CONCERO INC
Form 10-Q
May 15, 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 March 31, 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: 10,195,790 shares of the Company's Common Stock, $.01 par value, were outstanding as of April 30, 2001.

CONCERO, INC.

Table of Contents

Concero, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 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 Internet and 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 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 months ended March 31, are as follows (in thousands):

	2000	2001
Net income (loss)	$ 584	$ (9,154)
Unrealized gain (loss) on short term investments	19	(66)
Comprehensive income (loss)	$ 603	$ (9,220)

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 earnings (loss) per share (in thousands, except per share data) for the three months ended March 31:

	2000	2001
Numerator:		
Net income (loss)	$ 584	$ (9,154)
Denominator:		
Shares used in basic earnings (loss) per share calculation	9,802	10,164
Effect of dilutive securities:		
Employee stock options	1,506	-
Warrants	154	-
Shares used in diluted earnings (loss) per share calculation	11,462	10,164

Basic earnings (loss) per share	$ 0.06	$ (0.90)
Diluted earnings (loss) per share	$ 0.05	$ (0.90)

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 a charge to other expense of $4.6 million during the quarter ended March 31, 2001, as described below (in thousands):

	Cash Items	Non-Cash Items	Charge to Other Expense	Payments and Charges Made
Severance	$ 1,512	$ -	$ 1,512	$ 584
Excess Equipment	-	2,150	2,150	2,150
Office Space	954	-	954	16
Total	$ 2,466	$ 2,150	$ 4,616	$ 2,750

Workforce reductions included 130 personnel to whom the Company paid a severance benefit. The elimination of the office space results in a reduction of approximately 44,298 square feet, or 41% of the office space occupied by the Company at December 31, 2000. The Company's applicable leases will be terminated or sublet to other tenants. As a result of the involuntary terminations, executive pay cuts, write-down of excess equipment and the elimination of office space, the Company anticipates saving approximately $963,000 in personnel costs, $284,000 in depreciation and $220,000 in occupancy expense per quarter, starting in the second quarter of 2001.

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
March 31, 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 a promise by the Company to grant a new stock option in six months and two days from date of their election to cancel 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 present a unified view of their company to their customers over the Internet and through television and mobile devices,
- *Content Chains* - We enable 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, including American Airlines, The Cobalt Group, Dell, Digital Think, Texas Utilities, TV Guide and UBS Warburg.

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 period indicated:

	Three Months Ended March 31,	
	2000	2001
Revenue	100%	100%
Operating expenses:		
Technical staff	52	82
Selling and administrative staff	18	32
Other expenses	25	97
Total operating expense	95	211
Income (loss) from operations	5	(111)
Interest income	1	3
Provision for income taxes	2	-
Net income (loss)	4%	(108)%

Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000

Revenue

Our revenue consists primarily of fees for software services provided. Revenues decreased 40% to $8.5 million in the quarter ended March 31, 2001 from $14.2 million in the quarter ended March 31, 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 first quarter of 2001 with the same period in 2000 our average hourly bill rate increased 20% to $133 from $111.

One client accounted for 15% of revenue in the first quarter of 2001. Another client accounted for 13% and 2% of revenue for the first quarter of 2001 and the first quarter of 2000, respectively. IBM, accounted for 5% and 13% of revenue in the first quarter of 2001 and 2000, respectively. 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, and fees paid to subcontractors for work performed in connection with a client engagement. Technical staff expenses decreased 6% to $6.9 million in the quarter ended March 31, 2001 from $7.4 million in the quarter ended March 31, 2000. The decrease in technical staff expenses is primarily due to the workforce reduction which occurred near the end of the quarter to more closely align our cost structure with near-term revenue opportunities.

As a percentage of revenue, technical staff expenses increased to 82% in the quarter ended March 31, 2001 from 52% in the same quarter last year. This increase was primarily the result of lower utilization of our technical staff. Our utilization rate was 46% for the first quarter of 2001, down from 75% in the first 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 for selling, marketing and administrative personnel as well as all commissions and bonuses paid to technical and administrative staff. Selling and administrative staff expenses increased 3% to $2.7 million in the quarter ended March 31, 2001 from $2.6 million in the quarter ended March 31, 2000. As a percentage of revenues, selling and administrative staff expenses increased to 32% in the quarter ended March 31, 2001 from 18% in the quarter ended March 31, 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 depreciation. Included in other expenses this quarter is a charge related to cost reduction measures of $4.6 million which includes $1.5 million in severance costs, $950,000 for the elimination of excess office space and $2.2 million for the write-down of excess capitalized equipment. Other expenses increased 134% to $8.3 million in the quarter ended March 31, 2001 from $3.5 million in the first quarter of last year. As a percentage of revenues, other expenses increased to 97% in the quarter ended March 31, 2001 from 25% for the quarter ended March 31, 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 included 130 personnel to whom the Company paid a severance benefit. The elimination of the office space results in a reduction of approximately 44,298 square feet, or 41% of the office space occupied by the Company at December 31, 2000. The Company's affected leases will be terminated or sublet to other tenants. As a result of the involuntary terminations, executive pay cuts, write-down of excess equipment and the elimination of office space, the Company anticipates saving approximately $963,000 in personnel costs, $284,000 in depreciation and $220,000 in occupancy expense per quarter, starting in the second quarter of 2001.

Income (Loss) from Operations

A loss from operations of $9.4 million for the quarter ended March 31, 2001 was recorded which represents a decrease from income from operations of $695,000 for the quarter ended March 31, 2000. As a percentage of revenues, loss from operations was 111% for the quarter ended March 31, 2001 compared to income from operations of 5% for the quarter ended March 31, 2000. Again, included in the 2001 loss from operations is a charge of $4.6 million associated with the cost reduction measures described above.

Income Taxes

No tax benefit was recorded in connection with our loss this quarter. Accordingly, any 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 $345,000 for the quarter ended March 31, 2000, was computed using an estimated annual effective tax rate of 37%, 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. Our working capital consisted of $17.5 million as of March 31, 2001 down from $24.2 million as of December 31, 2000. Our operating activities used cash of $1.4 million for the first quarter of 2001. Our operating activities provided cash of $151,000 for the first quarter of 2000. We purchased approximately $310,000 and $1.7 million of computers, office and system equipment and software in the first quarter of 2001 and 2000, respectively. At March 31, 2001, we had cash, cash equivalents and short-term investments totaling $12.5 million, down from $14.2 million at December 31, 2000.

At March 31, 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 77 days to 83 days during the first quarter of 2001 ending at 77 days at March 31, 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, 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.

In August 1998 we began building a new management team. The new management team has 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 were not able to offset decreases in our utilization rates through increases in our billing rates, our profitability would be 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 in the next few years.

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.

If we fail to manage our growth, our resources may be strained and our ability to implement our business strategy will be harmed.

Our growth could place significant demands on our management and other resources. In order to manage our growth effectively, we must continue to develop and improve our operational, financial and other internal systems, as well as our business development capabilities, and we must continue to attract, train, retain, motivate and manage our employees. We may not succeed in these efforts.

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 first quarter of 2001, we experienced a 40% decrease in revenue as compared to the first 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 economic conditions in the United States. 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 clients.

In March 2001, we announced plans to reduce our workforce by approximately 130 people, including approximately 85 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 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.

In the first quarters of 2000 and 2001, we derived 41% and 51% of our revenue from our five largest clients, respectively. Our largest client in the first quarter of 2000 and 2001 accounted for 13% and 15% 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 quarter 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 2001, we increased our reserve for doubtful accounts by $1.7 million and $300,000 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.

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 force us to lower our prices, 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 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. 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 March 31, 2001 (in thousands, except interest rates)	Investments Maturing Before March 31, 2002	Weighted Average Interest Rate	Fai Mar
Money market funds	$ 71	5.41%	$
Corporate issues	7,902	5.00%	
	$ 7,973	5.01%	$

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

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 11, 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
/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, Vice President of Finance and Treasure

	(principal financial officer)
/s/ COLLEEN M. SERRATA	Controller
Colleen M. Serrata	(principal accounting officer)