CONCERO INC
Form 10-Q
May 14, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 30, 2002

OR

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

Commission file number 000-22327

CONCERO INC.

Incorporated Pursuant to the Laws of the State of Delaware

Internal Revenue Service-Employer Identification No. 74-2796054

6300 Bridgepoint Parkway, Building 1, Suite 500, Austin Texas 78730

(512) 343-6666

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days.

Yes______x_____ No __________

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,233,090 shares of the Company's Common Stock, $.01 par value, were outstanding as of April 30, 2002.

CONCERO INC.

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Part I-Financial Information

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

Concero Inc.
Condensed Consolidated Balance Sheets
(in thousands, except per share data)

	December 31, 2001	March 31 2002
		(Unaudite
Assets		
Current assets:		
Cash..	$ 4,141	$ 3,12
Short-term investments................................	8,964	8,96
Accounts receivable, net of allowance for doubtful accounts of $612 at December 31, 2001 and $320 at March 31, 2002.................................	823	26
Unbilled revenue under customer contracts..............	557	
Income tax receivable................................	11	60
Prepaid expenses and other current assets..............	594	40
Total current assets....................................	15,090	13,35
Property and equipment, net..............................	1,554	1,15

Total assets	$ 16,644	$ 14,51
Liabilities and stockholders' equity		
Current liabilities:		
Trade payables	$ 66	$ 23
Accrued expenses and other current liabilities	5,445	4,90
Total current liabilities	5,511	5,14
Stockholders' equity:		
Preferred stock, par value $.01 per share, 1,000 shares authorized and none issued and outstanding	-	
Common stock, par value $.01 per share 34,000 shares authorized, 10,225 and 10,225 shares issued and outstanding at December 31, 2001 and March 31, 2002, respectively	102	10
Additional paid-in capital	33,734	33,73
Retained deficit	(22,703)	(24,46
Total stockholders' equity	11,133	9,36
Total liabilities and stockholders' equity	$ 16,644	$ 14,51

See accompanying notes.

Concero Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2002

(Unaudited)

1. Nature of Business

Concero Inc. (Concero or the Company) is a provider of interactive television solutions. Concero provides systems integration consulting services that enable cable operators, content providers and application providers to deliver compelling entertainment-on-demand services and other video-on-demand enabled applications and intends to provide related software products.

Concero possesses unique delivery capabilities for supporting interactive television solutions. In conjunction with Motorola s Horizon and Scientific-Atlanta s CreativEdge developers programs, Concero operates state-of-the-art integration facilities with head-ends, set-top boxes, video-on-demand servers, operating systems and middleware from Motorola, Scientific-Atlanta, SeaChange, Concurrent and other major technology providers. These assets, combined with Concero s dedicated and experienced team of interactive television consultants and software engineers, offer customers substantial cost savings and rapid time-to-market benefits.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Concero Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, they do not include all the information and notes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2001 included in the Company s annual report on Form 10-K. The accompanying financial statements reflect adjustments, all of which are of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation. The results for interim periods are not necessarily indicative of full year results.

In November 2001, the FASB issued staff announcement (Topic No. D-103), *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred,* which was subsequently incorporated in Emerging Issues Task Force Issue No. 01-14 (EITF Issue No. 01-14). EITF Issue No. 01-14 requires companies to characterize reimbursements received for out-of-pocket expenses as revenues in the statement of operations. EITF Issue No. 01-14 had no effect on net loss as it increased both revenues and expenses. As a result of the adoption of EITF Issue No. 01-14, the Company has restated its condensed consolidated statement of operations for the quarter ended March 31, 2001 to reflect reimbursements received for out of pocket expenses as revenue and technical staff expenses.

3. Comprehensive Loss

The components of comprehensive loss for the three months ended March 31 are as follows (in thousands):

	2001	2002
Net loss....................................	$(11,435)	$ (1,765)
Unrealized loss on short-term investments.....	(66)	-
Comprehensive loss...........................	$(11,501)	$ (1,765)

Concero Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Earnings (Loss) per Share

The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share data) for the three months ended March 31:

	2001	
Numerator:		
Net loss...	$ (11,435)	$
Denominator:		
Shares used in basic loss per share calculation..........	10,164	
Effect of dilutive securities:		

Employee stock options................................	-	
Warrants..	-	
Shares used in diluted loss per share calculation........	10,164	
Basic loss per share.......................................	$ (1.13)	$
Diluted loss per share.....................................	$ (1.13)	$

5. Cost Reduction Measures

In 2001, the Company implemented cost reduction measures to continue to more closely align its cost structure with near-term future revenue opportunities. These cost reduction measures continued in the first quarter of 2002 and included workforce reductions, the establishment of reserves for excess leased office space and the impairment of equipment. As a result of these cost reduction measures, the Company recorded a charge to other expense of approximately $4.6 million and $680,000 in the first quarter of 2001 and 2002, respectively, as follows (in thousands):

	Severance	Impairment of Equipment	Lease Commitme
Accrual balance at December 31, 2000...	$ -	$ -	$
Charge to other expense............	1,512	2,150	
Payments and charges made..........	(584)	(2,150)	
Accrual balance at March 31, 2001......	$ 928	$ -	$
Accrual balance at December 31, 2001...	$ -	$ -	$ 4,
Charge to other expense............	170	280	
Payments and charges made..........	(104)	(280)	(
Accrual balance at March 31, 2002......	$ 66	$ -	$ 3,

Concero Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Severance costs involve an aggregate of 130 and 13 technical, sales and administrative personnel in the first quarter of 2001 and 2002, respectively, to which the Company paid a severance benefit. Impairment of equipment relates to excess property and equipment, primarily leasehold improvements, equipment and furniture utilized by terminated personnel. Lease commitments relate to the excess office space of approximately 97,500 square feet, or 91% of the office space occupied by the Company at December 31, 2000.

Accrued lease payments at March 31, 2002 are expected to be paid over the remaining lease terms, which extend to various dates through 2007. At March 31, 2002, the Company had entered into sublease agreements representing approximately 36,000 square feet. The estimated costs of abandoning these leased facilities, including estimated costs to sublease, brokerage commissions and resulting sublease income, were based on market information and trend analysis as estimated by the Company. Actual results could differ from these estimates, and such differences could be material to the financial statements. In particular, actual sublease income attributable to the consolidation of excess facilities might deviate from the assumptions used to calculate the Company s accrual for facility lease commitments. With the exception of the impairment of excess equipment, all payments and charges made involved the disbursement of cash.

6. Income Taxes

The exercise of certain stock options which have been granted under the Company s stock option plan give rise to compensation which is includable in the taxable income of the applicable option holder and deductible by the Company for federal and state income tax purposes. The information for the quarter ended March 31, 2001 includes a non-cash income tax charge of $2.3 million to establish a valuation allowance against the deferred tax asset for stock options, which was originally recorded as a reduction of shareholders equity in that quarter due to uncertainties regarding the realization of the deferred tax assets. In March of 2002, a new U.S. federal income tax law was passed which allows for a temporarily lengthened loss carry-back period. This new law allows the Company to carry-back a portion of the tax loss incurred in 2001 to prior years, resulting in an income tax receivable of approximately $605,000 in 2002.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to the historical information contained herein, the discussion in this Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, such as statements for the plans, objectives, expectations and intentions of Concero. Such forward looking statements are generally accompanied by words such as plan, estimate, expect, believe, could, would, anticipate, may, or other words that convey uncertainty of future events or outcomes. These forward-looking statements and other statements made elsewhere in this report are made in reliance on the Private Securities Litigation Reform Act of 1995. The cautionary statements made in this Form 10-Q should be read as being applicable to all related forward-looking statements whenever they appear in this Form 10-Q. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the section below entitled Factors That May Affect Future Results, Financial Condition and Market Price of Securities as well as those cautionary statements and other factors set forth elsewhere herein.

Overview

We have been providing software development services to customers that are innovators, early technology adopters and market leaders for more than a decade. We had successfully transitioned to a company that primarily provides e-business services by 1999. Beginning in the second quarter of 2000, however, the market for e-business services began to deteriorate and our revenue declined. In 2000, we initiated cost reduction measures and narrowed our service offerings around: strategy, enterprise portals, content chains and interactive television. In 2001, our performance was considerably and negatively impacted by the weak U.S. economy and a decrease in capital spending by our customers and potential customers. We implemented further cost reduction measures in 2001 and 2002 to more closely align our cost structure with near-term future revenue opportunities. As a result of these cost reduction measures, we recorded charges in other expense of $4.6 million and $680,000 in the first quarter of 2001 and 2002, respectively, including workforce reductions, the impairment of equipment and the establishment of reserves for the elimination of excess leased office space. We continued to provide strategic consulting skills with deep technology and integration expertise to existing customers; however, we further narrowed our focus around interactive television.

In November 2001, we announced our Concero Marquee software product at the Western Cable Show. Concero Marquee is a suite of software that will be designed to enable the development of interactive television applications that leverage video-on-demand services. We anticipate that these applications will include entertainment-on-demand for movies, music, games, subscription video-on-demand, interactive advertising, commerce and promotional services. Concero Marquee will utilize unique cross-platform software to reduce the cost and complexity of designing, delivering and presenting user interfaces and interactive services across multi-vendor digital set-top boxes and video-on-demand applications.

During 2002, we are highly focused on the successful launch of the Concero Marquee suite, including product development, marketing and sales.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, income taxes, restructuring and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following represent our critical accounting policies:

Revenue Recognition

Revenue from service contracts is recognized when persuasive evidence of an arrangement exists, delivery of the services has occurred, the fee is fixed and determinable, and collection is probable. Revenue from time and materials contracts is recognized during the period for which the services are provided. Revenue from fixed price contracts is recognized using the percentage-of-completion method, measured by the percentage of units of labor incurred to the date of measurement relative to the estimated total units of labor at completion. The cumulative impact of revisions in estimates of the percentage to complete is reflected in the period in which the revisions are made. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Revenue earned in excess of billings is classified as unbilled revenue under customer contracts. Billings in excess of earned revenue are classified as deferred revenue. Revenue includes reimbursable expenses. Revenue from product license fees is generally recognized when persuasive evidence of an arrangement exists, delivery and deployment of the product has occurred, no significant obligations by the Company with regard to implementation remain, the fee is fixed and determinable and collectibility is probable. The Company has recorded no product license revenue in 2001 or 2002.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the uncollectibility of our accounts receivable, specifically, our customers inability to make required payments. We use a combination of the aging method, based on historical collection experience, and customer-specific identification of potential bad debt losses to estimate our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Business Restructuring

We vacated excess leased facilities as a result of the cost reduction measures taken during 2001. We recorded an accrual for the remaining lease liabilities of such vacated properties as well as brokerage commissions, partially offset by estimated sublease income. We estimated the costs of these excess leased facilities, including estimated costs to sublease and resulting sublease income, based on market information and trend analysis. Actual results could differ from these estimates, in particular, actual sublease income attributable to the consolidation of excess facilities might deviate from the assumptions used to calculate our accrual for facility lease commitments.

Income Tax

We account for income taxes using the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases for assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Results of Operations

The following table sets forth the percentage of revenue of certain items included in our condensed statement of operations for the period indicated:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
Revenue	100%	100%
Operating expenses:		
Technical staff	82	81
Research and development	-	97
Selling and administrative staff	32	76
Other expenses	97	158
Total operating expense	211	412
Income (loss) from operations	(111)	(312)
Interest income	3	9
Provision for (benefit from) income taxes	27	(77)
Net income (loss)	(135)%	(226)%

Three Months Ended March 31, 2002 Compared to the Three Months Ended March 31, 2001

Revenue

Our revenue consists primarily of fees for software services provided. Revenues decreased 91% to $781,000 in the quarter ended March 31, 2002 from $8.8 million in the quarter ended March 31, 2001. The decline is principally due to reduced demand for e-business services due to a weak economy and low capital spending on information technology. Additionally, in conjunction with our cost reduction measures and shift in strategy from e-business services to a provider of software and related integration services, we eliminated our regional offices and staff that historically provided material support of the sale and delivery of our e-business services, and much of our sales and marketing focus is on the expected release of Concero Marquee in the third quarter of 2002. Comparing the first quarter of 2002 with the same period in 2001 our average hourly bill rate decreased 29% to $95 from $133. We do not anticipate any recovery in our average hourly bill rate unless we are able to deploy staff in support of Concero Marquee integrations in the future.

In the first quarter of 2002, two customers accounted for 40% and 38% of our revenue and, in total, accounted for 45% of our accounts receivable as of March 31, 2002. Two customers accounted for 15% and 13% of revenue in the first quarter of 2001. No other client accounted for more than 10% of revenue for either period.

Technical Staff

Technical staff expenses consist of the cost of salaries, payroll taxes, health insurance and workers compensation for technical staff personnel assigned to client engagements and unassigned technical staff personnel, as well as fees paid to sub-contractors for work performed in connection with a client engagement. Technical staff expenses decreased 91% to $634,000 in the quarter ended March 31, 2002 from $7.2 million in the quarter ended March 31, 2001. The decrease in technical staff expenses is primarily due to workforce reductions in conjunction with our cost reduction measures.

As a percentage of revenue, technical staff expenses decreased to 81% in the quarter ended March 31, 2002 from 82% in the same quarter last year. This decrease was primarily the result of improvement in our utilization, which benefited from the development of Concero Marquee. Adjusted for hours associated with Concero Marquee, our utilization rate was 85% for the first quarter of 2002, up from 46% in the first quarter of 2001, largely offset by the decline in our average hourly bill rate.

Research and Development

Research and development expenses consist of the costs associated with the development of our new product, Concero Marquee including salaries, payroll taxes, health insurance and workers compensation for technical staff personnel assigned to the research and development team. Research and development was approximately $754,000 for the first quarter of 2002. We did not incur research and development costs in the first quarter of 2001.

Selling and Administrative Staff

Selling and administrative staff expenses consist of the cost of salaries, payroll taxes, health insurance and workers compensation for selling, marketing and administrative personnel as well as commissions and bonuses paid to technical and administrative staff. Selling and administrative staff expenses decreased 78% to approximately $595,000 in the quarter ended March 31, 2002 from $2.7 million in the quarter ended March 31, 2001 primarily due to workforce reductions in conjunction with our cost reduction measures. As a percentage of revenues, selling and administrative staff expenses increased to 76% in the quarter ended March 31, 2002 from 32% in the quarter ended March 31, 2001, primarily as a result of lower revenues.

Other Expenses

Other expenses consist of all non-staff related costs, such as occupancy costs, travel, business insurance, business development, recruiting, training and depreciation. Other expenses decreased to $1.2 million in the quarter ended March 31, 2002 from $8.3 million in the first quarter of last year. As a percentage of revenues, other expenses increased to 158% in the quarter ended March 31, 2002 from 97% for the quarter ended March 31, 2001. These fluctuations are primarily a result of cost reduction measures and lower revenue. Other expenses this quarter include severance costs of $170,000, excess office space of $230,000, the impairment of excess capitalized equipment for $280,000 and a reduction of our allowance for bad debts of $192,000. Included in other expenses for the first quarter of 2001 are severance costs of $1.5 million, excess office space of $950,000, the impairment of excess capitalized equipment of $2.2 million and an increase in our allowance for bad debt of $300,000.

Excluding the aforementioned individually significant items, other expenses were $748,000 in the quarter ended March 31, 2002, a decline from $3.3 million in the first quarter of last year.

Loss from Operations

We recorded a loss from operations of $2.4 million for the quarter ended March 31, 2002, a decrease from a loss from operations of $9.4 million for the quarter ended March 31, 2001.

Income Taxes

A tax benefit of $605,000 was recorded in the first quarter of 2002 in connection with a carry-back made available by recent Federal tax legislation. The income tax provision of $2.3 million for the first quarter of 2001 is a non-cash charge to establish a valuation allowance against deferred tax assets for stock options.

Net Loss

We recorded a net loss of $1.8 million for the quarter ended March 31, 2002, a decrease from the net loss of $11.4 million for the quarter ended March 31, 2001. Excluding the effect of the aforementioned individually significant items affecting other expenses and income taxes, our net losses were $1.9 million and $4.2 million for the first quarters of 2002 and 2001, respectively. While our revenue declined significantly in the first quarter of 2002 from the same quarter of 2001, net loss declined primarily as a result of lower costs resulting from our cost reduction measures.

Liquidity and Capital Resources

Our operating activities used cash of $1.2 million and $945,000 for the first quarter of 2001 and 2002, respectively. We purchased approximately $478,000 and $76,000 of computers, office and system equipment and software in the first quarter of 2001 and 2002, respectively. As of March 31, 2002, we had cash, cash equivalents and short-term investments totaling $12.1 million, down from $13.1 million at December 31, 2001.

As of March 31, 2002, we did not have any material commitments for capital expenditures. Our capital expenditures currently consist primarily of purchases to support our interactive television facilities.

We lease our office and facilities space through non-cancelable operating lease arrangements. At March 31, 2002, our future minimum rental commitments totaled approximately $7.5 million. While future commitments under these operating lease arrangements are generally not recorded as liabilities, much of the committed space in excess of our current needs as a result of our cost reduction measures. Accordingly, we have established reserves totaling approximately $3.4 million, net of estimated sublease revenue which assumes that excess space is leased by the end of 2002 at rates ranging from $15.00 to $30.00 annually per square foot depending upon location.

The number of days of revenue in our accounts receivable balance was 27 days as of March 31, 2002. We may experience longer collection periods if the work we perform for smaller companies increases as a percentage of our total services. We anticipate that our existing cash and cash equivalents balances, and potential cash flows from operations will be adequate to fund our working capital and capital expenditure requirements for at least the next 12 months. However, changes may occur that could consume available capital resources before such time. Our capital requirements depend on numerous factors, including potential acquisitions, the timing of the receipt of accounts receivable, employee growth and the percentage of projects performed at our facilities.

We currently do not maintain any committed credit facilities. We cannot assure you that commercial credit, if necessary, will be available to us on favorable terms, or at all.

Factors That May Affect Future Results, Financial Condition and Market Price of Securities

Risks that Relate to Our Business Strategy

We are subject to a number of risks related to our business strategy. We describe some of these risks below. If any of these risks materializes, our business, financial condition and results of operations could be harmed, and our stock price could fall.

Risks that Relate to Our New Business Strategy

We are subject to a number of risks related to our new business strategy. We describe some of these risks below. If any of these risks materializes, our business, financial condition and results of operations could be harmed, and our stock price could fall.

We have narrowed our strategic focus to interactive television. This may not be successful.

Recently, our management team decided to implement a new business strategy and narrow our core product and service offering to software, tools and services to facilitate interactive television. The market for interactive television may not achieve business or consumer acceptance in the near term, or at all. For example, companies promoting interactive television and broadband services may find that consumers are reluctant to use these services due to prohibitive cost or complexity. Further, if interactive television does gain acceptance, cable operators, cable programmers or interactive television application providers may not adopt our software suite. As a result, our commitment of a substantial portion of our resources to interactive television may not yield substantial revenues or profit for us in the next few years or at all. It is too early to know whether the narrowing of our business focus will help us achieve long-term success. Companies that implement major changes in their business strategy can face more challenging risks and unexpected difficulties.

Our transition from a services only consulting organization to a provider of interactive television software and services is risky and expensive.

Our successful transition to a provider of interactive television software and services involves several risks. These risks include:

- reliance on undeveloped and unproven products and technology;
- our unproven and evolving business model;
- market acceptance of any new software and services we develop;
- our ability to anticipate and adapt to the developing interactive television market;
- competition in the marketplace;
- our need to structure our internal resources to support the development, marketing and potential growth of our software and service offerings;
- uncertainties concerning our strategic direction;
- our need for cable operators to launch and maintain video-on-demand services that create a need for the new software and services we intend to develop;
- the uncertainty of business or consumer acceptance of video-on-demand services utilizing our proposed suite of software and services; and

- our need to realign and enhance our business development, research and development, software development and consulting and support organizations to develop our proposed software and service offering.

Internal and external changes resulting from our transition may cause concern among our current customers, potential customers, strategic partners and employees, and create a prolonged period of uncertainty. Our new strategy requires substantial organizational changes, including pursuing new strategic relationships, increasing our research and development expenditures, adding employees who possess the skills we believe we will need going forward, investing in new technologies, establishing leadership positions in the interactive television market and realigning and enhancing our sales and marketing groups. Many factors may affect our ability to implement our new strategy, including our ability to finalize agreements with other companies, manage the implementation internally, sustain the productivity of our workforce, introduce innovative new software in a timely manner, manage operating expenses and quickly respond to, and recover from, unforeseen events associated with our transition and realignment.

We expect to incur operating losses throughout the remainder of 2002, and it is possible that we may not become profitable again.

As a result of our transition to a software and service provider, it is extremely difficult to forecast our future financial performance. We are now in the initial stages of pursuing a new business strategy. We expect to incur significant research and development, software development, administrative and operating expenses in the future. Only if we are able to successfully develop our proposed products, bring them to market before our competitors and achieve market acceptance will we be able to generate any significant revenues from our new business model. It is possible that we will exhaust all available funds before we reach the positive cash flow phase of our proposed business model.

We may have difficulty in raising capital and making an effective transition because of our history.

It may be difficult for us to make an effective transition from an e-business consulting company to a software and service provider. We may have difficulty raising capital, attracting and retaining talented employees, attracting research analyst coverage of our common stock and gaining the confidence of possible strategic partners, substantial investors and new customers for our proposed software and services.

We may be unable to develop our proposed software products and services.

We hope to be able to develop and then deliver to market a suite of software and tools that will enable the development of interactive television applications. If we are unsuccessful in developing this software suite, we will have no products or services to bring to market and, therefore, will not be able to generate revenue from our proposed products and services. We may exhaust all available funds before we can develop our proposed software products and services.

We may not be able to integrate our software products with third-party technology.

If developed, our proposed software products must be able to integrate with video-on-demand services and set-top boxes used by our potential customers. For example, if, as a result of technology enhancements or upgrades of these systems, we are unable to integrate our software and tools with the servers or set-top boxes, we would be required to redesign our software and tools or they would be considered obsolete.

Our business strategy depends on our ability to create and maintain strategic alliances with other technology companies. These alliances may shift or terminate suddenly.

We currently maintain strategic alliances with other companies that help us to gain access to new technology and business opportunities. Like many in our industry, we sometimes refer to these companies as our partners , but they are not partners in a legal sense. In particular, these companies are under no binding obligation to remain in relationships with us or to continue to cooperate with us, and these relationships are generally not exclusive.

Any of our alliance partners may choose to end the alliance, alter the terms of the alliance in a way that harms our business or increase the level of business they conduct with one of our competitors. Similarly, if one of our alliance partners undergoes a management or ownership change, we could lose access to critical technology and business opportunities. The publicity that could accompany these kinds of changes could have a damaging effect on our stock price.

Moreover, our brand may be closely associated with the business success or failure of our alliance partners, many of whom are pursuing unproven business models in competitive markets. As a result, the failure or difficulties of these companies may damage our brand and hurt our business opportunities.

Risks that Relate to Our Business

We are subject to a number of risks that are particular to our business and that may or may not affect our competitors. We describe some of these below. If any of these risks materializes, our business, financial condition and results of operations could be harmed, and our stock price could fall.

Our business is subject to declines in demand due to changing market dynamics affecting our customers.

Our business is subject to declines in demand due to changing market dynamics affecting our customers. In 2001, we experienced a 65% decrease in revenue as compared to 2000. We believe this decrease was attributable in part to reduced spending by Internet and start-up businesses resulting from a less favorable investment climate for Internet and start-up companies engaged in e-business. This decrease was also attributable to reduced or deferred spending for computer consulting services by established companies resulting from efforts of these companies to reduce expenses in light of the recent deterioration of economic conditions in the United States. These factors affecting demand for our services have continued into the early part of 2002, and we would expect that a continuation of these factors would continue to adversely affect our revenue and profitability.

Our key employees are critical to our continued success. The loss of any of these employees could impair our ability to execute our strategy or grow our business.

Our future success will depend in part upon the continued services of a number of key management and technical employees. The loss of any of our key personnel could hurt our ability to execute our strategy and grow our business. We do not maintain key-person life insurance on any of our employees. In addition, if one or more of our key employees resigns to join a competitor or to form a competing business, we could lose existing or potential customers.

In 2001, we reduced our workforce by approximately 242 people, including approximately 161 technical staff who perform consulting services, in order to more closely match our workforce level to our recent levels of demand for our services. We believe that the retained workforce will allow us to execute our new business strategy although it is possible that our workforce reduction plans will result in the loss of key personnel whom we desire to retain.

We need to recruit, train and retain qualified employees to successfully grow our business.

Our success depends on our ability to recruit, train, retain, motivate and manage highly skilled employees. Qualified project managers, software architects and senior technical and professional staff with the skills we need are in demand worldwide. If we are not able to hire, train and retain a sufficient number of highly skilled employees, our ability to manage and staff existing projects and to obtain new projects might suffer. In addition, a competitive labor market may require us to raise salaries faster than we have in the past, and faster than we raise our billing rates.

We changed our name and intend to introduce the Concero Marquee Suite of software.

We changed our name to Concero Inc. Although we have filed a trademark application for this name, we may be unable to protect our name or prevent others from using our name. We also intend to launch the Concero Marquee suite of software. We have not filed a trademark application for this new product name. Other parties may claim that our use of Concero or Concero Marquee violates their intellectual property rights. If we are prevented from using the Concero or Concero Marquee name, it may become more difficult for us to carry out our business plans. In addition, our planned advertisement of the change and promotion of our new brand and product may fail to reach important segments of our potential customer base, and our marketing campaign may yield little results.

We may not be able to protect our intellectual property and proprietary rights.

Our proprietary intellectual property consists of the business processes and software that we develop to assist customers. Our efforts to protect our proprietary rights may not be adequate to deter theft or misuse of our intellectual property. We may not be able to detect unauthorized use of our intellectual property and take appropriate steps to enforce our rights. If third parties infringe, misappropriate or copy our trade secrets, proprietary processes, copyrights, trademarks or other proprietary information, we could lose important competitive advantages.

We could be subject to claims that we infringe the intellectual property rights of others.

There has been a marked increase in patent and intellectual property litigation in recent months, particularly involving competitors in the technology sector. Although we are not aware that any of our activities infringe the patent or other intellectual property rights of others, we have not sought any formal assurances that this is the case. Other parties may assert infringement claims against us or claim that we have violated their intellectual property rights. These claims even if not true, could result in significant legal and other costs and may distract our management. If we are required to stop using a particular methodology or technology because of an infringement lawsuit, it could become extremely difficult to carry out our business plans.

We depend on a small number of customers for a significant portion of our revenue.

In 2000 and 2001, we derived 34% and 47% of our revenue from our five largest customers, respectively. In 2001, three customers accounted for 14%, 12% and 10% of our revenue. One customer accounted for 10% of our revenue in 2000. The volume of work performed for specific customers is likely to vary from year to year, and a major customer in one year may not use our services in another year. The loss or reduction of our revenue due to a decline in services performed for any large customer could harm our business.

Our lack of long-term contracts with customers makes our revenue difficult to predict.

Our customers retain us on an engagement-by-engagement basis, rather than under long-term contracts. As a result, the size and number of customer engagements are difficult to predict, and vary markedly from quarter to quarter. At the same time, our operating expenses are relatively fixed and cannot be reduced on short notice for unanticipated shortfalls in our revenue. This is because our most significant operating expense is employee salaries.

Moreover, our customers can generally reduce the scope of our services or cancel our engagements without penalty and with little or no notice. If a customer postpones, modifies or cancels an engagement or chooses not to retain us for additional phases of a project, we might not be able to re-deploy our employees quickly to other engagements.

Some of our customer contracts are on a fixed-price basis. If we fail to accurately estimate the resources required for a fixed-price project, our profitability would be harmed.

During 2000 and 2001, we generated approximately 7% and 8%, respectively, of our revenue on a fixed-price, fixed-delivery-schedule basis, rather than on a time-and-materials basis. If we fail to accurately estimate the resources required for a fixed-price project or fail to complete our obligations on time, our revenue could be harmed and our expenses could increase.

We may not collect all of our accounts receivable.

The accounts receivable we generate from our services are subject to the risk of non-payment, either due to the lack of financial resources of a customer or due to a dispute with respect to the services provided. In 2001, we increased our reserve for doubtful accounts by $146,000 in order to take into account the likelihood of non-payment on a portion of our accounts receivable. We periodically analyze our accounts receivable and these reviews may result in increases to our reserve for doubtful accounts.

Risks that Relate to Our Industry

We are subject to a number of risks that are inherent in the technology industry. We describe some of these below. If any of these risks materializes, our business, financial condition and results of operations could be harmed, and our stock price could fall.

Our industry is intensely competitive.

Our competitors offer a wide variety of broadband solutions, including software related to interactive television applications. Relative to us, our competitors may have one or more of the following advantages:

- longer operating history.
- greater financial, technical, marketing, sales and other resources.
- superior product functionality in specific areas.
- greater name recognition.
- a broader range of products to offer.
- a larger installed base of customers.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition as we compete for market share, and we may not be able to compete successfully with our existing or new competitors. Any of these conditions could cause substantial harm to our business, operating results and financial condition.

Our success depends on the continued growth and acceptance of advanced technologies.

Our future success depends heavily on consumer and commercial acceptance of interactive television and broadband. Despite the large amount of investor and media attention these technologies have received, they are in early stages of development and it is difficult to predict whether or how they will continue to develop. Development of these technologies could be hindered by a number of factors, such as government regulation, taxation, general economic conditions and lack of consumer acceptance. If these new technologies fail to gain widespread acceptance or grow more slowly than expected, our business opportunities will diminish.

Risks that Relate to Our Stock

Our stock price is subject to a number of risks. We describe some of these below. If any of these risks materializes, our stock price could fall.

Our common stock is subject to delisting from the NASDAQ. If that occurs, our stock price and our general business reputation may be adversely impacted.

The Nasdaq National Market maintains certain minimum requirements to maintain the Nasdaq listing for our common stock. These requirements include a minimum bid price for our common stock of $1.00 and a $5 million minimum market value of the public float for our common stock. Nasdaq has notified us that if we are unable to comply with these requirements by May 15, 2002 or if we do not transfer our listing to the Nasdaq SmallCap Market by May 15, 2002, we will receive written notification that our common stock will be delisted.

If a delisting from the Nasdaq National Market occurs because of noncompliance with the minimum bid price or public market float or otherwise, our common stock likely would trade in a less efficient market, such as the Nasdaq SmallCap Market, OTC Bulletin Board or in the pink sheets maintained by the National Quotation Bureau, Inc. Because these alternatives generally are considered to be less efficient markets, our stock price, the liquidity of our common stock and our general business reputation may be adversely impacted as a result.

Our quarterly operating results will vary, which may affect the market price of our common stock in a manner unrelated to our long-term performance.

Our quarterly operating results have varied in the past and we expect that they will continue to vary in the future depending on a number of factors, many of which are outside of our control. Factors that have caused our quarterly operating results to vary include:

- the number, size and scope of projects in which we are engaged;
- the contractual terms and degree of completion of these projects;
- any delays incurred in connection with a project;
- our success in earning bonuses or other contingent payments;
- our employee hiring and utilization rates;
- the adequacy of provisions for losses;
- the accuracy of our estimates of resources required to complete ongoing projects;
- customer budget cycles and spending priorities; and
- general economic conditions.

A high percentage of our operating expenses, particularly personnel and rent, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number of our projects, in our progress on projects or in our employee utilization rates may cause significant variations in operating results in any particular quarter. Given the possibility of these quarterly fluctuations, we believe that comparisons of our quarterly results are not necessarily meaningful and that results for one quarter should not be relied upon to predict our future performance.

Any quarterly shortfall in revenue or earnings from expected levels, or other short-term failures to meet the expectations of securities analysts or the market in general, can have an immediate and damaging effect on the market price of our common stock.

Our common stock may experience extreme price and volume fluctuations.

The stock market, from time to time, has experienced extreme price and volume fluctuations. The market prices of the securities of technology companies have been especially volatile, including fluctuations that often are unrelated to the operating performance of the affected companies. Broad market fluctuations of this type may adversely affect the market price of our common stock.

The market price of our common stock has fluctuated since we became a public company. Our stock price could continue to fluctuate significantly due to a variety of factors, including:

- public announcements concerning us, our competitors or the technology industry;
- fluctuations in our operating results;
- introductions of new products or services by us or our competitors;
- changes in analysts' revenue or earnings estimates; and
- announcements of technological innovations.

In the past, companies that have experienced volatility in the market price of their stock have been the targets of securities class action litigation. If we were sued in a securities class action, we could incur substantial costs and suffer from a diversion of our management s attention and resources.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

We do not use derivative financial instruments in our non-trading investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified by our investment policy and which mature within one year from the date purchased.

We are exposed to cash flow and fair value risk from changes in interest rates, which may affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through ongoing evaluation of our investment portfolio. We do not use financial instruments for trading or other speculative purposes.

For our investment securities at December 31, 2001 and March 31, 2002, which consisted of corporate issues, the table below presents principal cash flows and related weighted average fixed interest rates by expected maturity dates (in thousands, except interest rates).

	2001	2002
Investments maturing before December 31, 2002.............	$ 8,964	n/a
Investments maturing before March 31, 2003................	n/a	$ 8,964
Weighted average interest rate...........................	2.25%	1.86%
Fair Value...	$ 8,964	$ 8,964

At December 31, 2001 and March 31, 2002, we had $3.8 million and $1.5 million, respectively, in money market funds that were classified as cash equivalents on the balance sheet.

PART II-OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Description
None.	

(b) Reports on Form 8-K

None.

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 on May 13, 2002.

CONCERO, INC.

By: /s/ Timothy D. Webb
Timothy D. Webb
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title
/s/ TIMOTHY D. WEBB Timothy D. Webb	President, Chief Executive Officer and Director (principal executive officer)
/s/ KEITH D. THATCHER Keith D. Thatcher	Chief Financial Officer, Sr. Vice President of Finance and Treasure (principal financial officer)