \$986,000 of non-cash stock-based compensation expense (Note 9); and 4) \$184,000 in non-cash expense related to two consulting agreements that were satisfied through the issuance of warrants.

UCN's working capital surplus increased \$2.7 million to \$4.3 million at September 30, 2007 from \$1.6 million at December 31, 2006. The primary reason for the significant increase in working capital was due to a cash infusion of \$7.9 million, net of certain offering expenses, from the sale of 2.4 million shares of common stock (Note 8). Immediately subsequent to receiving the cash infusion, the Company paid down the entire \$3.8 million balance of the revolving credit facility.

UCN has generated \$399,000 of cash from operations during the year and \$4.6 million from financing activities during the year. UCN used \$2.9 million of this cash for investing type activities and had an overall net cash gain of \$2.1 million through September 30, 2007.

In addition to the cash amount listed on the condensed consolidated balance sheets, the Company also has access to additional available borrowings under the revolving credit facility. The available borrowings under the revolving credit facility increased \$2.8 million to \$7.0 million at September 30, 2007 compared to only \$4.2 million available at December 31, 2006, resulting in total cash and additional availability under the revolving credit facility of \$13.7 million at the end of the quarter. The working capital position would have been \$11.3 million if the entire \$7.0 million amount available was drawn under our revolving credit facility that is due in May 2010.

In February 2007, UCN closed two acquisitions (Note 3), which improved the overall inContact product offering suite. With these new products, UCN provides customers the ability to monitor agent effectiveness through its customer survey tools and the ability to efficiently monitor their agent needs. These new service offerings provide UCN additional contact and service opportunities to potential customers as well as provide up-sale opportunities to existing customers. These acquisitions added an additional \$1.1 million and \$2.7 million of higher-margin inContact revenue during the three and nine months ended September 30, 2007, respectively.

Our inContact segment experienced its eleventh consecutive quarter of revenue growth increasing to \$7.7 million during the quarter, a 96% increase from the same period in 2006 for a year to date total of \$21.0 million. This increase was a result of the selling and promotion effort we have undertaken to bring these products to market. Excluding the \$1.1 million in revenue generated from the two acquisitions noted above, the segment increased 68% compared to the third quarter of 2006. UCN expects to see continued revenue growth in the inContact segment in 2007 and 2008 (Note 11) due to the more aggressive selling and promotion strategy that has been undertaken to bring the inContact segment products to market.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should UCN be unable to meet short-term requirements.

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NOTE 2 ACCOUNTING PRONOUNCEMENTS**Adoption of New Accounting Pronouncements**

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

Gross versus Net Presentation of Taxes Collected for the Government - In June 2006, the FASB issued Emerging Issues Task Force Issue No. 06-3 (EITF 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*. EITF 06-3 requires a company to disclose its policy regarding the presentation of tax receipts on the face of the income statement. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The provisions of EITF 06-3 are effective for periods beginning after December 15, 2006. The Company adopted EITF 06-3 on January 1, 2007 and presents taxes collected from customers on a net basis.

Recent Accounting Pronouncements

Fair Value Measurements - In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS 157 in the first quarter of 2008. The Company does not expect that the implementation of SFAS 157 will have a material effect on the Company's results of operations or financial position.

Fair Value Option - In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. The Company is required to adopt SFAS 159 in the first quarter of 2008. The Company does not expect that the implementation SFAS 159 will have a material effect on the Company's results of operations or financial position.

NOTE 3 ACQUISITIONS*BenchmarkPortal, Inc. Acquisition*

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

\$500,000 in cash to or for the benefit of the BenchmarkPortal stockholders at closing; and

\$4.5 million by issuing 1.5 million shares of its restricted common stock to BenchmarkPortal stockholders.

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

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\$2.0 million of additional contingent purchase price cash payments to BenchmarkPortal stockholders in 36 equal monthly installments of \$55,556, subject to adjustment if monthly recurring revenue during the payout period from customers' accounts acquired in the transaction do not remain at certain levels which are adjusted for estimated attrition; and

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 during the four-year period after closing in excess of \$900,000 per quarter.

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

Current assets	\$ 623
Property, plant and equipment	255
Intangibles	5,083
 Total assets acquired	 5,961
Current liabilities	(203)
Accrued direct acquisition costs	(348)
Other long-term liabilities and deferred revenue	(410)
 Total liabilities assumed	 (961)
 Purchase price	 \$ 5,000
 Cash paid	 \$ 500
UCN common stock issued	4,500
 Purchase price	 \$ 5,000

ScheduleQ, LLC Acquisition

On October 19, 2006, UCN entered into a Reseller License Agreement with ScheduleQ, LLC. Under the terms of the license agreement, UCN acquired a limited exclusive right and continuing non-exclusive right to market and distribute ScheduleQ software and services to end-users. ScheduleQ software and services consist primarily of a platform-based workforce management system for call centers, which can operate through the inContact service. At the same time UCN entered into a Purchase Option Agreement with ScheduleQ and the members of that limited liability company. On February 9, 2007, UCN exercised its option to purchase 100% of the outstanding ownership of ScheduleQ, LLC. The acquisition closed on February 15, 2007. To complete the transaction, UCN paid former members of ScheduleQ the following consideration:

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

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

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

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

An earn out to be paid over a term of 48 months based on the number of licenses sold by UCN with a minimum aggregate earn out payment of \$100,000 and a maximum of \$982,000.

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

Property, plant and equipment	\$ 5
Intangibles	918
Total assets acquired	923
Accrued direct acquisition costs	(35)
Assumed notes payable	(256)
Note payable issued	(302)
Total liabilities assumed	(593)
Purchase price	\$ 330
UCN common stock issued	\$ 330

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

	Three months ended September 30,	
	2007	2006
Net revenue	\$ 19,628	\$ 20,981
Net loss	(2,019)	(1,554)
Basic and diluted net loss per share	\$ (0.07)	\$ (0.06)

	Nine months ended September 30,	
	2007	2006
Net revenue	\$ 59,854	\$ 65,896
Net loss	(5,283)	(5,947)
Basic and diluted net loss per share	\$ (0.19)	\$ (0.25)

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

NOTE 4 INTANGIBLE ASSETS AND GOODWILL

Intangible assets consisted of the following (in thousands):

	September 30, 2007 (unaudited)			December 31, 2006		
	Gross Assets	Accumulated Amortization	Intangible assets, net	Gross Assets	Accumulated Amortization	Intangible assets, net
Customer lists acquired	\$ 16,495	\$ 14,226	\$ 2,269	\$ 15,684	\$ 12,777	\$ 2,907
Technology and patents	10,314	6,173	4,141	7,980	4,540	3,440
Trade name and trade marks	1,213		1,213			
Non-compete agreement	376	208	168	154	128	26
	\$ 28,398	\$ 20,607	\$ 7,791	\$ 23,818	\$ 17,445	\$ 6,373

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

Intangible asset	Estimated Fair Value	Estimated Useful Life	Amortization Method
Technology and patents	\$ 1,634	5	Straight line
Goodwill	1,340	Indefinite	Impairment review
Trade name and trade marks	1,194	Indefinite	Impairment review
Customer lists acquired	736	10	Accelerated
Non-compete agreement	179	3	Straight line

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Total

\$ 5,083

UCN agreed to pay former BenchmarkPortal stockholders monthly installments of \$55,556 in contingent purchase price payments, subject to adjustment if monthly recurring revenue during the payout period from specified customer accounts acquired does not remain at certain levels, which are adjusted for estimated attrition. In addition to these monthly payments, UCN also agreed to pay former Benchmark Portal stockholders additional contingent quarterly earn out payments based on a recurring revenue in excess of \$900,000 per quarter. During the three and nine months ended September 30, 2007, BenchmarkPortal stockholders earned a total of \$163,000 and \$395,000 in contingent purchase price payments that have been recorded to goodwill.

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

Intangible asset	Estimated Fair Value	Estimated Useful Life	Amortization Method
Technology and patents	\$ 699	8	Straight line
Goodwill	101	Indefinite	Impairment review
Customer lists acquired	75	5	Accelerated
Non-compete agreement	43	2	Straight line
Total	\$ 918		

UCN agreed to pay former ScheduleQ members monthly installments in contingent purchase price payments based on the number of licenses sold. During the three and nine months ended September 30, 2007, former ScheduleQ members earned a total of \$7,000 and \$13,000 in contingent purchase price payments that have been recorded to goodwill.

NOTE 5 ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	September 30, 2007 (unaudited)	December 31, 2006
Accrued payroll and other compensation	\$ 1,415	\$ 656
Accrued payphone and carrier charges	856	782
Accrued operating lease obligations	76	250
Accrued professional fees	222	164
Other	137	172
	\$ 2,706	\$ 2,024

NOTE 6 LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES

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

	September 30, 2007 (unaudited)	December 31, 2006
Convertible term note to ComVest Capital, LLC of \$4.5 million was converted in to 1,126,664 shares of common stock at \$3.00 per share and paid in full in April 2007 (Note 8)	\$	\$ 3,380
Revolving credit note with ComVest Capital, LLC, with maximum availability of \$7.5 million, bearing interest at a fixed 9.0 percent, there are no requirements to repay outstanding principal payments until May 2010		3,258
Promissory notes payable to former ScheduleQ, LLC shareholders, interest imputed at 9.0 percent, payable monthly, secured by the software code acquired and any improvements thereto. Principal payments due monthly, final principal payment due February 15, 2011 (Note 3)	258	
Capital leases	1,302	1,042
	1,560	7,680

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Current portion of long-term debt	(69)	(250)
Current portion of capital lease payments	(777)	(636)
Debt discounts on convertible term note and revolving credit note, net of current portion of \$121 and \$166, respectively	(202)	(271)
	\$ 512	\$ 6,523

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NOTE 7 RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2007, UCN paid the Chairman of the Board of Directors (Chairman), \$5,000 per month for consulting, marketing, and capital raising activities. Starting in September 2001 and continuing to January 2003, the Chairman provided three carriers with his personal guaranty of payment up to \$800,000. These guarantees have not changed since inception and UCN has indemnified the Chairman for any losses for which he may become personally liable.

NOTE 8 CAPITAL TRANSACTIONS

On June 29, 2007, UCN filed a shelf registration on Form S-3 with the SEC. Under the terms of this shelf registration, UCN could offer from time to time up to \$12 million in common shares. The registration statement became effective on July 13, 2007. In September 2007, UCN sold a total of 2,430,000 shares registered under this shelf registration and received gross proceeds of \$8.5 million. UCN also paid placement agency fees and other professional fees totaling \$635,000 for a total of \$7.9 million in net proceeds. In September 2007, UCN withdrew the registration statement covering the remaining \$3.5 million in common shares.

On April 18, 2007, ComVest Capital exercised its right to convert the term note to common stock. UCN issued 1,126,664 shares of common stock on conversion of approximately \$3.4 million in principal amount of the convertible term note and paid, in cash, \$15,000 of interest as complete payment and satisfaction of that note. The shares of common stock issued to ComVest Capital were previously registered for resale under a registration statement on Form S-1 filed with the Securities and Exchange Commission.

During the nine months ended September 30, 2007, employees, former employees and members of UCN's Board of Directors exercised options to purchase a total of 295,674 shares of common stock and UCN received total proceeds of \$728,000.

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

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

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

In conjunction with the BenchmarkPortal acquisition, UCN entered into a consulting agreement with the founder of BenchmarkPortal and issued warrants to purchase a total of 60,000 shares of UCN common stock at \$2.95 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was \$68,000 with an assumed expected volatility of 48.63%, a risk-free rate of return of 4.76%, no dividend yield, and an expected life of 3.0 years. This amount will be expensed the term of the agreement. The warrants vested immediately and expire in February 2010.

In January 2007, UCN amended the convertible term note and revolving credit note agreement. In conjunction with this amendment, UCN issued warrants to ComVest Capital, LLC to purchase 55,000 shares of common stock at \$2.90 per share. The warrants vested immediately and expire in May 2011. In addition to the warrants, UCN also paid \$35,000 in consideration, which was applied to the revolving credit facility. The fair market value of the warrants, using the Black-Scholes pricing model, was \$83,000 with an assumed expected volatility of 58.21%, a risk-free rate of return of 4.87%, no dividend yield, and an expected life of 4.3 years. These warrants were included in a registration statement filed with the SEC on Form S-1 to register for resale on April 6, 2007. The registration statement became effective on April 19, 2007.

UCN entered into a consulting agreement and issued warrants to purchase a total of 120,000 shares of UCN common stock at \$4.00 per share with an additional 25,000 shares that could be earned contingent on UCN shares being accepted for traded on the NASDAQ stock market. Assuming all warrants are earned, the fair market value of the warrants, using the Black-Scholes pricing model, was \$160,000 with an assumed expected volatility of 44.71%, a risk-free rate of return of 4.67%, no dividend yield, and an expected life of 2.0 years. This amount will be expensed over the term of the agreement as the warrants vest. A total of 105,000 warrants vested through September 30, 2007 and all other non-contingent warrants will vest by December 2007. The warrants expire April 2009.

Table of Contents**NOTE 9 STOCK-BASED COMPENSATION**

The Condensed Consolidated Financial Statements, for the three and nine months ended September 30, 2007 and 2006, reflect the impact of SFAS 123(R). UCN has allocated the stock-based compensation to the respective departments based on location of where the employee's regular compensation is charged as follows (in thousands - unaudited):

	Three months ended		Nine months ended	
	September 30, 2007	2006	September 30, 2007	2006
Costs of revenue	\$ 3	\$ 6	\$ 5	\$ 9
Selling and promotion	109	72	338	206
General and administrative	231	29	552	176
Research and development	44	22	91	35
Total	\$ 387	\$ 129	\$ 986	\$ 426

UCN estimated the fair value of options granted under its employee stock-based compensation arrangements at the grant date using the Black-Scholes model with the following weighted-average assumptions for the nine months ended September 30, 2007 and 2006 (unaudited):

	September 30, 2007	September 30, 2006
Dividend yield	None	None
Volatility	59%	70%
Risk-free interest rate	4.50%	4.69%
Expected life (years)	3.5	3.5
Weighted average fair value of option grants	\$ 1.65	\$ 1.32
Forfeiture rate	5.3%	5.3%

The following tables summarize all stock option activity during the three months ended September 30, 2007 and 2006, respectively (in thousands, except per share data - unaudited):

	Options	Price range (\$)	Weighted Average Exercise Price	Intrinsic Value
Balance at July 1, 2007	4,204	\$ 2.00-\$5.39	\$ 2.37	\$ 6,580
Granted	167	\$ 3.43-\$4.05	\$ 3.92	
Exercised	(61)	\$ 2.50-\$2.64	\$ 2.53	88
Cancelled or expired	(56)	\$ 2.50-\$3.50	\$ 3.21	
Balance at September 30, 2007	4,254	\$ 2.50-\$3.50	\$ 2.79	\$ 5,222

	Options	Price range	Weighted Average Exercise Price	Intrinsic Value
Balance at July 1, 2006	3,405	\$ 2.00-\$5.39	\$ 2.36	\$ 1,196
Granted	35	\$ 2.50-\$2.51	\$ 2.50	
Cancelled or expired	(92)	\$ 2.00-\$3.00	\$ 2.30	
Balance at September 30, 2006	3,348	\$ 2.00-\$5.39	\$ 2.37	\$ 506

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The following tables summarize all stock option activity during the nine months ended September 30, 2007 and 2006, respectively (in thousands, except per share data - unaudited):

	Options	Price range (\$)	Weighted Average Exercise Price	Intrinsic Value
Balance at January 1, 2007	3,163	\$ 2.00-\$5.39	\$ 2.39	\$ 1,627
Granted	1,509	\$ 2.93-\$4.45	\$ 3.56	
Exercised	(296)	\$ 2.00-\$2.64	\$ 2.46	456
Cancelled or expired	(122)	\$ 2.50-\$3.50	\$ 2.89	
Balance at September 30, 2007	4,254	\$ 2.50-\$3.50	\$ 2.79	\$ 5,222

	Options	Price range	Weighted Average Exercise Price	Intrinsic Value
Balance at January 1, 2006	3,526	\$ 2.00-\$5.39	\$ 2.37	\$ -
Granted	213	\$ 2.00-\$2.26	\$ 2.22	
Exercised	(71)	\$ 2.00	\$ 2.00	369
Cancelled or expired	(320)	\$ 2.00-\$3.69	\$ 2.39	
Balance at September 30, 2006	3,348	\$ 2.00-\$5.39	\$ 2.37	\$ 506

A summary of the options outstanding and options exercisable at September 30, 2007 is as follows (in thousands, except per share data - unaudited):

Exercise price range	Options Outstanding			Options Exercisable	
	Options	Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$2.00-\$2.30	1,503	2.4 years	\$ 2.04	1,116	\$ 2.03
\$2.31-\$2.66	591	1.9 years	\$ 2.50	566	\$ 2.50
\$2.67-\$3.07	575	2.5 years	\$ 2.82	505	\$ 2.79
\$3.08-\$3.99	1,402	4.4 years	\$ 3.50	77	\$ 3.11
\$4.00-\$5.39	183	4.2 years	\$ 4.41	51	\$ 5.27
	4,254	3.1 years	\$ 2.79	2,315	\$ 2.42
Intrinsic Value	\$ 5,222			\$ 3,657	

A summary of the activity for non-vested share awards as of September 30, 2007 and changes during the three and nine month periods are as follows (in thousands, except per share data - unaudited):

	Options	Weighted Average Option Fair Value
Balance at July 1, 2007	1,975	\$ 1.43
Granted	167	1.78
Vested	(108)	1.08

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Cancelled or expired	(95)		1.23
Balance at September 30, 2007	1,939	\$	1.52

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	Options	Weighted Average Option Fair Value
Balance at January 1, 2007	797	\$ 1.10
Granted	1,509	1.65
Vested	(291)	1.22
Cancelled or expired	(76)	1.56
Balance at September 30, 2007	1,939	\$ 1.52

As of September 30, 2007, there was \$1.7 million of total unrecognized compensation cost related to non-vested share-based compensation awards granted under UCN's stock option plans, which is expected to be recognized over a weighted average period of 1.3 years.

NOTE 10 MAJOR SUPPLIERS

Approximately 61% and 65% of UCN's cost of revenue for the nine months ended September 30, 2007 and 2006, respectively, was paid to three of the largest U.S. telecommunication service providers. UCN owed \$2.3 million and \$3.2 million to these three providers as of September 30, 2007 and December 31, 2006, respectively.

NOTE 11 SEGMENTS

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

For the three months ended September 30, 2007, the inContact segment revenue of \$7.7 million includes \$3.9 million of related long distance voice and data services and \$3.8 million of inContact technology services. For the three months ended September 30, 2006, the inContact segment revenue of \$3.9 million includes \$2.8 million of long distance voice and data services and \$1.1 million of inContact technology services. Management will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Operating segment revenues and profitability for the three months ended September 30, 2007 and 2006 were as follows (in thousands - unaudited):

	Three Months Ended September 30, 2007		
	Telecom	inContact	Consolidated
Revenue	\$ 11,909	\$ 7,719	\$ 19,628
Costs of revenue (excluding depreciation and amortization shown separately below)	8,184	2,747	10,931
Selling and promotion	1,319	2,564	3,883
General and administrative	2,164	2,410	4,574
Depreciation and amortization	660	793	1,453
Research and development		674	674
Loss from operations	\$ (418)	\$ (1,469)	\$ (1,887)

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	Three Months Ended September 30, 2006		
	Telecom	inContact	Consolidated
Revenue	\$ 16,274	\$ 3,930	\$ 20,204
Costs of revenue (excluding depreciation and amortization shown separately below)	10,812	1,896	12,708
Selling and promotion	2,003	1,495	3,498
General and administrative	2,353	950	3,303
Depreciation and amortization	1,362	517	1,879
Research and development		260	260
Loss from operations	\$ (256)	\$ (1,188)	\$ (1,444)

For the nine months ended September 30, 2007, the inContact segment revenue of \$21.0 million includes \$11.5 million of related long distance voice and data services and \$9.5 million of inContact technology services. For the nine months ended September 30, 2006, the inContact segment revenue of \$10.5 million includes \$7.8 million of long distance voice and data services and \$2.7 million of inContact technology services. Management will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Operating segment revenues and profitability for the nine months ended September 30, 2007 and 2006 were as follows (in thousands - unaudited):

	Nine Months Ended September 30, 2007		
	Telecom	inContact	Consolidated
Revenue	\$ 38,425	\$ 20,997	\$ 59,422
Costs of revenue (excluding depreciation and amortization shown separately below)	25,685	7,910	33,595
Selling and promotion	4,519	7,316	11,835
General and administrative	6,733	5,703	12,436
Depreciation and amortization	2,509	2,231	4,740
Research and development	1	1,548	1,549
Loss from operations	\$ (1,022)	\$ (3,711)	\$ (4,733)

	Nine Months Ended September 30, 2006		
	Telecom	inContact	Consolidated
Revenue	\$ 53,290	\$ 10,504	\$ 63,794
Costs of revenue (excluding depreciation and amortization shown separately below)	36,477	5,294	41,771
Selling and promotion	6,207	4,341	10,548
General and administrative	7,272	2,513	9,785
Depreciation and amortization	4,101	1,521	5,622
Research and development		921	921
Loss from operations	\$ (767)	\$ (4,086)	\$ (4,853)

NOTE 12 SUBSEQUENT EVENTS

On October 15, 2007, certain unsecured creditors of a former customer filed suit against UCN seeking to recover certain alleged preferential payments that were made to UCN prior to the former customer entering into bankruptcy. The maximum exposure to UCN relating to the lawsuit is estimated to be approximately \$262,000; however, UCN will vigorously defend its position against the lawsuit and is seeking all possible exemptions to avoid a refund of these payments and although UCN believes it will be successful in its defense, there can be no assurance of a favorable outcome.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of presentation

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

Overview

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

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

We offer a set of traditional connectivity products, which include the dedicated voice T1 product, the Intelligent-T, VoIP connectivity services and our switched 1+ services, that enable our customer sites to connect to UCN's VoIP Network and gain access to our inContact services. Our customers publish toll free and inbound local numbers to their customer base, enabling inbound callers to be handled through the inContact applications embedded in the VoIP Network. Our distribution channels pursue multiple marketing avenues, including using independent agents, value-added resellers and direct and inside sales forces.

Results of Operations

Consolidated Revenue

Consolidated revenues decreased \$577,000 or 3% to \$19.6 million for the three months ended September 30, 2007 from \$20.2 million compared to the same period in 2006. The decrease is primarily due to the continued revenue decrease in our Telecom segment, which was down \$4.4 million or 27% compared to the same period in 2006. The decrease in our Telecom segment is due to the discontinuation of several high-volume, low margin customers during the second quarter of 2006 which has affected each subsequent quarter. These losses were offset by significant increases in inContact segment revenue, which increased \$3.8 million or 96% from the third quarter of 2006. The BenchmarkPortal acquisition allows us to provide customers a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ acquisition allows us to provide our customers a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations. These additions augment our all-in-one hosted inContact solution and added an additional \$1.1 million in quarterly revenue to the segment.

Consolidated revenues decreased \$4.4 million or 7% to \$59.4 million for the nine months ended September 30, 2007 from \$63.8 million compared to the same period in 2006. The decrease is primarily due to the continued revenue decrease in our Telecom segment, which was down \$14.9 million or 28% compared to the same period in 2006. The decrease in our Telecom segment is due to the discontinuation of services to several high volume, low margin customers during the second quarter of 2006 which has affected each subsequent quarter. These losses in the Telecom segment were offset by significant increases in inContact segment revenue, which increased \$10.5 million or 100% to \$21.0 million through September 30, 2007 compared to \$10.5 million during the same period in 2006. The two first quarter acquisitions augment our all-in-one hosted inContact solution and added an additional \$2.7 million in year-to-date revenue to the segment. Excluding the revenue added through the acquisition, our revenue decreased \$7.1 million or 11% compared to the same period in 2006.

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.

Table of Contents*Costs of revenue*

Costs of revenue decreased \$1.8 million or 14% to \$10.9 million for the three months ended September 30, 2007 from \$12.7 million for the same period in 2006. Consistent with other telecommunication companies, we do not include amortization and depreciation in our calculation of costs of revenue. Costs of revenue as a percentage of revenue decreased 7.2 percentage points to 55.7% during the quarter from 62.9% in the same period in 2006. We have continued to improve our cost of revenue as a percentage of revenue percentage by implementing cost cutting measures, increasing higher margin inContact revenue and terminating our relationship with large-volume low-margin customers. In addition to these measures, the \$1.1 million of additional revenue added through the BenchmarkPortal and ScheduleQ acquisitions had very little cost involved with the creation of such revenue.

Costs of revenue decreased \$8.2 million or 20% to \$33.6 million for the nine months ended September 30, 2007 from \$41.8 million for the same period in 2006. Consistent with other telecommunication companies, we do not include amortization and depreciation in our calculation of costs of revenue. Costs of revenue as a percentage of revenue decreased 8.9 percentage points to 56.5% during the nine months ended September 30, 2007 compared to 65.5% in the same period in 2006. We have continued to improve our cost of revenue as a percentage of revenue percentage by implementing cost cutting measures, increasing higher margin inContact revenue and terminating our relationship with large-volume low-margin customers. In addition to these measures, the \$2.7 million of additional revenue added through the BenchmarkPortal and ScheduleQ acquisitions had very little cost involved with the creation of such revenue.

As noted above, we continue to focus most of our marketing efforts on promoting our inContact 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 these inContact related technology services as we add higher gross margin inContact customers. We continue to support our telecom reseller channel that markets our telecom products to business users and encourage those resellers to refer inContact opportunities to us.

Selling and promotion

Selling and promotion expenses increased 11% or \$385,000 to \$3.9 million during the three months ended September 30, 2007 from \$3.5 million during the same period in 2006 primarily due to an overall increase in the number of sales and lead generation activities related to bringing the inContact suite of services to market. Our sales force grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions that closed during the first quarter of 2007. During the first quarter of 2007, UCN granted a significant number of stock options to certain senior members of management, which added an additional \$37,000 of stock-based compensation expense for a total of \$109,000 during the third quarter of 2007 compared to \$72,000 during the same period in 2006.

Selling and promotion expenses increased 12% or \$1.3 million to \$11.8 million during the nine months ended September 30, 2007 from \$10.5 million during the same period in 2006 primarily due to an overall increase in the number of sales and lead generation activities related to bringing the inContact suite of services to the market. Our sales force grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions that closed during the first quarter of 2007. During the first quarter of 2007, UCN granted a significant number of stock options to certain senior members of management which added an additional \$132,000 of stock-based compensation expense for a total of \$338,000 during the nine months ended September 30, 2007 compared to \$206,000 during the same period in 2006.

As noted above, we continue to focus most of our marketing efforts on promoting our inContact segment technology related products and services. As a result, we expect our selling and promotion expense will continue to increase going forward as we continue bringing the inContact suite of services to the market.

General and administrative

General and administrative expenses for the three months ended September 30, 2007 increased 38% or \$1.3 million to \$4.6 million compared to \$3.3 million in the same period in 2006. The increase is primarily due to an overall increase in salaries and benefits during the year due to the growth of the company. Our general and administrative staff grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions closed during the first quarter of 2007. During the first quarter of 2007, UCN granted a significant number of stock options to certain senior members of management, which added an additional \$202,000 of stock-based compensation expense for a total of \$231,000 during the three months ended September 30, 2007 compared to \$29,000 during the same period in 2006.

General and administrative expenses for the nine months ended September 30, 2007 increased 27% or \$2.7 million to \$12.4 million compared to \$9.8 million in the same period in 2006. The increase is primarily due to an overall increase in salaries and benefits during the year due to the growth of the company. Our general and administrative staff grew

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substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions closed during the first quarter of 2007. During the first quarter of 2007, UCN granted a significant number of stock options to certain senior members of management, which added and an additional \$376,000 of stock-based compensation expense for a total of \$552,000 during the nine months ended September 30, 2007 compared to \$176,000 during the same period in 2006.

Segment Reporting

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

inContact Customer Segment Quarterly Results

The inContact segment experienced its eleventh consecutive quarter of revenue growth, which increased to \$7.7 million during the quarter, which is a 96% increase from the same period in 2006 as a result of the selling and promotion effort we have undertaken to bring these products to market. The BenchmarkPortal and ScheduleQ acquisitions added an additional \$1.1 million of revenue during the quarter. Excluding the \$1.1 million of acquisition revenue, the segment increased 68% compared to the same quarter in 2006.

For the three months ended September 30, 2007, the inContact segment revenue of \$7.7 million includes \$3.9 million of related long distance voice and data services and \$3.8 million of inContact technology services. For the three months ended September 30, 2006, the inContact segment revenue of \$3.9 million includes \$2.8 million of long distance voice and data services and \$1.1 million of inContact technology services. Management will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Costs of revenue as a percentage of revenue decreased during the three months ended September 30, 2007 12.6 percentage points to 35.6% from 48.2% during the same period in 2006. These significant improvements are primarily due to closing higher margin inContact deals with new customers as well as the addition of BenchmarkPortal and ScheduleQ, which produce revenue with very few direct costs. We continue to focus a significant amount of resources related to bringing inContact to market. As a result, selling and promotion expenses in the segment increased \$1.1 million or 71% during the quarter compared to the same period in 2006. We also continue to develop the services provided in the segment by investments in research and development. During the quarter, we spent \$674,000 in research and development costs and capitalized an additional \$544,000 of costs related to our internally developed software during the quarter.

inContact Customer Segment Year-to-Date Results

The inContact segment revenue increased to \$21.0 million during the nine months ended September 30, 2007, which is a 100% increase from the same period in 2006 as a result of the selling and promotion effort we have undertaken to bring these products to market. The BenchmarkPortal and ScheduleQ acquisitions added a total of \$2.7 million of revenue during the quarter. Excluding the \$2.7 million of acquisition revenue, the segment increased 74% compared to the same quarter in 2006.

For the nine months ended September 30, 2007, the inContact segment revenue of \$21.0 million includes \$11.5 million of related long distance voice and data services and \$9.5 million of inContact technology services. For the nine months ended September 30, 2006, the inContact segment revenue of \$10.5 million includes \$7.8 million of long distance voice and data services and \$2.7 million of inContact technology services. Management will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Costs of revenue as a percentage of revenue decreased 12.7 percentage points during the nine months ended September 30, 2007 to 37.7% from 50.4% during the same period in 2006. These improvements are primarily due to closing higher margin inContact deals with new customers as well as the addition of BenchmarkPortal and ScheduleQ, which produce revenue with very few direct costs. We continue to focus a significant amount of resources related to bringing inContact to market. As a result, selling and promotion expenses in the segment increased \$3.0 million or 68% during the nine months ended September 30, 2007 compared to the same period in 2006. We also continue to develop the services provided in the segment by investments in research and development. During the nine months ended September 30, 2007, we spent \$1.5 million in research and development costs and have capitalized a total of \$919,000 of costs related to our internally developed software.

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We continue to see decreases in the Telecom segment; however the attrition rates are in line with our expectations. Overall segment revenue decreased 27% to \$11.9 million during the quarter compared to the same period in 2006. These decreases were primarily due to UCN terminating its relationship with several large-volume low-margin customers during the second quarter of 2006. With the decline in revenues from the segment, we have been able to reduce overall costs in the segment. Our costs of revenue and selling and promotion expenses decreased 24% and 34%, respectively, during the quarter compared to the same period in 2006.

Telecom Customer Segment Year-to-Date Results

We continue to see decreases in the Telecom segment; however the attrition rates are in line with our expectations. Overall segment revenue decreased 28% to \$38.4 million during the quarter compared to the same period in 2006. These decreases were primarily due to UCN terminating its relationship with several large-volume low-margin customers during the second quarter of 2006. With the decline in revenues from the segment, we have been able to reduce overall costs in the segment. Our costs of revenue and selling and promotion expenses decreased 30% and 27%, respectively, during the quarter compared to the same period in 2006.

Liquidity and Capital Resources

We experienced net losses of \$5.3 million and \$5.9 million for the nine months ended September 30, 2007 and 2006, respectively. The primary factors affecting operations during the year were: 1) continued investments in the promotion and development of inContact to bring these services to market; 2) \$4.7 million of depreciation and amortization; 3) \$986,000 of non-cash stock-based compensation expense (Note 9); and 4) \$184,000 in non-cash expense related to two consulting agreements that were satisfied through the issuance of warrants.

Our working capital surplus increased \$2.7 million to \$4.3 million at September 30, 2007 from \$1.6 million at December 31, 2006. This dramatic working capital position improvement was due to a cash infusion of \$7.9 million, net of certain offering expenses, from the sale of 2.4 million shares of common stock (Note 8) that significantly improved our balance sheet and working capital position. Immediately subsequent to receiving the cash infusion, we paid down the entire \$3.8 million balance of the revolving credit facility resulting in \$1.2 million of debt outstanding relating to certain capital leases as well as acquisition related debt.

On a year to date basis, we generated \$399,000 of cash from operations and \$4.6 million from financing activities during the year. We used \$2.9 million of this cash for investing type activities and had an overall net cash gain of \$2.1 million through September 30, 2007. The positive cash flow from operations is very positive for us as we undertake our more aggressive marketing and promotion strategy. The amount that we have invested in the company has provided additional network capacity and provides additional resources to help grow inContact segment revenue.

In addition to the cash amount listed on the condensed consolidated balance sheets, we also have access to additional available borrowings under the revolving credit facility. The available borrowings under the revolving credit facility increased \$2.8 million to \$7.0 million at September 30, 2007 compared to only \$4.2 million available at December 31, 2006, resulting in total cash and additional availability under the revolving credit facility of \$13.7 million at the end of the quarter. The working capital position would have been \$11.3 million if the entire \$7.0 million amount available was drawn under our revolving credit facility that is due in May 2010.

In February 2007, we closed two acquisitions (Note 3), which improved the overall inContact product offering suite. With these new products, we provide our customers with the ability to monitor agent effectiveness through its customer survey tools and the ability to efficiently monitor their agent needs. These new service offerings provide us additional contact and service opportunities to potential customers as well as provide up-sale opportunities to existing customers. These acquisitions added an additional \$1.1 million and \$2.7 million of higher-margin inContact revenue during the three and nine months ended September 30, 2007, respectively.

Our inContact segment experienced its eleventh consecutive quarter of revenue growth increasing to \$7.7 million during the quarter, a 96% increase from the same period in 2006 for a year to date total of \$21.0 million. This increase was a result of the selling and promotion effort we have undertaken to bring these products to market. Excluding the \$1.1 million in revenue generated from the two acquisitions noted above, the segment increased 68% compared to the third quarter of 2006. UCN expects to see continued revenue growth in the inContact segment in 2007 and 2008 (Note 11) due to the more aggressive selling and promotion strategy that has been undertaken to bring the inContact segment products to market.

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On August 2, 2007, we amended the ComVest revolving credit and term loan agreement to eliminate the most significant financial covenants as well as some other non-financial covenants. The financial covenants eliminated through the amendment were: 1) the capital expenditure limit; 2) the EBITDA (a non-GAAP measure that is specifically defined in the agreement) requirement; and 3) the minimum cash and availability requirement. This amendment provides us increased flexibility to aggressively grow the business through additional investments in the inContact segment.

On June 29, 2007, UCN filed a shelf registration on Form S-3 with the SEC. Under the terms of this shelf registration, we could offer from time to time up to \$12 million in common shares. The registration statement became effective on July 13, 2007. In September 2007, we sold a total of 2,430,000 shares registered under this shelf registration and received gross proceeds of \$8.5 million. We also paid placement agency fees and other professional fees totaling \$635,000 for a total of \$7.9 million in net proceeds. In September 2007, we withdrew the registration statement covering the remaining \$3.5 million in common shares.

On April 18, 2007, ComVest Capital exercised its right to convert the term note to common stock. UCN issued 1,126,664 shares of common stock on conversion of approximately \$3.4 million in principal amount of the convertible term note and paid, in cash, \$15,000 of interest as complete payment and satisfaction of that note. This conversion will save UCN an estimated \$468,000 in cash payments during 2007 and will significantly improve the current ratio in future periods by eliminating the associated current portion of long-term debt.

In conjunction with the BenchmarkPortal acquisition, we entered into a consulting agreement with the founder of BenchmarkPortal and issued warrants to purchase a total of 60,000 shares of UCN common stock at \$2.95 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was \$68,000 with an assumed expected volatility of 48.63%, a risk-free rate of return of 4.76%, no dividend yield, and an expected life of 3.0 years. This amount will be expensed the term of the agreement. The warrants vested immediately and expire in February 2010.

In January 2007, we amended the convertible term note and revolving credit note agreement. In conjunction with this amendment, we issued warrants to ComVest Capital, LLC to purchase 55,000 shares of common stock at \$2.90 per share. The warrants vested immediately and expire in May 2011. In addition to the warrants, we also paid \$35,000 in consideration, which was applied to the revolving credit facility. The fair market value of the warrants, using the Black-Scholes pricing model, was \$83,000 with an assumed expected volatility of 58.21%, a risk-free rate of return of 4.87%, no dividend yield, and an expected life of 4.3 years. These warrants were included in a registration statement filed with the SEC on Form S-1 to register for resale on April 6, 2007. The registration statement became effective on April 19, 2007.

We entered into a consulting agreement and issued warrants to purchase a total of 120,000 shares of our common stock at \$4.00 per share with an additional 25,000 shares that could be earned contingent on UCN shares being accepted for traded on the NASDAQ stock market. Assuming all warrants are earned, the fair market value of the warrants, using the Black-Scholes pricing model, was \$160,000 with an assumed expected volatility of 44.71%, a risk-free rate of return of 4.67%, no dividend yield, and an expected life of 2.0 years. This amount will be expensed over the term of the agreement as the warrants vest. A total of 105,000 warrants vested through September 30, 2007 and all other non-contingent warrants will vest by December 2007. The warrants expire April 2009.

During the nine months ended September 30, 2007, employees, former employees and members of UCN's Board of Directors exercised options to purchase a total of 295,674 shares of common stock and UCN received total proceeds of \$728,000.

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

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

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

Critical accounting policies and estimates

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

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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 collectibility of accounts receivable. We use historical and other information that we consider to be relevant to make these judgments and estimates. However, actual results may differ from those estimates and assumptions that are used to prepare our financial statements.

Adoption of New Accounting Pronouncements

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

Gross versus Net Presentation of Taxes Collected for the Government - In June 2006, the FASB issued Emerging Issues Task Force Issue No. 06-3 (EITF 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*. EITF 06-3 requires a company to disclose its policy regarding the presentation of tax receipts on the face of the income statement. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The provisions of EITF 06-3 are effective for periods beginning after December 15, 2006. We adopted EITF 06-3 on January 1, 2007 and present taxes collected from customers on a net basis.

Recent Accounting Pronouncements

Fair Value Measurements - In September 2006, the FASB issued Statement of Financial Accounting Statement (SFAS) 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS 157 in the first quarter of 2008. The Company does not expect that the implementation of SFAS 157 will have a material effect on the Company’s results of operations or financial position.

Fair Value Option - In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. The Company is required to adopt SFAS 159 in the first quarter of 2008. The Company does not expect that the implementation SFAS 159 will have a material effect on the Company’s results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is limited to interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Our cash equivalents are invested with high quality issuers and limit the amount of credit exposure to any one issuer. Due to the short-term nature of the cash equivalents, we believe that we are not subject to any material interest rate risk as it relates to interest income. All outstanding debt instruments at September 30, 2007 have fixed interest rates and are therefore not subject to interest rate risk.

We did not have any foreign currency hedges or other derivative financial instruments as of September 30, 2007. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted in the United States and as such are not subject to foreign currency exchange rate risk.

ITEM 4. CONTROLS AND PROCEDURES

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With the participation of management, UCN's chief executive officer and chief financial officer evaluated disclosure controls and procedures on September 30, 2007. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective in connection with UCN's filing of its quarterly report on Form 10-Q for the three and nine months ended September 30, 2007.

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During the three and nine months ended September 30, 2007 there have been no significant changes in UCN's internal controls or in other factors that could significantly affect these controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

PART II**ITEM 1. LEGAL PROCEEDINGS**

On October 15, 2007, the Official Committee of Unsecured Creditors of the bankruptcy estate of Epixtar Corp. and B2B Advantage, Inc., filed an adversary proceeding against UCN. The case styled Official Committee of Unsecured Creditors v. UCN, Inc., Bankruptcy Case Number 05-42040-AJC / Adversary Proceeding number 07-01751-AJC, was filed in the U.S. Bankruptcy Court in the Southern District of Florida. The Unsecured Creditors Committee is seeking to recover \$262,000 in alleged preferential payments made by Epixtar to UCN during the 90-day period prior to Epixtar's bankruptcy filing. UCN's answer or response to the adversary proceeding is due Friday, November 30, 2007. UCN estimates its maximum exposure under the proceeding to be \$262,000; however UCN will vigorously defend its position against the suit and is seeking all possible exemptions to avoid a refund of these payments carryover from subsequent event note.

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 customer marketing and rebate programs or long distance service, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we operate as of the date of this report. Because of the factors discussed in the 2006 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 third quarter of 2007, UCN issued compensatory options to two employees for the purchase a total of 25,000 and 50,000 shares of common stock at an exercise price of \$3.82 and \$3.95 per share, respectively. 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
99.1	UCN Reports Third Quarter 2007 Results

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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: November 13, 2007

By: /s/ Paul Jarman
Paul Jarman

Chief Executive Officer

Date: November 13, 2007

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