CONCERTO SOFTWARE INC
Form 10-Q
August 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(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, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-15578

CONCERTO SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	No. 02-0364368
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)

6 Technology Park Drive
Westford, Massachusetts 01886
(Address of principal executive offices) (Zip Code)

Telephone: (978) 952-0200
(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 X NO ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock: Common Stock, par value $.10 per share, outstanding as of August 12, 2002: 11,878,860 shares.

CONCERTO SOFTWARE, INC. & SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value)
(Unaudited)

ASSETS	June 30, 2002
Current assets:	
Cash and cash equivalents	$ 23,269
Marketable securities	17,719
Accounts receivable, net of reserves of $3,163 and $2,324 in 2002 and 2001, respectively	16,619
Prepaid expenses and other current assets	5,914
Deferred tax assets	5,161
Total current assets	68,682

Property and equipment, net	7,380
Goodwill	17,160
Purchased intangible assets, net	6,251
Deferred tax asset	2,382
Other assets	518
	$ 102,373
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	828
Accounts payable	$ 7,152
Accrued expenses	12,670
Customer deposits	4,908
Deferred revenue	12,504
Total current liabilities	38,062
Long-term debt	421
Total liabilities	38,483
Stockholders' equity:	
Common stock, $0.10 par value -	
Authorized - 30,000 shares	
Issued - 14,556 shares	1,456
Additional paid-in capital	82,924
Accumulated foreign currency translation adjustments	(379
Retained earnings	5,779
	89,780
Treasury stock, 2,605 and 2,247 shares, at cost, in 2002 and 2001, respectively	(25,890
Total stockholders' equity	63,890
	$ 102,373

The accompanying notes are an integral part of these consolidated financial statements.

PART I. FINANCIAL INFORMATION (continued)
ITEM 1. FINANCIAL STATEMENTS
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended June 30,	
2002	2001	2
----	----	-

Product revenue	$ 11,544	$ 12,369	$ 22,
Service revenue	13,160	13,417	25,
Total revenue	24,704	25,786	48,
Cost of product revenue	2,147	2,171	4,
Cost of service revenue	6,391	7,010	12,
Total cost of revenue	8,538	9,181	16,
Gross profit	16,166	16,605	31,
Operating expenses:			
Research, development and engineering	3,996	4,966	8,
Selling, general and administrative	11,585	11,438	22,
Non-recurring merger and integration costs	-	-	3,
Restructuring costs	-	-	2,
Amortization of purchased intangible assets	441	-	
Total operating expenses	16,022	16,404	36,
Income (loss) from operations	144	201	(5,
Other income (primarily interest income)	183	683	
Income (loss) before provision for (benefit from) income taxes	327	884	(5,
Provision for (benefit from) income taxes	82	274	(1,
Net income (loss)	$ 245	$ 610	($3,
Earnings (loss) per share:			
Basic	$ 0.02	$ 0.05	($0
Diluted	$ 0.02	$ 0.05	($0
Weighted average shares outstanding:			
Basic	12,152	12,784	12,
Diluted	12,313	13,218	12,

The accompanying notes are an integral part of these consolidated financial statements.

PART I. FINANCIAL INFORMATION (continued)
ITEM 1. FINANCIAL STATEMENTS
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

(Unaudited)

	Six Mo Ju -- 2002 ----
Cash Flows from Operating Activities:	
Net income (loss)	($3,865)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities -	
Write-off of prepaid OEM software licenses	1,127
Depreciation and amortization	2,945
Deferred taxes	(1,370)
Tax benefit from exercise of stock options	-
Changes in current assets and liabilities (net of acquisition of CellIt, Inc.) -	
Accounts receivable	(3,992)
Prepaid expenses and other current assets	(1,005)
Accounts payable	(350)
Accrued expenses	(99)
Customer deposits	20
Deferred revenue	2,129
Net cash (used in) provided by operating activities	(4,460)
Cash Flows From Investing Activities:	
Acquisition of CellIt, Inc., net of cash acquired	(10,945)
Purchases of property and equipment	(1,156)
Increase in other assets	(99)
Purchases of marketable securities	(6,075)
Maturities of marketable securities	36,194
Net cash provided by (used in) investing activities	17,919
Cash Flows From Financing Activities:	
Payments of long term debt	(2,325)
Proceeds from exercise of stock options	1,463
Proceeds from employee stock purchase plan	163
Purchases of treasury stock	(9,590)
Net cash used in financing activities	(10,289)
Effect of exchange rate changes on cash and cash equivalents	(6)
Net increase (decrease) in cash and cash equivalents	3,164
Cash and cash equivalents, beginning of period	20,105
Cash and cash equivalents, end of period	$23,269
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for income taxes	$ 49

Supplemental Schedule of Noncash Investing and Financing Activities:	
Acquisition of CellIt, Inc.	
Fair value of assets acquired	$24,220
Less:	
Cash paid	10,180
Fair value of common stock issued	5,287
Acquisition costs	1,325
Net liabilities assumed	$ 7,428

The accompanying notes are an integral part of these consolidated financial statements.

PART 1. FINANCIAL INFORMATION (continued)
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands, Except Per Share Data)

1. Basis of Preparation

The unaudited consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. The statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K, Commission File No. 000-15578, that was filed with the Securities and Exchange Commission on March 15, 2002. In the opinion of management, the accompanying consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations. The results of operations for the three and six-month periods ended June 30, 2002 may not be indicative of the results that may be expected for the next quarter or the full fiscal year.

Effective May 2, 2002, the Company's name change from Davox Corporation to Concerto Software, Inc. was formally approved by the shareholders of the Company.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

3. Revenue Recognition

The Company generates software revenue from licensing the rights to use its software products. The Company also generates service revenues from the sale of product maintenance contracts, implementation, education and consulting services. The Company recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) No. 97-2, Software Revenue Recognition, and SOP No. 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. Revenue from software license fees are generally recognized upon delivery

provided that there are no significant post delivery obligations, persuasive evidence of an agreement exists, the fee is fixed or determinable and collection of the related receivable is probable. If acceptance is required beyond the Company's standard published specifications, software license revenue is recognized upon customer acceptance.

SOP 98-9 requires use of the residual method for recognition of revenues when vendor-specific objective evidence exists for undelivered elements but does not exist for the delivered elements of a multiple-element arrangement. In such circumstances, the Company defers the fair

3. Revenue Recognition (continued)

value of the undelivered elements and recognizes, as revenue, the remaining value for the delivered elements.

Revenues for consulting, implementation and educational services are recognized over the period in which services are provided. Maintenance revenue is deferred at the time of software license shipment and is recognized ratably over the term of the support period, which is typically one year. Amounts collected prior to satisfying the revenue recognition criteria are reflected as deferred revenue in the accompanying balance sheet.

4. Acquisition of CellIt, Inc.

On January 14, 2002 the Company acquired, for aggregate consideration of $16.8 million, which includes acquisition costs incurred of approximately $1.3 million, all of the outstanding stock of CellIt, Inc. (CellIt), a Florida corporation, by means of a merger of AP Acquisition Corp, a Delaware corporation and a wholly-owned subsidiary of the Company, with and into CellIt pursuant to an Agreement and Plan of Merger dated as of January 10, 2002. CellIt was a privately held provider of comprehensive, unified Customer Interaction Management (CIM) solutions for contact centers and the aggregate consideration included approximately $10.2 million in cash, 544 shares of the Company's common stock valued at approximately $5.3 million and approximately $1.3 million of acquisition costs.

The acquisition of CellIt was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Accordingly, the purchase price was allocated based on fair value as follows:

Adjusted net balances of CellIt assumed:	
Current assets	$ 2,455
Fixed assets and other non-current assets	2,069
Current liabilities	(8,268)
Debt and other long-term liabilities	(3,684)
Acquired technology	6,000
Customer relationships	490
Employment contracts and non-compete agreements	570
Goodwill	17,160

$ 16,792

The value of acquired technology, customer relationships, employment contracts and non-compete agreements was determined based on an appraisal performed by an independent third party. These intangible assets are all being amortized on a straight-line basis over their estimated useful lives of four years. Goodwill is not being amortized, but will be measured for

PART 1. FINANCIAL INFORMATION (continued)
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands, Except Per Share Data)

4. Acquisition of CellIt, Inc. (continued)

impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets.

The following unaudited pro forma financial information presents the combined results of operations of the Company and CellIt as if the acquisition occurred on January 1, 2001, after giving effect to certain adjustments, including amortization expense. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had the acquisition been completed as of the dates indicated or of the results that may be obtained in the future.

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Revenues	48,212	53,576
Net loss	(4,178)	(6,792)
Net loss per basic and fully diluted common share	$ (0.33)	$ (0.51)

Also during the six months ended June 30, 2002 in connection with the acquisition of CellIt, a one-time merger and integration charge of approximately $3.1 million was recorded. Included in this charge were one-time expenses associated with the merger, such as transition employee costs, travel, training and corporate re-branding efforts associated with the Company's name change. Also included in the one-time charge was the write-off of $1.1 million of prepaid software licenses under an OEM agreement with a third party vendor given that a similar technology was obtained in the CellIt acquisition.

5. Restructuring Costs

For the six months ended June 30, 2002, the Company incurred a restructuring charge of approximately $2.0 million, representing severance and related costs as a result of a reduction in its workforce by 48 people, or approximately 9% of its total employees. All functional areas were affected by the reductions.

Cash payments related to the Company's restructurings totaled $843 and $1,809 for the three and six month periods ended June 30, 2002 and $971 in restructuring liabilities remain in accrued expenses in the accompanying balance

sheet at June 30, 2002.

PART 1. FINANCIAL INFORMATION (continued)
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands, Except Per Share Data)

5. Restructuring Costs (continued)

A summary of the restructuring accrual activity during the period is as follows:

	Three Months Ended June 30, 2002	Six Months E June 30, 2002
Balance, beginning of period	$1,814	$ 750
Provision	-	2,030
Severance payments	(838)	(1,779)
Facilities-related payments	(5)	(30)
Balance, end of period	$ 971	$ 971

6. Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed using the weighted average number of common shares outstanding and the effect of dilutive common stock options using the treasury stock method. A reconciliation of basic and diluted weighted average shares outstanding is as follows:

	Three Months Ended June 30,	
	2002	2001
Basic weighted average shares outstanding	12,152	12,784
Effect of dilutive stock options	161	434
Diluted weighted average shares outstanding	12,313	13,218

For the three months ended June 30, 2002 and 2001, 3,717 and 1,588

common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive. For the six months ended June 30, 2002 and 2001, 3,791 and 1,611 common equivalent shares, respectively, were not included in the diluted weighted average shares outstanding, as their effect would be antidilutive.

PART 1. FINANCIAL INFORMATION (continued)
CONCERTO SOFTWARE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands, Except Per Share Data)

7. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	Three Months Ended June 30,		
	2002	2001	
Net income (loss)	$245	$610	($
Foreign currency translation adjustments	(28)	(151)	
Comprehensive income (loss)	$217	$459	($

8. Segment and Geographic Information

The Company has three primary product lines: its Ensemble(TM) Customer Contact Suite, Unison(R) Call Management System and ContactPro(TM) System. The following table represents the Company's percentage of product revenue by product line for the three and six months ended June 30, 2002 and 2001:

	Three Months Ended June 30,		Six Mon Jun
	2002	2001	2002
Unison	42.4%	84.5%	54.0%
Ensemble	21.5	12.9	22.3
ContactPro	34.5	-	22.0
Other	1.6	2.6	1.7
Total	100.0%	100.0%	100.0%

Product revenue from international sources for the three and six months ended June 30, 2002 and June 30, 2001 totaled approximately $3.5 million and $4.3 million for the three month period ended and $7.0 million and $9.4 million for the six month period ended, respectively. The Company's revenue from international sources was primarily generated from customers located in the U.K., Europe and Asia/Pacific. Substantially all of the Company's product revenue for the periods presented was shipped from its headquarters located in the United States.

8. Segment and Geographic Information (continued)

The following table represents the Company's percentage of product revenue by geographic region for the three months ended June 30, 2002 and 2001:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	200
U.S.	70.1%	65.5%	68.4%	61.
Asia/Pacific	14.2	10.5	17.1	11.
U.K.	8.1	17.4	7.8	21.
Europe	7.5	6.6	5.3	4.
Other	0.1	-	1.4	0.
Total	100.0%	100.0%	100.0%	100.

Substantially all of the Company's assets are located in the United States.

9. Reimbursed Expenses

In November 2001, the Emerging Issues Task Force issued Topic No. D-103 relating to the accounting for reimbursement received for out-of-pocket expenses. In accordance with Topic D-103, reimbursements received for out-of-pocket expenses incurred should be characterized as revenue in the statement of operations. The Company has historically accounted for reimbursements received for out-of-pocket expenses as a reduction to cost of service revenues in the statement of operations to offset the costs incurred. The Company has adopted Topic D-103 in financial reporting periods beginning after December 31, 2001 and comparative financial statements herein for prior periods have been reclassified to comply with the guidance in Topic D-103. During the three and six months ended June 30, 2002 and June 30, 2001, the reimbursed out-of-pocket expenses totaled $247 and $203 for the three months ended and $392 and $438 for the six months ended, respectively, which has been reflected as service revenues and cost of services revenues in accordance with

Topic D-103 in the accompanying statements of operations for all periods presented.

10. New accounting standards

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, issued in July 2002, addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs

10. New accounting standards (continued)

Incurred in a Restructuring)." The principal difference between Statement 146 and Issue 94-3 relates to Statement 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. Therefore, this Statement eliminates the definition and requirements for recognition of exit costs in Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability.

The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not anticipate the adoption of this statement to have a material impact on its consolidated financial statements.

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. Statements set forth herein may contain "forward-looking" information that involves risks and uncertainties. Actual future financial or operating results may differ materially from such forward-looking statements. Statements indicating that the Company "expects," "estimates," "believes," "is planning," or "plans to" are forward-looking, as are other statements concerning future financial or operating results, product offerings or other events that have not yet occurred. There are several important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are described in greater detail under Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors That May Affect Future Results. Although the Company has sought to identify the most significant

risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized nor can there be any assurance that the Company has identified all possible issues that the Company may face.

RESULTS OF OPERATIONS

On January 14, 2002 the Company acquired, for aggregate consideration of $16.8 million, which includes acquisition costs of $1.3 million, all of the outstanding stock of CellIt, Inc. (CellIt), a Florida corporation. The aggregate consideration included approximately $10.2 million in cash and 544,366 shares of the Company's common stock valued at approximately $5.3 million

Three and Six Months Ended June 30, 2002 and 2001

Total revenue for the three months ended June 30, 2002 decreased approximately $1.1 million or 4.2%, to $24.7 million compared to the same period in 2001. Total revenue for the first six months of 2002 decreased approximately $2.7 million, or 5.3%, to $48.0 million compared to the same period in 2001.

Product revenue for the three months ended June 30, 2002 decreased approximately $825,000, or 6.7%, to $11.5 million compared to the same period in 2001. Product revenue for the first six months of 2002 decreased approximately $2.1 million, or 8.7%, to $22.2 million compared to the same period in 2001. The decrease in product revenue for the three and six months ended June 30, 2002, is due primarily to the continued effect of the weakened North American economy and the resulting decrease in IT spending. During the three and six month period ended June 30, 2002, product revenue attributed to CellIt product was approximately $4.0 million and $4.9 million, respectively.

Cost of product revenue for three months ended June 30, 2002 decreased approximately $24,000, or 1.1%, to $2.1 million compared to the same period in 2001. Cost of product revenue for the first six months of 2002 increased approximately $7,000, or 0.2%, to $4.2 million compared to the same period in 2001. As a percentage of product revenue, the cost of product revenue increased by 1.0% to 18.6% in the second quarter of 2002 compared to 17.6% for the same period in 2001. As a percentage of product revenue, the cost of product revenue increased by 1.7% to 18.8% in the first six months of 2002 compared to 17.1% for the same period in 2001. The decrease in product gross margin was due primarily to product mix, which resulted in a higher cost of hardware components shipments in the three and six months ended June 30, 2002, versus the same periods in 2001.

Service revenue for the second quarter of 2002 decreased approximately $257,000, or 1.9%, to $13.2 million compared to the same period in 2001. Service revenue for the first six months of 2002 decreased approximately $585,000, or 2.2%, to $25.9 million compared to the same period in 2001. The decrease in service revenue was due primarily to decreased implementation, professional services, and educational services revenue in the three and six months ended June 30, 2002, compared to the same periods in 2001 as a result of lower product revenue. During the three and six month period ended June 30, 2002, service revenue attributed to CellIt activity was approximately $332,000 and $846,000.

Cost of service revenue for the three months ended June 30, 2002,

decreased approximately $619,000, or 8.8%, to $6.4 million compared to the same period in 2001. Cost of service revenue for the first six months of 2002 decreased approximately $1.6 million, or 11.0%, to $12.7 million compared to the same period in 2001. As a percentage of service revenue, the cost of service revenue decreased by 3.6% to 48.6% for the three months ended June 30, 2002 and decreased by 4.9% to 49.2% for the six months ended June 30, 2002, compared to the same periods in 2001. The decrease in service cost of revenue and corresponding increase in service gross margin during the three and six months ended June 30, 2002, was due primarily to decreased headcount and payroll and related expenses, including travel expenses, due to the restructurings undertaken by the company in late 2001, combined with the continued focus to decrease discretionary expenses, such as the use of outside contractors.

Research, development and engineering expenses for the three months ended June 30, 2002, decreased approximately $970,000, or 19.5%, to $4.0 million compared to the same period in 2001. Research, development and engineering expenses for the six months ended June 30, 2002, decreased approximately $1.7 million, or 17.0%, to $8.1 million compared to the same period in 2001. The decreases for second quarter and first six months of 2002 were primarily due to a decrease in payroll related expenses, recruiting and consulting costs compared to the same periods in 2001.

Selling, general and administrative expenses increased by approximately $147,000, or 1.3%, to $11.6 million for the second quarter of 2002 compared to the same period in 2001. This

increase is the result of the Company recording incremental bad debt expense during 2002 to provide additional accounts receivable reserve due primarily to the weakening economic environment in North America, offset by a decrease in headcount and related expenses. Selling, general and administrative expenses decreased by approximately $14,000, or 0.1%, to $22.8 million for the first six months of 2002 compared to the same period in 2001.

During the six months ended June 30, 2002, the Company recorded non-recurring merger and integration related charges totaling approximately $3.1 million due to the purchase of CellIt. The components of the merger charge included employee costs, training, corporate re-branding initiative associated with the Company's name change and the write-off of $1.1 million of prepaid software licenses under an OEM agreement with a third-party vendor given that similar technology was obtained in the CellIt acquisition and the licenses were no longer realizable.

During the three and six months ended June 30, 2002, primarily in connection with the acquisition of CellIt, the Company recorded a restructuring charge totaling approximately $2.0 million. The components of the restructuring charge included a reduction in workforce of approximately 48 people or 9% of the Company's total workforce, which affected all functional areas.

In the three and six months ended June 30, 2002, the Company recorded approximately $441,000 and $809,000 respectively, of amortization expense related to the intangible assets resulting from the purchase of CellIt.

Other income in 2002 was derived primarily from interest income from

investments in commercial paper, corporate bonds, Eurodollar bonds, and similar financial instruments, net of investment fees. Other income decreased 73.2% for the second quarter of 2002 compared to the same period in 2001. Other income decreased 68.5% for the first six months of 2002 compared to the same period in 2001. The significant decrease in the three months ended June 30, 2002, was due to lower average cash balances primarily as a result of the repurchase during the period of 451,600 shares of the Company's common stock under its stock repurchase program at an aggregate cost of $3.9 million, combined with lower interest rates and investment yields compared to the same periods in 2001. The decrease in the first six months of 2002, was due to lower average cash balances primarily as a result of the repurchase during the period of 1.1 million shares of the Company's common stock under its stock repurchase program at an aggregate cost of $9.6 million and the purchase of CellIt utilizing cash consideration of $10.2 million, combined with lower interest rates and investment yields compared to the same periods in 2001.

In accordance with generally accepted accounting principles, the Company provides for income taxes on an interim basis using its estimated annual effective income tax rate. For the first six months of 2002, the Company recorded a loss before income taxes of $5.2 million. As a result, during the first six months of 2002, the Company recorded a $1.3 million benefit from income taxes using a 25% effective tax rate. The effective tax rate of 25% is less than the combined statutory federal and state tax rates primarily as a result of the utilization of available

tax credits.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company's principal sources of liquidity were its cash and cash equivalent balances of approximately $23.3 million, as well as its marketable securities of approximately $17.7 million. At December 31, 2001, the Company's cash and cash equivalent balances were approximately $20.1 million and its marketable securities were approximately $47.8 million. The overall decrease of approximately $27.0 million in the total cash and marketable securities balances was due primarily to the purchase of CellIt utilizing cash consideration of $10.2 million, the payment of $1.9 million outstanding under CellIt's bank credit facility, payments associated with the non-recurring restructuring and merger and integration related expenses totaling $3.7 million and the utilization of $9.6 million to repurchase 1.1 million shares of the Company's common stock under its stock repurchase program.

Net cash used in operating activities for the first six months of 2002 was approximately $4.5 million compared to cash provided by operating activities of approximately $4.0 million for the same period in 2001. The increase in cash used in operating activities for the first six months of 2002 was due to less favorable operating results primarily due to the non-recurring merger and integration and restructuring costs incurred.

The Company's primary investing activities for the six months ended June 30, 2002, were the acquisition of CellIt and the purchases and maturities of marketable securities. The acquisition of CellIt generated a cash outflow of $10.9 million in the first six months of 2002, which includes the payment of

acquisition related fees. The purchases and maturities of marketable securities generated a net cash inflow of approximately $30.1 million during the first six months of 2002, compared to a net cash outflow of approximately $13.2 million during the same period in 2001. Property and equipment purchases were approximately $1.2 million during the first six months of 2002, compared to approximately $2.8 million during the same period in 2001.

Cash used in financing activities during the first six months of 2002 totaled approximately $10.3 million and was due primarily to the repurchase of 1.1 million shares of the Company's common stock for approximately $9.6 million and the payment of long-term CellIt debt of approximately $2.3 million. Cash used in financing activities during the first six months of 2001 totaled approximately $349,000 and was due to the repurchase of 92,300 shares of the Company's common stock for approximately $874,000 which was partially offset by proceeds from the exercises of stock options and from purchases of stock through the Company's employee stock purchase plan.

At June 30, 2002, the working capital of the Company decreased to approximately $30.6 million from approximately $61.4 million as of December 31, 2001. The overall decrease of approximately $30.8 million in the working capital was related to the previously noted reductions in cash and marketable securities balances due primarily to the acquisition of CellIt and its related cash requirements and the repurchase of 1.1 million shares of the Company's common stock.

The Company's contractual obligations for future payments as of June 30, 2002 were composed of operating leases for the various office spaces leased by the Company, including the space acquired as a result of the merger with CellIt.

A summary of the amounts due under these operating leases is as follows:

	Payments Due by Period (Amounts Are In Thousands)				
Contractual Obligation	Total	Less than 1 year	1-3 years	4-5 years	A
Operating Leases	$11,938	$2,827	$6,086	$2,595	

Management believes, based on its current operating plan, that the Company's existing cash and marketable securities balances and anticipated cash generated from operations are sufficient to meet the Company's cash requirements for the next twelve months.

PART I. FINANCIAL INFORMATION (continued)
ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISKS

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments.

As of June 30, 2002, the Company did not participate in any derivative financial instruments or other financial and commodity instruments for which fair value disclosure would be required under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". The Company's investments are primarily short-term, Euro dollar bonds, investment-grade commercial paper, and money market accounts that are carried on the Company's books at amortized cost, which approximates fair market value. Accordingly, the Company has no quantitative information concerning the market risk of participating in such investments.

As of June 30, 2002, the Company did not participate in any derivative financial instruments or other financial and commodity instruments for which fair value disclosure would be required under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities".

Primary Market Risk Exposures.

The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's investment portfolio of cash equivalent and short-term investments is subject to interest rate fluctuations, but the Company believes this risk is immaterial due to the short-term nature of these investments.

The Company's exposure to currency exchange rate fluctuations has been and is expected to continue to be insignificant due to the fact that the operations of its international subsidiaries are almost exclusively conducted in their respective local currencies. International subsidiary operating results are translated into U.S. dollars and consolidated for reporting purposes. The impact of currency exchange rate movements on intercompany transactions was $34,000 for the six months ended June 30, 2002. Currently, the Company does not engage in foreign currency hedging activities

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to historical information contained herein, this report contains forward-looking statements concerning future expected financial and operating results. The Company's future actual results could differ materially from the forward-looking statements discussed or implied in this report because of risks or uncertainties including, but not limited to, competition and competitive pricing pressures, technological change, new product introduction, product integration and market acceptance, the ability of the Company to attract and retain key personnel and general economic conditions in the United States and worldwide markets served by the Company; and those other factors discussed from time to time in the Company's public reports filed with the Securities and Exchange Commission, such as those discussed under "Certain Factors That May Affect Future Results" in the Company's quarterly reports on Form 10-Q and annual report on Form 10-K.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes since the Company's Annual Report on Form 10-K for the period ended December 31, 2001.

Item 5. Other Information

Proposal of stockholders intended for inclusion in the proxy statement to be furnished to all stockholders entitled to vote at the next annual meeting of stockholders of the Company must be received at the Company's principal executive offices not later than December 1, 2002. The deadline for providing timely notice to the Company of matters that stockholders otherwise desire to introduce at the next annual meeting of stockholders of the Company is February 12, 2003. In order to curtail any controversy as to the date, on which a proposal was received by the Company, it is suggested that proponents submit their proposal by Certified Mail, Return Receipt Requested.

Item 6. Exhibits and Reports on Form 8-K

(a) No current reports on Form 8-K were filed during the quarter ended June 30, 2002.

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.

CONCERTO SOFTWARE, INC.

Date: August 14, 2002

By: /s/ James D. Foy
James D. Foy
Chief Executive Officer
and President (Principal
Executive Officer)

Date: August 14, 2002

By: /s/ Michael J. Provenzano III
Michael J. Provenzano III
Vice President of Finance
and Chief Financial Officer
(Principal Financial Officer)