CONCERO INC
Form 10-Q
August 10, 2001

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 June 30, 2001

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 3, Suite 200, 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: 10,215,590 shares of the Company's Common Stock, $.01 par value, were outstanding as of July 31, 2001.

CONCERO, INC.

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June 30, 2001
(Unaudited)

1. Nature of Business

Concero, Inc. ("Concero" or the "Company") is an e-business services firm that offers strategic consulting skills with deep technology and integration expertise. This combination enables the Company to utilize existing and new technologies to provide reliable, flexible and scalable e-business solutions. Alliances with leading Internet and interactive television technology providers allow the Company to gain a thorough understanding of the providers' products and perspective on other products as well as next-generation technologies. Using its technology insight and skills, Concero assists its clients to define, design, develop and deploy e-business solutions that enhance its clients' competitive positions.

Concero's strategy involves providing high value-added e-business services and emphasizing relationships with leading technology providers aligned with the Company's e-business focus. Concero's focus service offerings consist of:

- *Strategy* - to help clients create e-business strategies;
- *Customer Portals* - to enable clients to present a unified view of their company to their customers over the Internetand through television and mobile devices;
- *Content Chains* - to enable clients to efficiently produce and manage compelling content that can be packaged and marketed for delivery to customers when and where the customer wants it; and

- *Interactive Television* - to deliver interactive television and entertainment on demand solutions, extending the reach of e-business to mass audiences.

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 of 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, 2000 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.

3. *Comprehensive Income (Loss)*

The components of comprehensive income (loss) for the three and six months ended June 30, are as follows (in thousands):

	Three months ended June 30, 2000	2001	Six 2
Net income (loss)	$ 1,093	$ (3,394)	$ 1,6
Unrealized gain (loss) on short term investments	18	-	
Income tax expense related to items of other comprehensive income	6	-	1
Comprehensive income (loss)	$ 1,105	$ (3,394)	$ 1,7

Concero, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2001
(Unaudited)

4. Earnings (Loss) per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share data) for the three and six months ended June 30:

	Three months ended June 30, 2000	2001	
Numerator:			
Net income (loss)	$ 1,093	$ (3,394)	$
Denominator:			

Shares used in basic earnings (loss) per share calculation	10,000	10,188	
Effect of dilutive securities:			
Employee stock options	1,247	-	
Warrants	117	-	
Shares used in diluted earnings (loss) per share calculation	11,364	10,188	
Basic earnings (loss) per share	$ 0.11	$ (0.33)	$
Diluted earnings (loss) per share	$ 0.10	$ (0.33)	$

5. Cost Reduction Measures

The Company initiated cost reduction measures which included a workforce reduction and elimination of excess office space and equipment. These cost reduction measures resulted in charges to other expense of $2.4 million and $7.0 million during the three months and six months ended June 30, 2001, respectively, as described below (in thousands):

	First Quarter of 2001			Second Quarter of 2001	
	Charge to Other Expense	Payments and Charges Made	March 31, 2001 Accrual Balance	Charge to Other Expense	Payment an Charge Mad
Severance	$ 1,512	$ 584	$ 928	$ 811	$ 1,31
Excess equipment	2,150	2,150	-	391	39
Office space	954	16	938	1,177	30
Total	$ 4,616	$ 2 ,750	$ 1,866	$ 2,379	$ 2 ,01

All cost reduction charges noted above are cash related charges except the write-off of excess equipment. Workforce reductions included 67 personnel in the second quarter of 2001 and an aggregate of 197 personnel in the six months ended June 30, 2001 to whom the Company paid a severance benefit. The elimination of the office space results in a reduction of approximately 95,000 square feet, or 88% of the office space occupied by the Company at December 31, 2000. The Company's applicable leases will be terminated or subleased to others. The Company intends to continue to aggressively manage costs to maintain better alignment of expenses with near-term revenue opportunities.

Concero, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2001
(Unaudited)

6. Stock Option Cancellation/New Grant Program

During the first quarter of 2001, Concero established a program whereby each employee with outstanding stock options was given the opportunity to cancel some, or all of their option grants in exchange for an obligation by the

Company to grant a new stock option in approximately six months and two days from the date of their election to cancel such options The new grant will be for the same number of shares cancelled and will have an exercise price equal to the market closing price on the date of the new grant. New grants will vest 75% in equal installments over the three years following the grant with the remaining 25% vesting at three and a half years. The program ended on April 30, 2001, and 232,600 shares were cancelled pursuant to the program.

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 are an e-business services firm that offers strategic consulting skills with deep technology and integration expertise. This combination enables us to utilize existing and new technologies to provide reliable, flexible and scalable e-business solutions. Our alliances with leading Internet and interactive television technology providers allow us to gain a thorough understanding of their products and perspective on other products as well as next-generation technologies. Using our technology insight and skills, we assist our clients to define, design, develop and deploy e-business solutions that enhance their competitive positions.

In 1999, our management team began executing a strategy of providing high value-added e-business services and emphasizing relationships with leading technology providers aligned with our e-business focus. Since the initiation of that strategy, we have successfully transitioned to providing e-business services, which is now the primary source of our revenue as evidenced by a 55% improvement in our average hourly bill rates since 1998 as compared with 2000. As a result of that change in strategy, we also experienced significant revenue growth from 1998 through the second quarter of 2000 after which time the market for e-business services began to deteriorate and our revenue declined. We have initiated cost reduction measures including a significant reduction in our staffing levels to more closely align our cost structure with anticipated future revenue opportunities. We have also narrowed our focus service offerings around:

- *Strategy* - We help clients create e-business strategies;
- *Customer Portals* - We enable clients to deliver a unified view of their company to customers over the Internetand through television and mobile devices;
- *Content Chains*- We enable our clients to efficiently produce and manage compelling content comprised of rich

media, including video, audio, graphics and 3D models; and

- *Interactive Television* - We deliver interactive television and entertainment on-demand solutions, extending
  the reach of e-business to mass audiences.

We form strategic alliances with leading technology providers such as Vignette Corporation, Scientific-Atlanta and Artesia Technologies. We believe the nature of these alliances enables us to develop "ecosystems" centered around leading technology providers in which we serve as a catalyst for the widespread adoption of the provider's products. We call these ecosystems "exponential networks", or "exponets" for short. Exponets allow us to enter new markets, gain early access to emerging technologies, jointly market products and services and gain enhanced access to vendor training and support.

Our clients include both Fortune 1000 and early stage companies whose business strategies are designed and built around the Internet.

In April 2000, we changed our name to Concero from PSW Technologies. We engaged a national agency and a public relations firm to launch our branding campaign and to assist with other on-going awareness activities. We believe that our name change and related advertising and promotional activities will enable us to communicate our capabilities as a national e-business solutions provider to prospective clients and employees.

Results of Operations

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

	Three Months Ended June 30,		Six Ended
	2000	2001	2000
Revenue	100%	100%	100%
Operating expenses:			
Technical staff	51	61	51
Selling and administrative staff	19	21	19
Other expenses	22	71	23
Total operating expense	92	153	93
Income (loss) from operations	8	(53)	7
Interest income	1	2	1
Provision for income taxes	3	-	3
Net income (loss)	6%	(51)%	5%

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30,2000

Revenue

Our revenue consists primarily of fees for software services provided. Revenues decreased 61% to $6.7 million in the quarter ended June 30, 2001 from $17.1 million in the quarter ended June 30, 2000. The decline is principally due to a

softening in demand for e-business services due to a weak economy and reduced information technology spending which was partially offset by an improvement in our average hourly bill rate. Comparing the second quarter of 2001 with the same period in 2000, our average hourly bill rate increased 10% to $141 from $128.

During the second quarter of 2001, our top three clients, American Airlines, Digital Think and Texas Utilities, provided 48% of revenue, and individually provided 25%, 11% and 12% of revenue, respectively. During the second quarter of 2001, we had a very large and successful project for American Airlines rapidly scaled down and deferred until early 2002, as American Airlines implemented spending freezes due to changes in their business. In the second quarter of 2000, Christianity.com and IBM accounted for 26% and 11% of revenue, respectively. IBM accounted for 1% of revenue in the second 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 insurance for technical staff personnel assigned to client engagements and unassigned technical staff personnel, and fees paid to sub-contractors for work performed in connection with a client engagement. Technical staff expenses decreased 53% to $4.1 million in the quarter ended June 30, 2001 from $8.7 million in the quarter ended June 30, 2000. The decrease in technical staff expenses is primarily due to the workforce reductions which occurred during 2001 to more closely align our cost structure with near-term revenue opportunities.

As a percentage of revenue, technical staff expenses increased to 61% in the quarter ended June 30, 2001 from 51% in the same quarter last year. This increase was primarily the result of lower utilization of our technical staff. Our utilization rate was 62% for the second quarter of 2001, down from 70% in the second quarter of 2000.

Selling and Administrative Staff

Selling and administrative staff expenses consist of the cost of salaries, payroll taxes, health insurance and workers' compensation insurance for selling, marketing and administrative personnel as well as all commissions and bonuses paid to technical and administrative staff. Selling and administrative staff expenses decreased 54% to $1.4 million in the quarter ended June 30, 2001 from $3.1 million in the quarter ended June 30, 2000, primarily due to workforce reductions which occurred during 2001. As a percentage of revenues, selling and administrative staff expenses increased to 21% in the quarter ended June 30, 2001 from 19% in the quarter ended June 30, 2000 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 professional fees for our accounting and legal advisors, and depreciation. Included in other expenses this quarter is a charge related to cost reduction measures of $2.4 million which includes $811,000 in severance costs, $1.2 million for the elimination of excess office space and $391,000 for the write-down of excess capitalized equipment. Other expenses increased 24% to $4.7 million in the quarter ended June 30, 2001 from $3.8 million in the second quarter of 2000. As a percentage of revenues, other expenses increased to 71% in the quarter ended June 30, 2001 from 22% for the quarter ended June 30, 2000. These increases are primarily a result of the severance costs, the charge for the elimination of excess office space and the write-down of equipment, as well as lower revenue.

Workforce reductions for the quarter included 67 personnel to whom we paid a severance benefit. During the second quarter of 2001, the elimination of office space resulted in a reduction of approximately 51,000 square feet, or 47% of the office space occupied by us at December 31, 2000. Our affected leases will be terminated or subleased to others.

Income (Loss)from Operations

We recorded a loss from operations of $3.6 million for the quarter ended June 30, 2001 which represents a decrease of $5.0 million from income from operations of $1.4 million for the quarter ended June 30, 2000. As a percentage of revenues, loss from operations was 53% for the quarter ended June 30, 2001 compared to income from operations of 8% for the quarter ended June 30, 2000. Included in the 2001 loss from operations is a charge of $2.4 million associated with the cost reduction measures described above.

Income Taxes

No tax benefit was recorded in connection with our loss this quarter. Accordingly, future taxable earnings will benefit from a lower effective tax rate as a result of these unrecognized tax carry-forwards. The provision for income taxes of $565,000 for the quarter ended June 30, 2000 was computed using an estimated annual effective tax rate of 35%, which differs from the federal statutory rate of 34% as a result of state taxes, tax-exempt interest and permanent differences for meals and entertainment expenses.

Liquidity and Capital Resources

We have historically financed our operations and met our capital expenditure requirements primarily through cash flows from operations and proceeds from the sale of equity securities. Our working capital consisted of $14.1 million as of June 30, 2001 down from $24.2 million as of December 31, 2000. Our operating activities used cash of $2.0 million and $3.1 million for the first six months of 2001 and 2000, respectively. We purchased approximately $1.0 million and $2.4 million of computers, office and system equipment and software in the first six months of 2001 and 2000, respectively. At June 30, 2001, we had cash, cash equivalents and short-term investments totaling $11.1 million, down from $14.2 million at December 31, 2000.

At June 30, 2001, we did not have any material commitments for capital expenditures. Our capital expenditures normally consist primarily of purchases of laptop computers, computer servers and furniture, the amount of which fluctuates based on the number of additional employees we hire and the number of new offices that we open in any period.

The number of days of revenue in our accounts receivable balance fluctuated between 81 days to 92 days during the second quarter of 2001 ending at 81 days at June 30, 2001, a decrease from 89 days at December 31, 2000. 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, cash equivalents and short-term investment 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 or other debt or equity financing, 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.

We refocused our business strategy. This may not be successful.

We have refocused our business strategy. This strategy is described in the section captioned "Business" in our Annual Report on Form 10-K which was filed on March 27, 2001. Some of the changes to our business strategy include:

- expansion into new and largely untested business areas such as interactive television and broadband services;
- realignment of our internal corporate structure on a geographic basis as opposed to a product basis;
- a shift in focus of our client base from technology vendors to technology users; and
- a shift from longer-term development and maintenance arrangements to specific, shorter-term e-business project engagements.

Our shift from ongoing development and maintenance engagements to strategic engagements has favorably affected our average billing rates but negatively affected our technical staff utilization rates. If we are unable to offset decreases in our utilization rates through increases in our billing rates, our operating results will be increasingly harmed. Adverse economic conditions, a lack of consumer acceptance of interactive television, broadband and other advanced technologies, increased competition and other factors could hurt both our utilization rates and our billing rates. As a result, it is too early to know whether the refocusing of our business strategy will help us achieve long-term success. Companies that implement major changes in their business strategy can face more challenging risks and unexpected difficulties. These risks and difficulties apply particularly to us because the market for our e-business consulting services is new and rapidly evolving.

The success of our business strategy depends on our ability to identify emerging technologies that will gain wide acceptance in future markets.

Our business strategy requires us to:

- identify promising technologies at an early stage in their development;
- accurately assess their long-term viability; and
- rapidly gain expertise in these technologies.

Our business may suffer if we invest time and resources in technologies that ultimately do not reach widespread use or commercial success. Even if we identify the best technologies, their widespread use and deployment may not occur within a time span that is compatible with our business plans and revenue expectations.

In particular, some of the technologies that we are focusing on heavily, such as interactive television and broadband, 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. As a result, we may commit substantial resources developing expertise in areas that will not yield substantial revenue or profit for us.

Our business strategy depends on our ability to create and maintain strategic alliances with other e-business and 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. This is one of the principles of our exponet strategy. 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.

Some of our clients are emerging companies that have little or no operating history and may lack the resources to pay our fees.

Because we focus on emerging technologies, we derive some of our revenue from small companies, particularly start-up companies, that have limited operating histories and resources to pay our fees. These companies often have little or no earnings or cash flow and their business is generally at a greater risk of failing than more established businesses. As a result, these clients may not be able to pay for our services in a timely manner, or at all. These effects would lead to an extension of our collection period, which would harm our liquidity, and an increase in our bad debt expense, which would harm our profitability.

We may make investments in clients or potential clients that are emerging companies. These investments are risky, we have limited experience in making these investments and we could lose all of our investment.

Although not a key part of our strategy, we may make strategic investments in small, emerging clients or potential clients. We may also agree to take some or all of our fees in the form of equity securities issued by these clients as part of our engagement. Investments in such emerging companies are extremely risky and some or all of our investment could be lost. We have limited experience in these investments and in managing these arrangements.

Potential acquisitions could be difficult to integrate, disrupt our business, dilute stockholder value and hurt our operating results.

We may pursue acquisitions of businesses and technologies that are complementary to our core businesses. Our ability to grow through acquisitions will depend on the availability of attractive acquisition candidates, our ability to compete for these acquisition candidates and the availability of capital to finance these acquisitions.

The benefits of an acquisition often may take considerable time to develop, and the acquisition may never produce the intended benefits. Factors that could cause an acquisition to be unsuccessful include:

- the loss of employees or clients of the acquired business, and thus a loss of one of the key rationales for making the acquisition;
- our failure to appreciate the dynamics of markets in which we have limited or no prior experience;
- the diversion of management's attention from our core businesses;

- any difficulties we experience in assimilating the operations of an acquired business or in realizing projected efficiencies, cost savings
  and revenue synergies;

- our failure to assess or discover liabilities;

- the dilution of our stockholders' equity and earnings per share, particularly if we finance the acquisitions with equity; and

- an increase in our debt and contingent liabilities, which in turn could restrict our ability to access additional capital when needed or to
  pursue other important elements of our business plan.

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 the second quarter of 2001, we experienced a 61% decrease in revenue as compared to the second quarter of 2000. We believe this decrease was attributable to reduced or deferred spending for e-business services by established companies resulting from efforts of these companies to reduce expenses in light of the recent deterioration of general economic conditions. A continuation of these factors would continue to adversely affect our operating results.

Our cost reduction measures and other strategic initiatives may not achieve our desired results and could result in business distractions that could seriously harm our business.

We implemented a cost reduction plan in the first and second quarters of 2001 with addiitional actions expected to take place in the third quarter of 2001. The objective of our cost reduction plan is to reduce our cost structure to a sustainable level that is consistent with the current macroeconomic environment. We also implemented other strategic initiatives designed to strengthen our operations. These plans involve, among other things, reductions in our workforce facilities, aligning our organization around our business objectives, realignment of our sales force and changes in our sales management, and incureasing demand generation programs. The workforce reductions could result in a temporary lack of focus and reduced productivity of our remaining employeees, including those directly responsible for sales, which may impact our future revenues. Further, the failure to retain and effectively manage remaining employees could increase our costs, hurt our development and sales efforts and cause degradation in the quality of our services. Additionally, our customers and porspects may delay or forgo purchasing our services due to a perceived uncertainty caused by these changes. Failure to achieve the desired results of these changes could seriously harm our business, results of operations and financial condition.

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 clients.

In 2001, we reduced our workforce by approximately 197 people, including approximately 125 technical staff personnel who performed consulting services, in order to more closely match our workforce level to recent levels of demand for our services. We believe that the retained workforce will allow us to continue to execute our strategy at our anticipated lower levels of activity although it is possible that our workforce reduction plans will result in the loss of key personnel who 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.

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. Other parties may claim that our use of Concero violates their intellectual property rights. If we are prevented from using the Concero 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 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 clients. 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 clients for a significant portion of our revenue.

During the first six months of 2000 and 2001, we derived 46% and 53% of our revenue from our five largest clients, respectively. Our largest client in the first six months of 2000 and 2001 accounted for 18% and 16% of our revenue, respectively. The volume of work performed for specific clients is likely to vary from year to year, and a major client 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 client could harm our business.

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

Our clients retain us on an engagement-by-engagement basis, rather than under long-term contracts. As a result, the size and number of client 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 clients can generally reduce the scope of our services or cancel our engagements without penalty and with little or no notice. If a client 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 client 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 the first six months of 2000 and 2001, we generated approximately 12% and 3%, 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 2000 and the first six months of 2001, we increased our reserve for doubtful accounts by $1.7 million and $366,000, respectively, 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.

We expect competition to persist and intensify in the future. We cannot be certain that we will be able to compete successfully with existing or new competitors. If we fail to compete successfully, our business would be seriously harmed. Competition can make it more difficult for us to:

- attract and retain customers;
- expand our sales and marketing activities;
- create and maintain the strategic relationships that are vital to success in the Internet and e-business marketplace, and thus develop and acquire knowledge of leading-edge technologies; and
- recruit and maintain the highly skilled technical staff that our business model demands.

We compete against numerous companies that offer Internet services, software engineering, systems integration, or management consulting, as well as the consulting arms of large accounting firms. Because relatively low barriers to entry characterize the market, we expect other companies to enter our market. Some large information technology consulting firms have announced that they will focus more resources on e-business opportunities.

Many of our current competitors have longer operating histories, larger client bases, larger professional staffs, greater brand recognition and greater financial, technical, marketing and other resources than we do. This may place us at a disadvantage in responding to our competitors' pricing strategies, technological advances, advertising campaigns,

strategic partnerships and other initiatives. In addition, many of our competitors have well-established relationships with our current and potential clients and have extensive knowledge of our industry. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, and they may also be able to devote more resources to the development, promotion and sale of their services than we can. Competitors that offer more standardized or less customized services than we do may have a substantial cost advantage, which could reduce our utilization rates and force us to lower our prices and billing rates, adversely affecting our operating margins.

Current and potential competitors also have established or may establish cooperative relationships among themselves or with third parties to increase their ability to address customer needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. In addition, some of our competitors may develop services that are superior to, or have greater market acceptance than, the services that we offer.

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

Our future success depends heavily on the further widespread use of the Internet as a means for commerce, and 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 trading price of our common stock has been below $1.00 per share for more than 30 consecutive days and from time to time the public market float of our common stock has been below the minimum $5.0 million required by the Nasdaq. We recently were notified by Nasdaq that if the trading price of our common stock does not comply with the Nasdaq National Market's $1.00 minimum bid requirement for ten consecutive trading days on or before November 5, 2001, our common stock may be delisted from the Nasdaq National Market. If a delisting 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 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 may cause 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 Internet and 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. For example, since July 1, 2000, the market price of our common stock on the Nasdaq National Market has fluctuated between $12.88 and $0.35 per share. 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 target 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. The table below provides information about our non-trading investment portfolio. For investment securities, the table presents principal cash flows and related weighted average fixed interest rates by expected maturity dates.

At June 30, 2001 (in thousands, except interest rates)	Investments Maturing Before June 30, 2002	Weighted Average Interest Rate
Money market funds	$ 12	3.76%
Corporate issues	7,952	3.54%
	$ 7,964	3.54%

At December 31, 2000 (in thousands, except interest rates)	Investments Maturing Before December 31, 2001	Weighted Average Interest Rate
Money market funds	$ 3,476	6.38%
Corporate issues	9,122	5.89%
	$ 12,598	6.03%

PART II - OTHER INFORMATION

Item 2. Change in Securities.

We issued 5,000 shares of our common stock from April 2, 2001 through June 30, 2001 pursuant to exercises of stock purchase warrants. The warrants were originally issued in connection with the transfer of assets from Pencom Systems Incorporated to us in October 1996. The warrants have an exercise price of $0.04 per share. The issuances were deemed exempt from registration under Section 5 of the Securities Act of 1933 in reliance upon Section 4(2) thereof or Rule 701 thereunder and appropriate restrictive transfer legends were affixed to the share certificates issue in such transaction.

Item 4. Submission of Matters to a Vote of Security Holders

At our Annual Meeting of Stockholders held on May 23, 2001 in Austin, Texas, our stockholders voted on the following matters.

1. **The election of seven directors to serve until the annual stockholders' meeting in 2002, or until their successors have been elected and qualified. The nominees of the Board of Directors were elected.**

	FOR	AGAINST OR WITHHELD
Edward C. Ateyeh, Jr.	9,123,461	636,933
Thomas A. Herring	9,222,961	537,433
W. Frank King, Ph.D.	9,222,961	537,433
Kevin B. Kurtzman	9,222,961	537,433
Michael J. Maples	9,222,961	537,433
Wade E. Saadi	9,123,461	636,933
Timothy D. Webb	9,221,781	538,613

2. **Approval of an amendment to our Amended and Restated 1996 Stock Option/Stock Issuance Plan (the "Plan") to effect the following:**

- increase the number of shares of our common stock subject to initial option grants under the Automatic Option Grant Program from 10,000 shares to 20,000 shares; and
- provide for additional option grants of 20,000 shares under the Automatic Option Grant Program to each non-employee board member on the date of the first annual meeting of stockholders following such board member's completion of each four-year period of service after joining our board.

The amendment was approved.

	FOR	AGAINST OR WITHHELD	AB
Approval of an amendment to 1996 Stock Option/Stock Issuance Plan	8,827,902	929,641	

3. **To ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2001.**

The appointment of Ernst & Young LLP was ratified.

	FOR	AGAINST OR WITHHELD	AB
Ratification of Ernst & Young LLP as independent auditors	9,751,165	9,004	

Item 6. Exhibits and Reports on Form 8-K

(a)Exhibits
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 August 10, 2001.

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	D
/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, Treasurer, Sr. Vice President, Fi	
/s/ COLLEEN M. SERRATA Colleen M. Serrata	Controller (principal accounting officer)	