CONCERO INC
Form 10-Q
October 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2003

OR

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

Commission File Number 000-22327

CONCERO INC.
(Exact name of registrant as specified in its charter)

Delaware	74-2796054
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

40 Fulton Street
New York, New York 10038
(Address of principal executive offices, including zip code)

(212) 513-7777
(Registrant's telephone number, including area code)

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 |_| No |X|

Indicate by check mark whether the registrant is an "accelerated filer" (as defined in Exchange Act Rule 12b-2). Yes |_| No |X|

The number of shares of common stock outstanding of the registrant on October 14, 2003 was 10,237,890.

Concero Inc.
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PART I - FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONCERO INC.
Consolidated Statement of Net Assets in Liquidation
(Liquidation Basis) (in thousands, except per share data)

	December 31, 2002	June 30, 2003 (Unaudited)
Assets		
Cash	$ 4,670	$ 6,251
Short-term investments	1,991	0
Assets held for sale	348	0
Other assets	193	189
Total Assets	$ 7,202	$ 6,440
Liabilities		
Accounts Payable	24	205

Accrued Expenses and Other Liabilities	2,770	1,444
Net assets in liquidation	$ 4,408	$ 4,791
Shares used	10,377	10,377
Net assets in liquidation per share of common stock	$ 0.42	$ 0.46

Supplemental Cash Information (Three Months and Six Months Ended June 30, 2003) (Unaudited)	Three Months Ended June 30, 2003	Six Mon June
Changes in cash and cash equivalents		
Cash receipts from liquidation of assets and other	$ (2)	$
Payment of accounts payable and accrued liabilities	(238)	
Net changes in cash and cash equivalents	$ (240)	$

See accompanying notes.

CONCERO INC.
Consolidated Statement of Changes in Net Assets in Liquidation
(Liquidation Basis) (in thousands)
(Unaudited)

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Net assets as of beginning of period	$4,791	$4,408
Changes in estimated liquidation values		
Accrued expenses and other liabilities	0	383
Net change in estimated liquidation value	0	383
Net assets in liquidation as of end of period	$4,791	$4,791

See accompanying notes.

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CONCERO INC.
Condensed Consolidated Statements of Operations
(Going Concern Basis) (in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2002	Six Months June 30, 2
Revenue	$ 215	$ 996
Operating expenses:		
Technical staff	97	731
Research and development	1171	1,925
Selling and administrative staff	492	1,088
Other expenses	(879)	356
Total operating expenses	881	4,100
Loss from operations	(666)	(3,104)
Interest income	50	118
Loss before income taxes	(616)	(2,986)
Benefit from income taxes	--	(605)
Net loss	$ (616)	$ (2,381)
Basic and diluted loss per share	$ (0.06)	$ (0.23)
Shares used in basic and diluted loss per share calculation	10,229	10,227

See accompanying notes.

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CONCERO INC.
Condensed Consolidated Statements of Cash Flows
(Going Concern Basis) (in thousands)
(Unaudited)

	Six Months Ended J 30, 2002
Operating activities	
Net loss	$(2,381)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	356
Write-off of excess property and equipment reserve	280
Bad debt expense, net of recoveries	(502)
Changes in operating assets and liabilities:	
Accounts receivable	1,308
Unbilled revenue under customer contracts	557
Prepaid expenses and other current assets	144
Trade payables	43
Accrued expenses and other current liabilities	(2,777)
Income taxes	(593)
Net cash used in operating activities	(3,565)
Investing activities	
Sale (purchase) of short term investments, net	(12)
Acquisition of property and equipment	(166)
Net cash provided by investing activities	(178)
Financing activities	
Proceeds from issuance of common stock, net of issuance cost	3
Net cash provided by financing activities	3
Net increase (decrease) in cash	(3,740)
Cash, beginning of period	4,141
Cash, end of period	$ 401

See accompanying notes.

Notes to Financial Statements

1. Cessation of Operations and Orderly Wind Down

With the continued deterioration of economic conditions in the United States and the resultant negative impact on spending by cable operators and the availability of capital, the Company's Board of Directors extensively explored and evaluated various strategic alternatives that would protect the interests of stockholders and enhance stockholder value. The Board of Directors concluded that the liquidation of the Company was in the best interests of stockholders, and accordingly, on August 8, 2002 approved a resolution directing the cessation of the Company's operations and the liquidation of the Company, subject to required stockholder approval. The Company adopted the liquidation basis of accounting for periods subsequent to June 30, 2002. On November 15, 2002, the Board of Directors adopted resolutions which authorized, subject to stockholder approval, the orderly liquidation of our assets pursuant to the Plan of Complete Liquidation, Dissolution and Distribution (the "Plan of Dissolution"). If the requisite approval of our stockholders is received, we intend to convert all of our remaining assets to cash and to implement the Plan of Dissolution, whereby we would satisfy or settle all of our remaining liabilities, establish appropriate reserves for any remaining contingencies, pay the premiums on additional insurance to cover certain contingencies and distribute our remaining cash, if any, to our stockholders. The Company has ceased its operating activities and has commenced the orderly wind down of its affairs; including the release of its employees, selling assets and settling obligations including leases for office space. The Company has retained one employee to conduct these activities. The Board of Directors anticipates that there will be adequate net cash available to declare cash distributions to stockholders. However, as described in Note 8, no distributions have been declared and no assurances can be given that available cash and amounts received on the sale of assets will be adequate to make cash distributions to stockholders following the provision for obligations, liabilities, expenses and other claims.

2. Adoption of Liquidation Basis of Accounting

The Company has adopted the liquidation basis of accounting for the presentation of its consolidated financial statements for periods subsequent to June 30, 2002. This basis of accounting is appropriate when, among other things, liquidation of a company appears imminent and the net realizable values of its assets are reasonably determinable. Under the liquidation basis of accounting, the Company has stated its assets at their net realizable values, contractual liabilities at contractual amounts, and estimated costs through the liquidation date are recorded to the extent they are reasonably determinable. The liquidation basis of accounting requires many estimates and assumptions, and there are substantial uncertainties in carrying out the orderly wind down of operations. The actual values and costs are expected to differ from the amounts shown herein and could be higher or lower than the amounts recorded. Changes in the estimated net realizable value of assets, contractual liabilities and estimated costs through the liquidation date will be recorded in the period such changes are known. Differences between the estimated net realizable values and actual values based on cash transactions will be recognized in the period in which the cash transactions occur.

The accompanying statement of net assets in liquidation as of June 30, 2003 and the statement of changes in net assets available in liquidation for the period from April 1, 2003 through June 30, 2003, contain, in the opinion of management, all adjustments that management considers necessary to present fairly the net assets available in liquidation at June 30, 2003.

3. Related Party Transactions

Effective September 1, 2002, the Chief Financial Officer of Pencom Systems, Inc. ("Pencom") is the Chief Executive Officer of the Company. Two of Pencom's majority stockholders and its Chief Financial Officer are members of the Company's Board of Directors. Compensation earned by the Chief Executive Officer during the three months and six months ended June 30, 2003 was $27,750 and $55,500, respectively. Compensation earned by non-employee board members for the three months and six months ended June 30, 2003 totaled $11,250 and $22,500, respectively. The Company previously has utilized non-exclusive recruiting services provided by Pencom.

4. Other Assets

Other assets at June 30, 2003 consist primarily of a $189,000 certificate of deposit pledged to secure a letter of credit issued by a bank for the benefit of the Company's Austin facilities landlord, see Note 6.

5. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at June 30, 2003 include provisions for known liabilities, including the lease obligations discussed more fully in Note 6, provisions for certain asserted claims, and the estimated costs of the liquidation of the Company including costs of the cessation of operations and orderly wind down of the Company's affairs.

These estimated costs include salaries and related expenses of officers and employees, legal and accounting fees, other professional fees, insurance and office expenses expected to be incurred during the period of liquidation and include the following (in thousands):

	December 31, 2002	June 30, 2003
Lease costs	$1,176	$ 472
Professional fees	514	503
Salaries and director fees	455	234
Insurance	138	40
Other	487	195
	$2,770	$1,444

Management has adopted a plan of complete liquidation, dissolution and distribution based on the resolution by the Company's Board of Directors and subject to stockholder approval that will provide for the filing of a certificate of dissolution with the Delaware Secretary of State. Upon the filing of the certificate of dissolution, the Company intends to close its Stock transfer books and discontinue recording transfers of its shares of common stock except by will, intestate succession or operation of law. In order to curtail expenses, the Company intends to petition the Securities and Exchange Commission for relief from its periodic reporting requirements under the Securities Exchange Act of 1934 following the filing of the certificate of dissolution. The estimated closing costs used herein assume that the Company will be granted relief from such periodic reporting requirements, but they include costs associated with the filing of current reports on Form 8-K to disclose material events relating to our liquidation and dissolution.

6. Lease Obligations

The Company is obligated under lease commitments for approximately 11,072 square feet of office space in Austin, Texas expiring July 31, 2007,of which all but approximately 2600 square feet have been subleased to unaffiliated parties. The Company remains contingently liable for lease obligations in the event of default by any sublessees. The Company estimates that the unpaid contractual obligations, including estimated operating expenses, pursuant to its Austin lease commitments are approximately $1,039,000, which is reflected net of estimated sublease income of approximately $567,000 in accrued expenses and other liabilities on the balance sheet at June 30, 2003. If the Company successfully markets the remainder of the leased office space, the actual cash costs could differ from the estimated contractual obligation.

7. Shares Used in Computation of Net Assets in Liquidation

The following table sets forth calculation of shares used in the computation of net assets available in liquidation per share at December 31, 2002 and June 30, 2003 (in thousands):

Shares of common stock	10,238
Effect of dilutive securities	
Employee stock options	--
Warrants	139
Shares used in computation	10,377

For the purpose of computing net assets available in liquidation per share at December 31, 2002 and June 30, 2003, the effect of employee stock options and warrants were determined using the treasury share method for those exercisable options and warrants that would be dilutive to common stockholders.

8. Stockholder Distributions

Uncertainties as to the precise net realizable value of the Company's assets, the ultimate cash settlement amount of liabilities and actual expenses of the liquidation and dissolution of the corporation make it impracticable to predict the aggregate cash amount ultimately distributable to stockholders. Management and the Company's Board of Directors anticipate that available cash and amounts received on the sale of assets will be adequate to provide for the Company's obligations, liabilities, expenses and claims (including contingent liabilities) and to make cash distributions to the Company's stockholders. The Board of Directors has not declared a distribution to stockholders, and no assurances can be made that available cash and amounts received on the sale of assets will be adequate to make cash distributions to the Company's stockholders following our provision for the Company's obligations, liabilities, expenses and other claims.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis 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.

Cessation of Operations

As previously disclosed, Concero has ceased operations and is in the process of an orderly wind down of its affairs. With continued deterioration of economic conditions in the United States and resultant negative impact on spending by cable operators and the availability of capital, our board of directors extensively explored and evaluated various strategic alternatives that would protect the interests of stockholders and enhance stockholder value. Our board of directors concluded that the liquidation of Concero was in the best interests of its stockholders, and accordingly, on August 8, 2002 approved a resolution directing the cessation of the Concero's operations and the liquidation of the corporation, subject to required stockholder approval. On November 15, 2002, our board of directors adopted resolutions which authorized, subject to stockholder approval, the orderly liquidation of our assets pursuant to a Plan of Complete Liquidation, Dissolution and Distribution.

Concero has adopted the liquidation basis of accounting for the presentation of its consolidated financial statements for periods subsequent to June 30, 2002. Under the liquidation basis of accounting, assets are stated at their net realizable values, contractual liabilities are stated at contractual amounts, and estimated costs through the liquidation date are recorded to the extent they are reasonably determinable. The liquidation basis of accounting requires many estimates and assumptions and there are substantial uncertainties in carrying out the orderly wind down of operations. Changes in the estimated net realizable value of assets, contractual liabilities and estimated costs through the liquidation date will be recorded in the period such changes are known. Differences between the estimated net realizable values and actual values based on cash transactions will be recognized in the period in which the cash transactions occur. The actual values and costs are expected to differ from the amounts shown herein and could be higher or lower than the amounts recorded.

Orderly Wind Down

We have commenced the orderly wind down of our affairs, including the release of our employees, the selling of assets and the settling of our obligations, including our leases of office space. Since December 31, 2002, we have had only one employee, who has been retained to conduct these activities.

In January 2003, we completed the sale of our Marquee software suite and related assets to Motorola, Inc. in consideration of the extinguishment of approximately $333,000 in liabilities owed by us to Motorola. Through June 30, 2003, we have sold substantially all of our non-cash assets. We have sold an immaterial amount of our assets to certain of our affiliates; however, the aggregate value of these assets is less than $2,000. The terms of each of these sales to affiliates have been substantially similar to the terms of our sales of similar assets to independent third parties. We do not intend to sell any of our other assets to any of our affiliates or related parties of our affiliates in connection with our liquidation.

We lease approximately 11,000 square feet in Austin, Texas, of which all but approximately 2,600 square feet has been subleased to unaffiliated parties. We remain contingently liable for lease obligations in the event of default by any sublessees. We may engage a real estate broker in the future to market the remainder of our leased properties for sublease.

The valuation of assets at their estimated net realizable values, contractual liabilities at contractual amounts and costs through the liquidation date necessarily requires many estimates and assumptions and there are substantial uncertainties in carrying out the orderly wind down of operations. The actual values and costs are dependent on a variety of factors, including, without limitation, the actual proceeds realizable from the sale of our assets, the ultimate settlement amounts of the our liabilities and obligations, and the actual costs incurred in the orderly wind down of our affairs, including administrative costs incurred during the liquidation period. Consequently, the actual values and costs are expected to differ from the amounts shown herein and could be higher or lower than the amounts recorded. Therefore, it is not presently determinable that available cash and amounts received on the sale of assets will be adequate to make cash distributions to our stockholders following our provision for obligations, liabilities, expenses and other claims.

Liquidity and Capital Resources

As of June 30, 2003, we had cash, cash equivalents and short-term investments totaling approximately $6.3 million, down from $6.7 million at December 31, 2002.

As of June 30, 2003, we did not have any material commitments for capital expenditures.

Contractual and estimated liabilities through liquidation have been accrued in the Statement of Net Assets at June 30, 2003.

We are obligated for approximately 11,000 square feet of office space through non-cancelable operating lease arrangements. At June 30, 2003, our future minimum rental commitments, including an estimate of operating expense escalation, totaled approximately $1,039,000. As of June 30, 2003, all but approximately 2,600 square feet of our leased office space has been subleased to unaffiliated parties. Contractual lease obligations are included in the accompanying Statement of Net Assets as of June 30, 2003 net of projected sublease income of approximately $567,000. We remain contingently liable for lease obligations in the event of default by any sublessees. We may engage a real estate broker in the future to market the remainder of our leased office space for sublease. If we are successful in marketing this leased office space, the actual cash costs could differ from the estimated contractual obligation.

Our board of directors anticipates that there will be adequate net cash available to declare cash distributions to stockholders, but no distributions have been declared and no assurances can be made that available cash and amounts received on the sale of assets will be adequate to make cash distributions to our stockholders following our provision for obligations, liabilities, expenses and other claims.

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

Stockholders could be liable to the extent of liquidating distributions received if contingent reserves are insufficient to satisfy the company's liabilities.

If we fail to create an adequate contingency reserve for payment of our expenses and liabilities, each stockholder could be held liable for the payment to creditors of such stockholder's pro rata portion of the excess, limited to the amounts previously received by the stockholder in distributions from us.

If a court holds at any time that we have failed to make adequate provision for our expenses and liabilities or if the amount ultimately required to be paid in respect of such liabilities exceeds the amount available from the contingency reserve, our creditors could seek an injunction against the making of distributions on the grounds that the amounts to be distributed are needed to provide for the payment of our expenses and liabilities. Any such action could delay or substantially diminish the cash distributions otherwise to be made to stockholders.

We may not be able to complete the liquidation of Concero in a manner that provides maximum value to stockholders, and we may not adequately provide for our debts and obligations.

We have ceased operations and are liquidating and dissolving our company. We have had only one employee since December 31, 2002, who we retained to attend to the orderly disposition of our assets and liabilities. We may not be able to negotiate the orderly extinguishment of our obligations to creditors. These obligations include building and facilities leases, business agreements with third parties, and agreements with vendors. In addition, Concero retains contingent liability for lease obligations in the event of default by any sublessees. Although we believe we made adequate provisions for the satisfaction of our debts and liabilities, there is a general risk that we have not adequately anticipated the amount of such debts and liabilities. We remain contingently liable for lease obligations in the event of default by any sublessees. The total amount of capital, if any, returned to stockholders after the dissolution and liquidation of the company will depend on our ability to maximize the consideration we receive for our assets, minimize the amount we must expend to settle our debts and other liabilities, minimize our contingent liability for office facility sublease agreements and, to a lesser degree, expedite the liquidation process.

In addition, we will experience negative cash flow as we complete the dissolution and liquidation of Concero. This negative cash flow will increase with the length of the dissolution and liquidation process and may cause a corresponding decrease in the amount of capital, if any, returned to stockholders.

We may continue to incur the expense of complying with public company reporting requirements.

We have an obligation to continue to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, even though compliance with such reporting requirements is economically burdensome. In order to curtail such expenses, after filing our certificate of dissolution upon stockholder approval of the Plan of Complete Liquidation, Dissolution and

Distribution, we intend to seek relief from the SEC from a substantial portion of the periodic reporting requirements under that Act. If such relief becomes available, we will continue to file current reports on Form 8-K to disclose material events relating to our liquidation and dissolution along with any other reports that the SEC may require.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk is contained on page 18 of our 2002 Annual Report on Form 10-K and is incorporated by reference to such annual report.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the periodic reports we file with the Securities and Exchange Commission, or SEC, is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. The pending dissolution and liquidation of Concero, and the corresponding reduction in the number of our employees to one, has significantly affected our internal controls and procedures. These terminations included the terminations of our prior chief executive officer, our prior chief financial officer and all other individuals supporting our disclosure and internal controls efforts in the third and fourth quarters of 2002. These terminations were significant contributing factors to the late filing of our Form 10-K for the year ended December 31, 2002 and our Form 10-Q for the quarter ended March 31, 2003, as well as this Form 10-Q. As of the end of the period covered by this Form 10-Q, our sole employee, who has served as our principal executive officer since August 2002 and our principal financial officer since January 2003, carried out an evaluation of the design and operation of these disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, and considering the reduced complexity of our disclosure and internal controls requirements following the cessation of our business and the commencement of our dissolution, our principal executive and financial officer concluded that our disclosure controls and procedures are effective in timely alerting him to material information relating to Concero (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Changes in internal controls. There have been no significant changes in internal controls or other factors that could significantly affect our internal controls subsequent to the date of our evaluation.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31 Additional Exhibit: Section 302 certifications
32 Additional Exhibit: Section 906 certifications

(b) Reports on Form 8-K. We did not file any reports on Form 8-K during the period covered by this Quarterly Report on Form 10-Q.

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.

CONCERO INC.

By: /s/ Kevin B. Kurtzman

Kevin B. Kurtzman
Chief Executive Officer, President, Secretary and Director
(Principal executive, financial and accounting officer)

Date: October 14, 2003

CONCERO INC.
INDEX TO EXHIBITS

Exhibit Number	Description
31	Section 302 certifications
32	Section 906 certifications