COTELLIGENT INC
Form 10-K/A
December 09, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 3)

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

For The Fiscal Year Ended December 31, 2001

[_] 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 0-27412

COTELLIGENT, INC.

Delaware	94-3173918
(State of incorporation)	(I.R.S.ID)

100 Theory, Suite 200, Irvine, CA 92612
(949) 823-1600

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock ($.01 par value)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $6,407,383 based on the closing price of $0.43 of the registrant's Common Stock as reported on the OTC Bulletin Board on March 28, 2002. The number of shares of the registrant Common Stock outstanding as of March 28, 2002 was 14,900,891.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Explanatory Note

On March 29, 2002, Cotelligent, Inc. ("the Company") filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

On April 30, 2002, the Company filed Amendment No.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001 to include information related to Items 10, 11, 12 and 13, expected to be incorporated by reference in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders.

On May 7, 2002, the Company filed Amendment No. 2 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2001 to include additional information related to Item 11 pursuant to the Company's 1998 Long-Term Incentive Plan during fiscal year ended December 31, 2001 for officers named in the summary information table.

This Amendment No. 3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001 is being filed in order to:

.. Restate our consolidated financial statements for the fiscal periods ended December 31, 2001 and 2000, as more fully described in Note 2 to our consolidated financial statements included in Item 8;

.. Include the report of KPMG LLP on our consolidated financial statements as of December 31, 2001 and 2000, and for the year ended December 31, 2001 and the nine months ended December 31, 2000; and

.. Restate Item 6 (Selected Financial Data), Item 7 (Management Discussion and Analysis of Financial Condition and Results of Operations) and Item 14 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

In order to preserve the nature and character of the disclosures set forth in such Items as originally filed, this report speaks as of the date of the original filing, and we have not updated the disclosures in this report to speak as of a later date. While this report primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing. All information contained in this Amendment No. 3 is subject to updating and supplementing as provided in our reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report on Form 10-K.

COTELLIGENT, INC.

FORM 10-K A

For The Fiscal Year Ended December 31, 2001

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PART I

Item 1. Business

Company Overview

Cotelligent provides complete business solutions, specializing in mobile business and Web services solutions, to extend information technology ("IT") beyond the desktop all the way to the mobile enterprise. Our mobility business solutions keep mobile workforces connected to their companies' business applications. Our Web services solutions keep our clients' customers, vendors, partners and employees connected via the Internet to a variety of information residing in our clients' information technology infrastructures. We also provide maintenance and support on software products licensed to our clients in connection with solutions we develop.

As part of our complete solutions, we offer:

- Strategic IT consulting services
- Enterprise Resource Planning (ERP) and Implementation/integration services
- Custom application development
- Sales and field force automation solutions (FastTrack(TM))

- Mobile middleware products (JASware(TM))
- Hardware and software products (partners)
- Application hosting and Vertical Solution Provider Services
- Remote support services
- Help desk and Education services

While expanding the capabilities of enterprise systems can benefit Business-to-Business (B2B) and Business-to-Consumer (B2C) initiatives, we believe the greatest demand today is in the Business-to-Employee (B2E) category. This includes the management of mobile workers responsible for functions like route sales, pre-sales, merchandising, route delivery, distribution and field service/repair. The software and hardware used to facilitate these functions include laptops, handheld PCs, PDAs and Web-based Customer Relationship Management (CRM) applications. Cotelligent's complete business solutions, which include software, hardware and information services, are focused on extending information technology functionality to a broad spectrum of office-based and mobile workers. These complete solutions allow mobile workers to do their jobs more effectively from wherever they are located. They allow the client to receive more reliable information. These solutions increase productivity from the field in ways not experienced by the client before. We believe Cotelligent is different from traditional software and services companies because we are able to provide the range of products and services needed to develop complete business solutions that employ advanced mobility and Web-based technologies.

We have expertise in a variety of industries, including consumer goods, manufacturing, high-tech, financial services and automotive. We understand how to build advanced technology systems that expand upon a company's existing systems and compliment the work conducted in their user environments. We have assembled a technical staff with a broad range of skills and industry expertise, including business analysts, network architects, account managers and others. The high level of technical expertise and business experience offered by Cotelligent is an important Company differentiator in the markets in which we compete.

Over the past year, we have positioned ourselves to leverage our foundation of experience in enterprise, systems integration and eBusiness solutions, along with our vertical industry experience, to take advantage of the emerging and growing market for mobility solutions. Cotelligent has over ten years of experience in delivering its FastTrack(TM) sales force automation solutions and its JASware(TM) mobile middleware solutions to a variety of leading companies. Cotelligent's enterprise software, eBusiness and Web services solutions expertise, combined with our FastTrack(TM) and JASware(TM) offerings, uniquely position our Company. We use a proprietary consulting project methodology to help ensure that our clients achieve a successful result and help them make well-informed business and technology decisions.

While we continue to pursue opportunities in eBusiness, our focus on enterprise solutions is directed toward linking eBusiness and mBusiness solutions in the enterprise. Our goal is to continue growing our eBusiness revenue but outpace that growth with mBusiness revenue, which we believe should become the dominant part of the business over the next two years. For 2001, our largest client accounted for approximately 9.3% of our revenue, while our ten largest clients (each over $1 million) accounted for approximately 44% of our revenue.

Strategy

Cotelligent's strategy is comprised of the following components:

Build Systems Using Advanced Technology Empowering the Mobile Workforce

IDC, a technology market research company, predicts that the Mobile Enterprise Applications ("MEA") market will be a $150 billion industry by 2003. Cotelligent's strategy is to take advantage of this market opportunity by leveraging its core competencies in enterprise software, eBusiness and systems integration, and help our clients take advantage of advances in mobile and Web services technologies. To that end, we have already accumulated a strong base of client experience in moving information seamlessly from back-end "connected" application systems to front-end "semi-connected" and "disconnected" field force and customer relations applications using our own FastTrack(TM) and JASware(TM) solutions and application hosting services. Cotelligent has over ten years of experience in this market. Our strategy is to use our reputation and record of success in this area to gain a significant competitive position in the emerging market aimed at empowering the mobile workforce.

The Company has also developed a strong base of experience in developing and implementing Web services solutions employing both Microsoft(R) .NET and IBM open system technologies. As with our mobile computing expertise, we help our clients achieve success in employing .NET and open system technologies by leveraging our significant expertise in enterprise software and systems integration. Our experience has led us to conclude that the effective integration and utilization of Web services solutions require us to have an in-depth knowledge of how enterprise software, and general business applications and functions, interact from end-to-end. Our strategy is to continue to achieve success in developing Web services solutions in our clients' complex business environments and leveraging this success and our reputation as this market continues to grow in the future.

Partnerships

To successfully execute our business strategy, Cotelligent has determined that we must be able to offer complete business solutions to our clients. We believe that in the increasingly interconnected world, key alliances are important. We leverage the resources and depth that come from having strategic partnerships with the companies that complement our capabilities. Our partners include Symbol Technologies, IBM, Microsoft, SAP, Computer Associates, PeopleSoft, Cognos and White Horse Interactive.

Cotelligent has partnered with companies that provide the best components for solutions in our targeted markets. Our Partner Selection Model has been acknowledged in 2001 by IDC as one of the best models of its kind. By carefully choosing which companies provide the best technical solutions and the best partnership opportunities, Cotelligent can offer the best total solution for the best value to our clients. As we continue to evolve to a software solution-centric company, we expect that our partnership program will be expanded in order to enhance our ability to deliver advanced mobile computing and Web services solutions.

Differentiation

We intend to differentiate ourselves from our competitors in the following ways:

Invest in partnerships
Strong partnerships will help us to further develop and execute our business strategy:

- Using partner products and technologies to compliment ours improves "time to market" for Cotelligent solutions.
- Partners integrating JASware(TM) and/or FastTrack(TM) into their offerings broaden revenue opportunities through channels.

- Cotelligent is able to improve gross and operating margins through reduced costs of sales and solution delivery.

Invest in technology
Cotelligent's ability to be competitive in mobility and Web services solutions require us to make investments in technology. These investments will ensure that our software solutions continue to advance our clients' capabilities and, at the same time, keep Cotelligent competitive in the market.

Leverage reputation and expertise in enterprise software and systems integration
Cotelligent's reputation for providing outstanding systems implementation and integration services is key to our ability to ensure that new, more advanced Cotelligent solutions are properly integrated across our clients' information technology infrastructure.

Stress optimization in our marketing messages
Our marketing messages will increasingly focus on how Cotelligent solutions optimize business activities from end-to-end. We will demonstrate this by employing return on investment ("ROI") analysis and specific factors residing in each Cotelligent target market.

Solutions

Capitalizing on our experience in specific industries allows us to support targeted companies seeking improvements in operational efficiencies and marketplace performance ("optimization") using eBusiness, mBusiness and Web services technology. The integration of our portfolio of products, services and applications into specific industry areas combine to create:

- Sales Force Automation (SFA) solutions
- Field Force Automation (FFA) solutions
- eBusiness solutions
- Web services solutions
- Other specialized business software solutions

By implementing Cotelligent's solutions, our clients are able to:

- Cut costs by automating manual processes
- Improve productivity and timeliness of data throughput to and from mobile workers
- Increase competitive advantage

At the center of our strategy is taking our most effective solutions to market. In determining this, we use a variety of sources for market analysis and data, including Gartner Group and IDC. This information has helped Cotelligent target the most effective components that create the most value (for competitive positioning) and maximize our profitability. In addition, this approach allows us to combine and package our software solutions and services, price them competitively and deliver them as a complete solution to the marketplace.

Below is a description of each of these areas:

Enterprise Solutions

Our experience in this field distinguishes us from our competitors by giving us expertise to offer our clients a reliable and scalable framework for managing and moving business data across a variety of platforms. We integrate client systems across their organizations, build better customer relationships, improve

back-office efficiencies, share knowledge and generally ensure that software applications in their eBusiness and mBusiness environments work together in form and function within their enterprise.

eBusiness Solutions

This portion of our business is built from our experience and expertise in many facets of eBusiness application design and creation. We can facilitate the development and execution of a viable plan that integrates the Internet into new and/or existing business processes, systems and cultures.

Web Services Solutions

We are a leader in the technologies most popular in the development and deployment of Web services - most notably, IBM WebSphere(R) and Microsoft(R) ..NET. As a new breed of pervasive applications, these Web services and Cotelligent's highly skilled team help our clients promote the publication, location and promotion of never before possible IT services to anyone with an Internet connection.

mBusiness and Mobility Solutions

This field continues to gain significant momentum from our knowledge and expertise in wireless data applications. We are enhancing our portfolio of mBusiness solutions through in-house development of our JASware(TM) middleware and FastTrack(TM) framework. We continue to form strategic alliances with key hardware and application development providers to strengthen our solution offerings and capabilities.

Value Proposition

We promote the following advantages when differentiating our solutions from those of our competitors:

Our track record is verifiable: We apply expertise in complex environments to deliver solutions on time and within budget.

Our solutions are designed for our clients' industries: We focus on our clients' needs to achieve their potential.

Our business experts combine technical experience with vertical industry expertise: We combine high levels of expertise in both Microsoft-based and open systems environment with over 26 years of experience in vertical industry markets.

Our framework approach shortens development life cycle: We reduce risk and development time by using proven components and methodologies.

Our partnerships are carefully managed: We choose and monitor these relationships in a way that ensures each delivers application and industry solutions that best fit our clients' business needs.

Our approach is to help our clients achieve self-sufficiency: We are dedicated to knowledge transfer and remain accessible as our clients' businesses evolve.

Services

The integrated set of services we provide to our clients include:

Strategic IT Consulting Services

Analysis of business organization and processes. After reviewing the technology landscape to determine strengths and weaknesses inherent in our clients' current environment, we provide recommendations that address their infrastructure to hardware needs. This assessment includes defining, analyzing, reviewing and affirming functional and non-functional requirements. We make our clients more competitive in the markets in which they do business by focusing on their business strategy and process, technology and personnel transformation.

Enterprise Resource Planning and Implementation/integration Services

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Implementation, integration and optimization of Enterprise Resource Planning applications, including customization and configuration. We optimize manufacturing, order entry, accounting, purchasing, warehousing, transportation and human resource systems to make businesses more responsive and more profitable.

Application Development

Custom application development
Development of open system or Microsoft architectured business applications. In the Web environment, these include eBusiness, ePortal and Web services solutions.

Industry application framework solutions
Development of industry-specific and company-specific components layered onto the FastTrack(TM) application framework, which includes communication and mobile workforce management capabilities. The framework approach begins with a core application of base functionality that is faster and less risky to complete compared with a fully customized application.

Mobile Middleware Products (JASware(TM))

Management of the synchronization and flow of information between a variety of devices and/or host systems (all in the same system of enterprise) in a wired or unwired environment. Our middleware product mobilizes enterprise systems while managing assets on the move.

Hardware and Software Products (Partners)

Partners' products, services and applications that complement and extend our products, services and applications to create a more complete end-to-end business solution.

Application Hosting and Vertical Solution Provider Services

Our Pervasive Data Center provides a suitable environment for the hosting and operational support of Sales Force Automation, Field Force Automation, mobility and eBusiness applications. Support is available 24 hours a day, 7 days a week, to monitor and manage the accessibility and functionality of these applications.

Remote Support Services

Staging, configuration, distribution and asset management services assist clients with deployment of new mobile solutions. On-going help desk services are

available to support users around the clock.

Education and eLearning Services

Education services offer our clients a variety of products and solutions that can be bundled to meet any business's education and training needs, whether it is training end users on a new field force application or training the trainers.

Specialized Consulting Services

Our technological professionals provide the necessary skills to assist our clients in the completion of their internal development projects or ongoing operational needs.

Market Conditions

A study by Gartner Group, a market research company, shows that in North America, the largest 20 IT professional services providers, which are referred to as Tier 1 providers, account for approximately 30 percent of the entire market. By default, about 70 percent of the North American market demand is satisfied by smaller, or Tier 2, IT professional services providers. Tier 2 IT professional services providers are companies with less than $500 million in revenue per annum and deliver some or all the IT professional service lines. These service lines are combined with technology products (for example, software or hardware) to create an IT solution. Examples of IT solutions include Customer Relationship Management, Sales Force Automation, Field Force Automation, data warehousing, business intelligence, eCommerce, Enterprise Resource Planning, knowledge management and Supply Chain Management.

Tier 2 IT professional services providers focus on delivering back-office, project-based services requiring technical architecture and design, project management, business solution architecture, application development, systems integration and Internet services. They are not focused on delivering business strategy consulting or staff augmentation services. eCommerce solutions, on average, account for 28 percent of IT professional services revenue of the Tier 2 companies surveyed by Gartner Group, followed by Customer Relationship Management, human resources and business intelligence solutions accounting for 10 percent, 9 percent and 6 percent, respectively. Similarly, Tier 2 companies that deliver consulting and systems integration services, on average, derive about 40 percent of their revenue from clients, earning less than $500 million per annum.

Tier 2 IT professional services providers have grown in importance throughout most of 2001 for three primary reasons:

- The rise and subsequent fall of pure-play eBusiness services companies has left a major IT professional services delivery gap.
- Research indicates that the small and mid-size business market in the United States may increase spending on front office and back-office eBusiness initiatives over the next few years.
- The absence of a technological catalyst, such as client/server, Enterprise Resource Planning, Y2K and eBusiness with the potential to disrupt markets, has enabled Tier 2 competitors to effectively catch up to Tier 1 competitors through the development of reusable templates and solutions that also require strong systems integration skills.

Marketing

We initiated a number of important marketing initiatives during 2001. These

marketing initiatives were focused on helping the Company transform its identity and build its brand in the markets in which it competes.

- The launch of our revamped Web site to reflect the re-branding of Cotelligent, subsequent integration of new information, including our JASware(TM) mobile solutions and FastTrack(TM) offerings.
- Brand building through all printed and online materials to support our offerings and positioning as a mobility solutions provider.
- Brand building through tradeshow presence at partner, targeted vertical market and similar technology events.
- By employing a PR firm, the Company generated numerous articles in industry publications and several speaking opportunities at industry events improving brand awareness.
- Regular internal communications to employees of Cotelligent announcing events, client wins and successes to promote involvement and build culture.

We employ an integrated marketing approach that links planning and the launch of new solutions, products and service offerings with active marketing campaigns to support them. Our first step toward this was to organizationally link our Business Development and Marketing functions together.

Sales

It is important to educate, orient and measure our sales force utilizing consistent benchmarking procedures. In 2001, we continued the development of numerous industry-specific sales kits (Client Engagement Guides, or "CEGs") for each of our target vertical markets. In addition, we have introduced solution-based CEGs that provide detailed information on how to effectively sell Cotelligent software solutions and services.

The CEGs provide Cotelligent with market intelligence, enabling our sales teams to focus on specific market niches. Further, these valuable documents accelerate the education of new sales Account Executives as they join the Company. Using these guides, we have advanced the effectiveness of our sales force in the following ways:

- Establishing a working knowledge of Cotelligent, our core competencies, market focus and value proposition. Our Account Executives are now equipped to approach prospective clients with a greater understanding of their industry and issues, and articulate Cotelligent's value proposition.
- Building valued relationships with clients by solving today's problems and providing them with a vision/strategy for the future.
- Accelerating sales opportunities by focusing our selling activities on discreet market segments in Cotelligent core competencies.
- Increasing revenue.

Our solutions and services are sold by our direct sales force as well as by our channel sales force. We also utilize telesales and telemarketing sales in order to generate leads and open new opportunities.

Competition

In the emerging marketplace of mobility solutions, there are few standards established and a number of ways to extend the functionality of the enterprise IT system. Therefore, each competitor has determined the scope of the solution they provide and the components used to build them. Thus, Cotelligent has a

large number of competitors in part determined by the industry and/or technology niche needed for the particular client's business. In other cases, the competitor is left over from the days of a more traditional IT consulting model.

For example, mobilization often requires a middleware product. In this area, our JASware(TM) products compete with companies like Synchrologic and Aether Systems. The development of the mobile business application requires in-depth industry knowledge and the ability to customize applications. In the consumer goods market, we compete with companies like SAP, MEI and Thinque. To make a mobile solution efficient, it should be integrated into the legacy systems or added as an enterprise Web service. In this area, we may compete with larger system integrators or a "Big Five" accounting firm.

To compete successfully, we must be able to deliver leading-edge solutions with speed and competence, develop and market cost-effective offerings that meet changing client needs, and respond rapidly to evolving technology by continuously training our technical and sales consultants.

Registrant Information

Cotelligent was incorporated in February 1993 under the laws of the State of California as TSX, a California corporation. In November 1995, we changed our jurisdiction of incorporation to Delaware and our name to Cotelligent Group, Inc. In September 1998, we changed our name to Cotelligent, Inc. Unless the context otherwise requires, references to "Cotelligent," "Company," "we," "us" and "our" refer to Cotelligent, Inc., a Delaware corporation.

Our headquarters are located at 44 Montgomery St., Suite 4050, San Francisco, California 94104 and our telephone number is (415) 439-6400.

Employees

At December 31, 2001 we had 275 employees, including a technical staff of approximately 165 IT professionals.

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Risk Factors

The following discussion contains certain cautionary statements regarding Cotelligent, Inc.'s business and results of operations, which should be considered by our stockholders or any reader of our business and results of financial information disclosure. This information is provided to enable us to avail ourselves of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The following factors should be considered in conjunction with any discussion of our operations or results, including any forward-looking statements as well as comments contained in press releases, presentations to securities analysts or investors and all other communications made by us or our representatives. We intend to use the following words or variations of the following words to identify forward-looking statements: anticipates, believes, expects, estimates, intends, plans, projects and seeks.

In making these statements, we disclaim any intention or obligation to address or update each factor in future filings or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed below may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed here and in prior or

subsequent communications.

If we are unable to generate positive cash flow and return to profitability in the near term, we may exhaust our capital.

We have experienced a general reduction in demand for our services. At the same time, we have taken action to divest non-strategic operations and have used the cash proceeds from these divestitures to pay off debt obligations. As a result, we have had adequate working capital to fund our needs as we restructured the business. Nevertheless, we realize these cash resources are limited and that if our business does not begin to generate revenue, a positive cash flow and return to profitability in the near term, our on-going liquidity and financial viability could be materially and adversely affected.

If the eBusiness, mBusiness and Web services markets do not continue to develop, or if their development is delayed, our business could be harmed.

Our future revenues will depend on the development of the eBusiness, mBusiness and Web services markets. The failure of these markets to materialize, or a delay in the development of these markets, could seriously harm our business. The success of eBusiness depends substantially upon the widespread adoption of the Internet as a primary medium for commerce, business applications and communications. Critical issues concerning the commercial use of the Internet, such as security, reliability, cost, accessibility and quality of service continue to evolve and unforeseen factors may negatively affect the growth of Internet use or the attractiveness of commerce and business communications over the Internet. The success of mBusiness depends on acceptance of wireless data applications for commercial use, the quality of telecommunications and availability of devices supporting wireless applications. Critical issues in the wireless industry include security, cost, accessibility and reliability of service, and further development of wireless technology standards.

We have a limited operating history in the mBusiness and Web services markets.

The uncertainty of our future performance in these markets may impact our ability to market and sell mBusiness and Web services solutions to prospective clients, which would adversely affect our operating results.

Our future growth and ability to differentiate Cotelligent from its competition is, in part, dependent upon our success in developing, marketing and selling our mobile management solution services.

We are developing, marketing and selling mobile management solutions and services. Some of these efforts in the past year have not been successful. In addition, our resources in the mobile management solution area are limited. Nevertheless, we continue to focus on this business as it represents significant opportunity. If we are not able to stay ahead of technical advancements in the market or deliver these solutions and services, our operating results could suffer.

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Our JASware(TM) and FastTrack(TM) applications may not be accepted by the market.

We have recently deployed our JASware(TM) Web-enabled mobile management software and our FastTrack(TM) mobile solutions addressing field force automation, and these software applications are an important part of our strategy. The use of JASware(TM) and FastTrack(TM) in client solutions may fail to gain market acceptance due to a variety of factors, many of which are outside our control.

These factors include:

- Client preferences;
- Competition from companies offering and selling similar solutions and services;
- Introduction of new technologies not compatible with our existing solutions and services that render our offerings obsolete;
- Actual or perceived quality and usefulness issues that negatively impact the Company's prospects.

If our software applications are not accepted by the market, our business could be adversely affected.

Our software applications may not work as intended.

Part of our strategy is to provide synchronization and transfer of information between disparate systems, platforms and devices, and rapidly implement mobile business solutions. If our software products, including our JASware(TM) products and FastTrack(TM) framework, do not work as intended, we will be unable to provide these solutions to our clients and our business would be adversely affected.

We may need to invest heavily in research and development to keep our software applications viable.

We may need to invest heavily in research and development to keep our software applications viable in the rapidly changing markets in which we operate. This research and development effort may require significant resources and may not be successful. The investment of significant resources in research and development could adversely affect our liquidity. In addition, our business may be adversely affected if our investment does not result in the development of software applications that can be used in providing IT solutions to our clients.

We may be unable to protect our proprietary technology.

Our success in providing mBusiness and Web services solutions depends, in part, upon our proprietary software applications and other intellectual property rights. We rely on a combination of trade secrets, nondisclosure, other contractual arrangements, copyright and trademark laws to protect our proprietary rights. We enter into confidentiality agreements with our employees, consultants and clients, and limit access to and distribution of our proprietary information. We cannot be certain that the steps we take in this regard will be adequate to deter misappropriation of our proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In addition, although we believe that our services and products do not infringe on the intellectual property rights of others, infringement claims may be asserted against us in the future, and, if asserted, these infringement claims may be successful. A successful claim against us could materially adversely affect our business and results of operations.

We may not be able to establish successful partnerships or strategic alliances, and partnerships and strategic alliances we do establish may not be successful.

Part of our strategy is to form partnerships and strategic alliances with entities that have complementary products, services or technologies which can help us provide complete IT solutions to our clients. Even if we identify suitable candidates, we may not be able to form partnerships or alliances on reasonable commercial terms. In addition, any partnerships or alliances we do establish may not complement our business or help us provide IT solutions to our clients. If we fail to establish successful partnerships or strategic alliances,

our ability to provide clients with complete IT solutions could be adversely affected.

We are subject to rapid changes in technology and client preferences.

Our market is characterized by rapidly changing technology, changes in client requirements and preferences, frequent new product and service announcements, and evolving new industry standards and practices that could render our existing proprietary technology obsolete. Our success will depend, in part, on our ability to acquire or license leading technologies useful in our business; enhance

our existing software solutions; develop new software solutions and technology that address the increasingly sophisticated and varied needs of existing and prospective clients; and respond to technological advances and evolving industry standards and practices on a cost-effective and timely basis. The development of proprietary technology entails significant technical, financial and business risks. To be successful, we must adapt to the rapidly changing market by continually improving the performance and reliability of our software applications. We could also incur substantial costs to modify our software applications to adapt to these changes. Our business could be adversely affected if we incurred significant costs without adequate results.

Capacity constraints may restrict the use of the Internet as a commercial marketplace, resulting in decreased demand for our products.

The Internet infrastructure may not be able to support the demands placed on it by increased usage or by the transmission of large quantities of data. Other risks associated with commercial use of the Internet could slow its growth, including:

- Outages and other delays resulting from inadequate network infrastructure;
- Slow development of enabling technologies and complementary products;
- Limited availability of cost-effective, high-speed access.

Delays in the development or adoption of new equipment standards or protocols required to handle increased levels of Internet activity, or increased governmental regulation, could cause the Internet to lose its viability as a means of communication among participants in the supply chain, resulting in decreased demand for our services and products.

We are dependent on continued expansion of the Internet infrastructure.

The recent growth in Internet traffic has caused frequent periods of decreased performance, requiring Internet service providers and users of the Internet to upgrade their infrastructures. If Web usage continues to grow rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth and its performance and reliability may decline. If these outages or delays on the Internet occur frequently, overall Web usage could grow more slowly or decline. Our ability to increase the speed and scope of our services to customers is ultimately limited by and dependent upon the speed and reliability of both the Internet and the capacity of the computer equipment used by our customers. Consequently, the emergence and growth of the market for our services is dependent on improvements being made to the entire Internet and to computer equipment in general to alleviate overloading and congestion.

We are subject to government regulation and legal uncertainties.

The Internet is rapidly changing, and federal and state regulation relating to the Internet is evolving. Currently, there are few laws or regulations directly applicable to access to the Internet. Due to the increasing popularity of the Internet, it is possible that laws and regulations may be enacted covering issues such as user privacy, pricing, taxation, content and quality of products and services. The adoption of such laws or regulations could reduce the rate of growth of the Internet, which could materially and adversely affect our business.

Our clients may cancel or delay spending on IT solution initiatives because of the current economic climate.

Since the second half of 2000, many companies have experienced financial difficulties or uncertainty and have begun to cancel or delay spending on technology consulting initiatives as a result. Furthermore, the severe financial difficulties which many start-up Internet companies have experienced has further reduced the perceived urgency by larger companies to begin or continue technology initiatives. If large companies continue to cancel or delay their technology consulting initiatives because of the current economic climate, or for other reasons, our business and results of operations could be adversely affected.

Our revenues and financial condition may be adversely affected by the loss of business from significant clients.

Our revenues are primarily derived from services provided in response to client requests or on an assignment-by-assignment basis. Our engagements, generally billed on a time and materials basis, are terminable at any time by our clients, generally without penalty. In addition, for the year ended December 31, 2001, our largest client and our ten largest clients accounted for approximately 9.3% and 44%, respectively, of our revenues. Our clients may not continue to engage us for projects or use our services at historical levels, if at all. If we lose a major client or suffer a reduction in business, our revenues and financial condition may be adversely affected.

If we fail to continue to attract and retain qualified IT professionals, it could harm our business.

Our success depends upon our ability to attract, hire and retain technical consultants, software developers, software engineers and project managers who possess the necessary skills and experience to conduct our business. We continually identify, screen and retain qualified IT professionals to keep pace with client demand for rapidly evolving technologies and varying client needs. We compete for these professionals with our clients, other providers of software solutions and services, systems integrators, providers of outsourcing services, computer systems consultants and temporary staffing companies in a variety of industry segments. Competition for individuals with proven technical skills is intense. In the past, we have experienced difficulties in identifying and retaining qualified IT professionals and, in some instances, we were unable to meet requests for services. We cannot assure that qualified IT professionals will continue to be available to us in sufficient numbers.

Our success is dependent on our key management personnel.

Our operations are dependent on the continued efforts of our executive officers and senior management. In addition, we will likely depend on the senior management of any business we may merge with or acquire in the future. If any of

these people are unable or unwilling to continue in his or her present role, or if we are unable to hire, train and integrate new management personnel effectively, our business could be adversely affected. We do not currently maintain key person life insurance covering any of our executive officers or other members of senior management.

We face intense competition that could adversely affect our ability to generate revenue and profitability.

The IT consulting services industry is highly competitive, fragmented and subject to rapid change. Our competitors include local, regional and national software firms, IT consulting firms, system integration firms, professional service divisions of applications software firms and the professional service groups of computer equipment companies. We also compete with management information outsourcing companies, "Big Five" accounting firms and other management consulting firms. Many of our competitors have greater technical, financial or marketing resources than we have. In addition, we intend to enter new markets and expand our solutions and services offerings through internal growth and acquisitions, and we expect to encounter additional competition from established companies in these areas. Further, traditional purchasers of consulting services have consolidated their vendor lists to a smaller number of preferred solutions and service providers. If we are unable to become a preferred solutions and service provider, our ability to acquire new clients and retain existing clients could be adversely affected. If we cannot compete effectively in our industry, our revenues and profitability could be adversely affected.

We do not have a credit facility in place as we operate from existing cash resources.

When we paid off our bank loan on June 30, 2000, our credit facility was terminated. Prior to June 30, 2000, we have relied on our credit facility and positive cash flow to satisfy our liquidity needs. We have not secured additional financing and plan to continue operating using our existing cash resources and cash resources generated from the collection of our accounts receivable. Should we find ourselves in need of more cash, we would have to seek financing and might, as a result, have a short-term liquidity problem. Additionally, we may not be successful in securing financing, or if successful, the terms may not be advantageous to us.

If we are unable to increase our revenues through the deployment of our sales and business development organization, our future growth could suffer.

We re-organized our sales force in 2000, which resulted in significant turnover and the hiring of a number of new sales people. Although we feel this new sales team is better suited than our prior sales force to develop the business we are targeting, we recognize there is an extensive ramp-up time associated with a new sales force and market conditions for our services are competitive. If this new team is not successful in growing the number of profitable client engagements in the near term, our revenues and profitability may not improve. Consequently, our financial performance could be materially and adversely affected.

We may make acquisitions, which if proven unsuccessful, could negatively affect our future profitability and growth.

Although our strategy is focused on internal growth, it is possible that we might make acquisitions. We may not be able to identify, acquire or profitably manage additional businesses without substantial costs, delays or other problems. In addition, acquisitions may involve a number of special risks, including: (1) diversion of management's attention; (2) failure to retain key acquired personnel;

(3) risks associated with unanticipated events, circumstances or legal liabilities; and (4) amortization of acquired intangible assets. Some or all of these risks could adversely affect our operations and financial performance. For example, client satisfaction or performance problems at a single acquired business could adversely affect our reputation and financial results. Further, any businesses acquired in the future may not achieve anticipated revenues and earnings.

We face potential liability due to the project nature of our business which often requires our IT professionals to work at our clients' place of business.

Our IT professionals are often deployed in the workplace of other businesses. As a result of this activity, we could be subject to possible claims of discrimination and harassment, employment of illegal aliens or other similar claims. These types of claims could result in negative publicity for us and money damages or fines. Although we have not had any significant problems in this area, we could encounter these problems in the future.

We are also exposed to liability for actions of our IT professionals while on assignment, including damages caused by employee errors, misuse of client-proprietary information or theft of client property. Because of the nature of our assignments and the related potential liability, we cannot assure that insurance we maintain, if continually available, will be sufficient in amount or scope to cover a loss.

Item 2. Properties

Our principal executive offices and our continuing operating subsidiaries are located in 8 facilities with an aggregate of approximately 77,480 square feet and are leased at aggregate current monthly rents of approximately $0.1 million with no lease commitment extending past the year 2007. We believe that our properties are adequate for our needs. Furthermore, we believe that suitable additional or replacement space will be available when required on terms we believe will be acceptable.

Item 3. Legal Proceedings

We are, from time to time, a party to litigation arising in the normal course of our business. We are not presently subject to any material litigation.

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

No matters were submitted to a vote of security holders.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock. Since October 11, 2001 the Common Stock has been listed on the OTC Bulletin Board under the symbol "CGZT," prior to which it was listed on the NYSE under the symbol "CGZ".

	Quarter End			
Fiscal Year Ended Mar 31, 2000	June 30	Sept 30	Dec 31	Mar 31
Common stock price per share:				
High	$ 15.31	$ 7.81	$ 6.94	$ 6.69
Low	5.63	3.50	2.88	4.25
Nine Months Ended Dec 31, 2000	June 30	Sept 30	Dec 31	Mar 31
Common stock price per share:				
High	$ 7.25	$ 5.56	$ 3.44	
Low	3.75	3.06	0.63	
Fiscal Year Ended Dec 31, 2001	Mar 31	June 30	Sept 30	Dec 31
Common stock price per share:				
High	$ 5.00	$ 0.95	$ 0.99	$ 0.32
Low	0.58	0.40	0.12	0.10
Fiscal Year Ended Dec 31, 2002	Mar 31	June 30	Sept 30	Dec 31
Common stock price per share:				
High	$ 0.50			
Low	0.25			

On March 28, 2002, the last reported sales price of the Common Stock, as reported on the OTC Bulletin Board, was $0.43 per share. On March 28, 2002, there were 784 stockholders of record of the Common Stock.

Item 6. Selected Financial Data

The Company historically operated on an April 1 to March 31 fiscal year. In July 2000, the Company announced a change in its fiscal year end to December 31 from March 31, resulting in a nine-month transition period from April 1, 2000 through December 31, 2000.

The selected financial data with respect to Cotelligent's consolidated statements of operations for the year ended December 31, 2001 and the nine months ended December 31, 2000 and with respect to the consolidated balance sheets as of December 31, 2001 and 2000 have been derived from Cotelligent's financial statements which have been audited by KPMG LLP.

The selected financial data with respect to Cotelligent's consolidated statements of operations for the years ended March 31, 1998, 1999 and 2000 and with respect to the consolidated balance sheets as of March 31, 1998, 1999 and 2000 have been derived from Cotelligent's financial statements which have been audited by Arthur Andersen LLP.

As discussed in Item 7 and Item 8 of this amended Annual Report on Form 10-K/A and in Note 2 of our consolidated financial statements, we have restated our previously audited consolidated statements for the fiscal year ended December 31, 2001 and the nine month transition period ended December 31, 2000. The effects of these restatements are reflected in this selected consolidated financial data. The following selected financial data should be read in conjunction with the financial statements, related notes and other financial information of the Company included elsewhere herein. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

SELECTED FINANCIAL DATA
(In thousands, except share data)

Statement of Operations Data (1)(2):	Year Ended December 31, Restated 2001	Year Ended December 31, Restated 2000	Nine Months Ended December 31, Restated 2000	Nine Months Ended December 31, 1999
Revenues	$ 45,447	$ 93,342	$ 66,042	$ 78,264
Cost of services	31,976	63,496	44,759	51,258
Gross profit	13,471	29,846	21,283	27,006
Research and development costs	862	-	-	-
Selling, general and administrative expenses	32,332	53,577	41,238	32,787
Impairment of long-lived assets	4,562	42,450	42,450	-
Restructuring charge	2,436	1,620	1,620	-
Non-recurring transaction costs	-	-	-	-
Operating income (loss)	(26,721)	(67,801)	(64,025)	(5,781)
Other income (expense)	(73)	(2,642)	(1,360)	(2,474)
Income (loss) before provision for income taxes	(26,794)	(70,443)	(65,385)	(8,255)
Benefit (provision) for income taxes	3,455	9,447	7,677	2,890
Income (loss) from continuing operations	(23,339)	(60,996)	(57,708)	(5,365)
Operating income (loss) from discontinued operations, net of income taxes of $ -, $1,208, $ -, $6,587, $5,379, $7,951, $8,459	-	2,244	-	(12,234)
Gain (loss) on sale of discontinued operations, net of income taxes of $ -, $12,744, $12,744	(190)	19,541	19,541	-
Income (loss) from discontinued operations	(190)	21,785	19,541	(12,234)
Net income (loss)	$ (23,529)	$ (39,211)	$ (38,167)	$ (17,599)
Earnings per share				
Basic -				
Income (loss) from continuing operations	$ (1.55)	$ (4.02)	$ (3.79)	$ (0.38)
Income (loss) from discontinued operations	(0.01)	1.44	1.28	(0.87)
Net income (loss)	$ (1.56)	$ (2.58)	$ (2.51)	$ (1.25)
Diluted -				
Income (loss) from continuing operations	$ (1.55)	$ (4.02)	$ (3.79)	$ (0.38)

Income (loss) from discontinued operations	(0.01)	1.44	1.28	(0.87)	
Net income (loss)	$ (1.56)	$ (2.58)	$ (2.51)	$ (1.25)	$
Weighted average number of shares outstanding					
Basic	15,075,546	15,173,898	15,230,969	14,060,481	14
Diluted	15,075,546	15,173,898	15,230,969	14,060,481	14

	Restated December 31,		March 31,	
	2001	2000	2000	1999
Balance Sheet Data:				
Working capital	$ 26,197	$ 36,861	$ 43,047	$ 97,614
Total assets	$ 36,080	$ 65,805	$ 159,527	$ 158,374
Long-term debt	$ -	$ -	$ 52	$ 28,191
Stockholders' equity	$ 24,964	$ 48,794	$ 85,980	$ 107,833

(1) During fiscal 1998, the Company acquired four businesses accounted for under the pooling-of-interests method (the "Pooled Companies") and has restated its financial statements for all periods to present financial data as if Cotelligent and the Pooled Companies had always been members of the same operating group. In addition, during the fiscal years ended March 31, 1998, 1999 and 2000, the Company acquired ten businesses accounted for under the purchase method (the "Purchased Companies"). The consolidated financial statements include the operating results of the Purchased Companies subsequent to their respective acquisition dates. Prior to March 31, 2000, the Company entered into a plan to divest its IT staff augmentation business. Accordingly, the accompanying financial data have been prepared to present as discontinued operations the Company's IT staff augmentation business for all periods presented.

(2) On August 8, 2000, the Company contributed cash and its Philadelphia-based operation to a joint venture, bSmart.to LLC for 50% ownership. On December 6, 2000, the Company exercised its right to terminate the relationship under the joint venture agreement, and consequently, the net assets of the Philadelphia-based operation, including cash and another subsidiary of the joint venture, JAS Concepts, reverted back to the Company. Accordingly, during the period of August 8 through December 6, 2000, the Company's investment in the joint venture was accounted for on the equity method of accounting. Prior to August 8, 2000 and after December 6, 2000, the results of the Philadelphia-based operation were consolidated with the accounts of the Company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cotelligent was formed in February 1993 to acquire, own and operate IT consulting services businesses. Cotelligent was a non-operating entity until 1996 when it first began to acquire businesses. The Company historically operated on an April 1 to March 31 fiscal year. In July 2000, the Company

changed its fiscal year to December 31, resulting in a nine-month transition period from April 1, 2000 through December 31, 2000.

Prior to March 31, 2000, the Company entered into a plan to divest its IT staff augmentation business. Accordingly, the Selected Financial Data of Cotelligent has been restated to present as discontinued operations the Company's IT staff augmentation business for all periods presented.

On August 8, 2000, the Company contributed cash and its Philadelphia-based operation to a joint venture, bSmart.to LLC, for 50% ownership. On December 6, 2000, the Company exercised its right to terminate the relationship under the joint venture agreement, and consequently, the net assets of the Philadelphia-based operation, including cash and another subsidiary of the joint venture, JAS Concepts, reverted back to the Company. Accordingly, during the period of August 8 through December 6, 2000, the Company's investment in the joint venture was accounted for on the equity method of accounting. Prior to August 8, 2000 and after December 6, 2000, the results of the Philadelphia-based operation were consolidated with the accounts of the Company.

Cotelligent provides IT consulting and also provides maintenance, support and hosting on software products it licenses. The majority of the IT consulting services are provided under time and materials billing arrangements, and revenues are recorded as work is performed. Revenues are directly related to the total number of hours billed to clients and the associated hourly billing rates. Hourly billing rates are established for each service provided and are a function of the type of work performed and the related skill level of the consultant. Revenues pursuant to fixed-fee contracts are generally recognized as services are rendered on the percentage-of-completion method of accounting based on hours incurred to total estimated labor hours to complete. In addition, the Company has developed complete mobile workforce management solutions for industries that have medium to large transient sales, field or delivery personnel. A component of these solutions may be software that has been developed by the Company. Revenues associated with software licensing, related maintenance and consulting services are recognized once a contract is signed, delivery has been made and collectibility is probable.

The Company's principal costs are professional compensation directly related to the performance of services and related expenses. Gross profits (revenues after professional compensation and related expenses) are primarily a function of hours billed to clients per professional employee or consultant, hourly billing rates of those employees or consultants and employee or consultant compensation relative to those billing rates. Gross profits can be adversely impacted if services provided cannot be billed, if the Company is not effective in managing its service activities, if fixed-fee engagements are not properly priced, if consultant cost increases exceed bill rate increases or if there are high levels of unutilized time (work activities not chargeable to clients or unrelated to client services) of full-time salaried service professional employees.

Operating income can be adversely impacted by increased administrative staff compensation and expenses related to streamlining or expanding the Company's business, which may be incurred before revenues or economies of scale are generated from such investment. Solution development activities require a higher level of selling, general and administrative activities as well as investment in research and development activities.

As a service and software organization, the Company responds to service demands from its clients. Accordingly, the Company has limited control over the timing and circumstances under which its services are provided. Therefore, the Company can experience volatility in its operating results from quarter to quarter. The operating results for any quarter are not necessarily indicative of the results for any future period.

Restatement

As previously disclosed on July 10, 2002, we terminated Arthur Andersen LLP and engaged KPMG LLP as our independent public accountants. During the course of our quarterly review for the three months ended June 30, 2002, we determined that it was necessary to engage KPMG to re-audit our consolidated financial statements for the year ended December 31, 2001 and the nine month transition period ended December 31, 2000 because we identified potential errors in those previously reported consolidated financial statements. In the course of the re-audit, we concluded that certain errors in our consolidated financial statements needed to be corrected. Accordingly, the Company has restated the consolidated financial statements as of and for the fiscal year ended December 31, 2001 and the nine months ended December 31, 2000 and the notes thereto included in this amended Annual Report on Form 10-K/A. For additional information regarding the restatement, please refer to Note 2 to the consolidated financial statements included in Item 8.

Results of Operations (in thousands)

For comparability purposes, the following discussion will make reference to comparisons between the year ended December 31, 2001 and the year ended December 31, 2000, and the nine-month periods ended December 31, 2000 and December 31, 1999. The Company believes that these comparisons are meaningful as they represent identical period-over-period comparisons.

Results for the year ended December 31, 2000, which have been restated, and the nine months ended December 31, 1999 are unaudited. The Company changed its year end to December 31 from March 31 and reported audited results for the nine month transition period ended December 31, 2000 in its Transition Report on Form 10-K.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000 (Unaudited)

Revenues

Revenues decreased during the year ended December 31, 2001 by $47,895, or 51%, to $45,447 from $93,342 in the year ended December 31, 2000. The decrease was due to a general reduction in demand for services due to softening in the market coupled with the Company's evolution from providing general IT consulting services towards offering mobile workforce management solutions.

Gross Profit

Gross profit decreased in the year ended December 31, 2001 by $16,375, or 55%, to $13,471 from $29,846 in the year ended December 31, 2000. The decrease was due to a general reduction in demand for services due to softening in the market coupled with the Company's evolution from providing general IT consulting services towards offering mobile workforce management solutions. Gross profit as a percentage of revenues decreased to 30% from 32% primarily due to lower utilization of salaried billable staff caused by a downturn in demand for services.

Research and Development Costs

Research and development costs were $862 for the year ended December 31, 2001. During the year ended December 31, 2001, the Company created a dedicated team of people solely focused on research and development activities associated with mobile workforce management and Web services solutions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased in the year ended December 31, 2001 by $21,245, or 40%, to $32,332 from $53,577 in the year ended December 31, 2000. The decrease was primarily due to the closure of three operating locations in the latter part of 2000, reductions in operating staff following the divestiture of the majority of the IT staff augmentation business, as well as the effects of other reductions in staff to streamline operations in line with revenue, a decrease in the provision for doubtful accounts receivable (which in the year ended December 31, 2000 primarily related to dot.com customers where venture capital funding had not materialized), valuation allowance established for notes receivable from officers of the Company in 2000. Selling, general and administrative expenses as a percent of revenues were 71% for the year ended December 31, 2001 compared to 57% for the same period of the prior year. Although the Company has streamlined operations, the Company continues to invest heavily in sales, marketing and business development activities as it shifts away from general IT consulting services towards offering mobile workforce management solutions.

Impairment of Long-lived Assets

During the year ended December 31, 2001, the Company recognized an impairment of long-lived assets charge for $4,562 representing a $3,430 property and equipment impairment charge and a further $1,132 property and equipment impairment charge associated with locations where the Company ceased operations.

During the year ended December 31, 2000, the Company recognized an impairment of long-lived assets charge for $42,450 representing a $37,831 goodwill impairment charge, a $2,519 write-off of investment costs associated with the bSmart.to joint venture and a $2,100 property and equipment impairment charge associated with locations where the Company ceased operations.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company considers, among other factors, deterioration of operating performance or a general reduction in demand for services for a sustainable period to be indicators of potential impairment of long-lived assets. The Company has experienced a reduction in demand for its services. As a result of this reduction in demand for its services, the Company recognized a $37,831 goodwill impairment charge in the nine months ended December 31, 2000, as the future discounted cash flows (fair value) of its certain long-lived assets were estimated to be less than the asset's related carrying value. In addition, in the same fiscal period, the Company ceased operating at certain locations as part of a plan to streamline operations and took a $2,100 impairment charge of property and equipment.

In December 2000, the Company exercised its right to terminate the bSmart.to joint venture when the Company believed that the wireless venture would require a substantial additional investment to remain viable and that making such an investment would not be in the best interest of the Company. As a result of termination of the joint venture, the Company recognized a $2,519 impairment charge related to investment costs associated with the formation of and the investment in the bSmart.to joint venture.

During the year ended December 31, 2001, the Company continued to experience a further decline in demand for its services and in September 2001, entered into a restructuring plan to further streamline operations in line with its existing revenue stream. In connection with this restructuring, the Company ceased

operations at several operating locations and recognized a $1,132 property and equipment impairment charge. This restructuring caused the Company to further test for impairment of long-lived assets, which resulted in a $3,430 property and equipment impairment charge as the future discounted cash flows of its certain long-lived assets were estimated to be less than the asset's related carrying value.

Restructuring Charge

In September 2001 and December 2000, as part of the Company's efforts to streamline its operations commensurate with its revenue base, the Company identified opportunities to reduce its cost structure by reducing headcount and closing certain operating facilities to conform to the Company's new operating structure. Accordingly, the Company adopted a restructuring plan in accordance with EITF 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." The restructuring charge of $2,436 during the year ended December 31, 2001 included provisions for severance of approximately 145 management and operating staff ($1,034) as well as closure costs associated with a plan to dispose of certain locations ($1,402). The restructuring charge of $1,620 during the year ended December 31, 2000 included provisions for severance of approximately 90 management and operating staff ($707) as well as closure costs associated with a plan to consolidate or dispose of certain locations ($913).

Other Income (Expense)

Other income (expense) primarily consists of interest income, interest expense and equity method losses on an investment in an alliance partner. Other expense was $73 for the year ended December 31, 2001 as compared to other expense of $2,642 for the year ended December 31, 2000 due to a reduction in interest expense. Interest expense decreased due to the pay-off of all debt due under the Company's Credit Agreement and an interest bearing earn-out agreement from proceeds generated on the Company's sale of the majority of the IT staff augmentation business on June 30, 2000. Subsequent to June 30, 2000, interest expense was reduced and the Company also earned interest income on the cash proceeds received from the sale on June 30, 2000 during the years ended December 31, 2000 and 2001. The benefit of reduced interest expense was offset by an increase in equity loss on an investment in an alliance partner during the year ended December 31, 2001.

Provision (Benefit) for Income Taxes

The Company realized an income tax benefit of $3,455, or an effective tax rate of 13% of pre-tax loss for the year ended December 31, 2001, compared to an income tax benefit of $9,447, or an effective tax rate of 13% for the year ended December 31, 2000. The effective tax rate was consistent between years and the difference between the effective rates and statutory rates is primarily the result of a valuation allowance against the tax benefit associated with the net operating loss generated in the year ended December 31, 2001, due to the uncertainty of realization, as it is only available to carry forward against future years' income, and the result of the valuation allowance and non-deductible impairment charges in the year ended December 31, 2000.

In the first quarter of 2002, Congress approved the Job Creation and Worker Assistance Act of 2002, allowing March 31, 2002 net operating losses to be carried back five years. Under SFAS No. 109, the effect of this change in tax law is not reflected in the December 31, 2001 financial statements as changes in tax law must be reflected in the period of enactment. Had this change in tax law been reflected in the financial statements at December 31, 2001, additional tax benefits would have been recorded.

Income (Loss) from Discontinued Operations

Discontinued operations is comprised of operations associated with the IT staff augmentation portion of the Company's business and the gain on the sale of the discontinued operations.

The income from discontinued operations of $2,244 for the year ended December 31, 2000 includes the results of the discontinued operations through March 31, 2000, the date the Company entered into a plan to discontinue such operations. In accordance with Accounting Principles Board Opinion No. 30, the results of the discontinued operations were classified as operating income (loss) from discontinued operations up through the date the Company entered into a plan to discontinue such operations, March 31, 2000.

Subsequent to March 31, 2000, the results of the discontinued operations were classified together with the gain on sale of discontinued operations.

The loss on sale of the discontinued operations of $190 for the year ended December 31, 2001 consists of the operating results of the discontinued operations, which only included one remaining component from the original plan. This loss was not anticipated under the original plan and, therefore, was not accrued for as of June 30, 2000. In addition, during the year ended December 31, 2001, the Company abandoned its plan to sell the one remaining component, and consequently, closed the business.

The gain on sale of the discontinued operations of $19,541 for the year ended December 31, 2000 consists of four separate components, including: 1) the sale of the majority of the IT staff augmentation business on June 30, 2000 for proceeds of $116,495 and the assumptions of approximately $10,000 in liabilities, 2) the sale of the IT staff augmentation operations in Orlando on July 14, 2000 for $650 and the assumption of $385 of assumed liabilities and 3) the operating results from the discontinued operations subsequent to March 31, 2000 totaling $1,455.

Nine Months Ended December 31, 2000 Compared to Nine Months Ended December 31, 1999 (Unaudited)

Revenues

Revenues decreased in the nine months ended December 31, 2000 by $12,222, or 16%, to $66,042 from $78,264 in the nine months ended December 31, 1999. The decrease was primarily due to a general reduction in demand for the Company's services and the discontinuation of revenues from the Company's Philadelphia-based operations from August 8, 2000 through December 6, 2000 while contributed to the bSmart.to joint venture and accounted for on the equity method of accounting. Partially offsetting the decrease in revenues was a 21% increase in the average billing rate.

Gross Profit

Gross profit decreased in the nine months ended December 31, 2000 by $5,723, or 21%, to $21,283 from $27,006 in the nine months ended December 31, 1999. The decrease was primarily due to a general reduction in demand for the Company's

services and the contribution of the Company's Philadelphia-based operations to the joint venture from August 8, 2000 through December 6, 2000. Gross profit as a percentage of revenues decreased from 35% to 32% due to lower utilization of salaried billable staff caused by a downturn in demand for services and the exclusion of the Philadelphia-based operations, which, contributed to the bSmart.to joint venture, had inherently higher gross profit as a percentage of revenue. The decrease was partially offset by an increase in the average billing rate.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased in the nine months ended December 31, 2000 by $8,451, or 26%, to $41,238 from $32,787 in the nine months ended December 31, 1999. The increase was primarily due to increases in employee wages and benefits incurred in the Company's effort to move towards a centralized business model which required a more robust infrastructure and was put into place prior to management's decision to divest the majority of its IT staff augmentation business. In addition, the Company increased the provision for doubtful accounts receivable (primarily related to dot.com customers where venture capital funding has not materialized), paid retention benefits to employees at locations closed, increased marketing efforts associated with the re-branding of the Company and provided a valuation allowance against notes receivable from officers and stockholders. Selling, general and administrative expenses as a percent of revenues were 62% for the nine months ended December 31, 2000 compared to 42% for the same period of the prior year. Although the Company was in the process of divesting its discontinued operations during the nine months ended December 31, 2000, selling, general and administrative expenses did not decrease as the Company continued to maintain a similar infrastructure to address and resolve various transitional issues subsequent to June 30, 2000.

Impairment of Long-lived Assets

During the nine months ended December 31, 2000, the Company recognized an impairment of long-lived assets charge for $42,450, representing a $37,831 goodwill impairment charge and a $2,519 write-off of investment costs associated with the bSmart.to joint venture and a $2,100 property and equipment impairment charge associated with locations where the Company ceased operations. The company did not record an impairment of long-lived assets charge in the nine months ended December 31, 1999.

Restructuring Charge

As described above, in December 2000, following the divestiture of the professional services segment and as part of the Company's efforts to streamline its operations commensurate with its revenue base, the Company identified opportunities to reduce its cost structure by reducing headcount and closing certain operating facilities to conform to the Company's new operating structure. Accordingly, the Company adopted a restructuring plan in accordance with EITF 94-3 and Staff Accounting Bulletin No. 100. During the nine months ended December 31, 2000, the Company recognized a $1,620 restructuring charge resulting from a thorough review of its cost structure in order to streamline its operations commensurate with its revenue base. The charge included provisions for severance of approximately 90 management and operating staff ($707) as well as closure costs associated with a plan to consolidate or discontinue certain operating locations ($913).

Other Income (Expense)

Other income (expense) primarily consists of interest expense, net of interest income and equity method losses on an investment on an investment in an alliance partner. Other expense was $1,360 for the nine months ended December 31, 2000 as compared to other expense of $2,474 for the nine months ended December 31, 1999. The decrease in other expense was due to the elimination of all obligations due under the Company's Credit Agreement and an interest bearing earn-out agreement resulting from the Company's sale of the majority of the IT staff augmentation business on June 30, 2000 which reduced interest expense. The Company also earned additional interest income on the cash proceeds received from the sale on June 30, 2000 during the nine months ended December 31, 2000. In addition the Company recognized equity method partner in July of 2000.

Provision (Benefit) for Income Taxes

The Company realized a benefit of $7,677 or an effective tax rate of 12% of pre-tax loss for the nine months ended December 31, 2000, compared to an income tax benefit of $2,890, or an effective tax rate of 35% for the nine months ended December 31, 1999. The decrease in the effective tax rate reflects recognition of a valuation allowance against the current year benefit and non-deductible impairment charges.

Income (Loss) from Discontinued Operations

Discontinued operations is comprised of operations associated with the IT staff augmentation portion of the Company's business and the gain on the sale of the discontinued operations.

The loss from discontinued operations of $12,234 for the nine months ended December 31, 1999 includes the operating results of the discontinued operations. In accordance with Accounting Principles Board Opinion No. 30, the results of the discontinued operations were classified as operating income (loss) from discontinued operations up through the date the Company entered into a plan to discontinue such operations, March 31, 2000. Subsequent to March 31, 2000, the results of the discontinued operations were classified together with the gain on sale of discontinued operations.

The gain on sale of the discontinued operations of $19,541 for the nine months ended December 31, 2000 consists of three separate components, as described above.

Liquidity and Capital Resources

The Company has historically financed its operations principally through cash flows from operations, borrowing under its credit facilities and the use the net proceeds from its public offerings.

Prior to June 30, 2000, the Company maintained a credit facility ("Credit Line") with a consortium of banks (the "Lenders") under which it borrowed to fund working capital needs. On June 30, 2000, the Company completed the sale of the majority of the IT staff augmentation business for $116,495. The Company used a portion of the cash proceeds from the sale to pay off all obligations under the Credit Line and to pay an earn-out obligation due sellers of an acquired business. Upon settlement of all obligations under the Credit Line, the Credit Line was terminated. Subsequent to June 30, 2000, the Company maintained no credit facility.

Cash used in operating activities was $9,438 for the year ended December 31,

2001. The net loss and the reduction in accounts payable and accrued expenses were the primary uses of cash for operating activities, partially offset by reductions in accounts receivable and the add back of non-cash depreciation, amortization and impairment of long-lived assets. The primary sources of liquidity for the Company going forward are the collection of its accounts receivable, the cash balances resulting from the sale of the discontinued operations and refundable federal and state income taxes resulting from the carry-back of net operating losses. Total receivables were 73 and 86 days of quarterly revenue at December 31, 2001 and December 31, 2000, respectively. At December 31, 2001, refundable income taxes were $7,008, most of which were received in the first quarter of 2002. In addition, in the first quarter of 2002, Congress approved the Job Creation and Worker Assistance Act of 2002, allowing fiscal tax year end March 31, 2002 net operating losses to be carried back five years. The effect of this change in tax law is expected to result in the Company's ability to receive additional tax refunds estimated at $7,400, which could be received late in 2002.

Other cash uses during the year ended December 31, 2001 included $440 for the purchase of property and equipment, principally for continuous upgrades to computer software and equipment, $600 for a final settlement payment due the sellers of an acquired business in connection with an earn-out payment, and $500 for total repurchases of common stock under a share repurchase program executed during the second and third quarters.

Other sources of cash during the year ended December 31, 2001 included $199 of proceeds from the issuance of common stock under the Employee Stock Purchase Plan, which was terminated in early 2002 due to reduced participation in light of a continuous decline in the number of employees remaining with the Company. In addition, the Company received $430 in note payments from the acquirer of a discontinued operation component.

Management of the Company believes that the remaining cash on hand will provide adequate cash to fund its anticipated cash working capital needs at least through next year.

Quantitative and Qualitative Disclosures about Market Risk

During the year ended March 31, 2000 and through the quarter ended June 30, 2000, the Company was exposed to market risk related to changes in interest rates on its Credit Line. The interest rate for the Credit Line was tied to the Agent's prime rate and LIBOR. The Credit Line was terminated on June 30, 2000 upon the complete payment of all of the Company's obligations under the Credit Agreement.

Recent Accounting Pronouncements

A Financial Accounting Standards Board ("FASB") staff announcement was issued in November 2001 regarding "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred." In this announcement, the FASB staff concluded that amounts billed by service providers for reimbursement of out-of-pocket expenses incurred should be characterized as revenue in the Company's income statement. Currently, the Company records revenue received on such arrangements as an offset to the expenses incurred, as these arrangements are billed at zero margin. In accordance with this announcement, the Company intends to reclassify amounts received for reimbursement of out-of-pocket expenses as revenues in its December 31, 2002 consolidated statement of operations. Management does not believe that the impact of this reclassification will have a material effect on the Company's gross margins.

Critical Accounting Policies

Allowance for Doubtful Accounts

The Company provides an allowance for potentially uncollectible accounts receivable under the provisions of SFAS No. 5, "Accounting for Contingencies", in the ordinary course of business. The allowance is derived as the result of periodic and thorough reviews of aged and known problem accounts during each quarter. In addition the Company reserves for unknown issues in its receivables at the balance sheet date using a formula consistent from quarter to quarter. Management believes that its approach is appropriate to reserve for potentially uncollectible receivables. Should management have taken another approach to developing its reserve, the allowance for doubtful accounts may have been different than that reported.

Revenue Recognition

The Company accounts for time and materials revenue under the provisions of SAB 101, "Staff Accounting Bulletin No. 101: Revenue Recognition in Financial Statements", which requires revenue to be recorded when there is evidence of an agreement, a fixed or determinable fee, collectibility is reasonably assured, and delivery has occurred. Revenues exclude reimbursable expenses charged to and collected from clients. Revenues pursuant to fixed-fee contracts are generally recognized as services are rendered on the percentage-of-completion method of accounting based on hours incurred to total estimated labor hours to complete. Revenues earned for software license sales and service contracts are recorded based on the provisions of AICPA SOP 97-2, "Software Revenue Recognition", which shares the basic criteria of SAB No. 101.

Restructuring Liabilities

As part of the Company's efforts to streamline its operations commensurate with its revenue base, the Company identified opportunities to reduce its cost structure by reducing headcount and closing certain operating facilities to conform to the Company's changing operating structure in June 1999, December 2000 and September 2001. These restructuring obligations were calculated using information known at the date of the respective accruals based on the provisions of EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges". Management has adjusted these obligations over the payment periods of each restructuring plan as liabilities have been settled and payments have been made.

Accounting for Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimated are based on historical results adjusted to reflect our best estimate of future market and operating conditions. Any material change affecting the assumptions used to project the estimated undiscounted cash flows or our expectation of future market conditions could result in a different conclusion. Assets for which the carrying value is not fully recoverable are reduced to fair value.

Accounting for Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". This pronouncement requires using an asset and liability approach to recognize deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates to differences

between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company has not given benefit to any deferred tax assets or net operating losses in the previous two fiscal years due to uncertainty of realizing these assets in future periods. In addition, the financial statements have provided reserves for certain tax positions taken by the Company in the March 31, 1999, 2000, and 2001 tax returns based on enacted tax laws during those periods. In the first quarter of 2002, Congress approved the Job Creation and Worker Assistance Act of 2002, allowing March 31, 2002 net operating losses to be carried back five years. Under SFAS No. 109, the effect of this change in tax law is not reflected in the December 31, 2001 financial statements as changes in tax law must be reflected in the period of enactment. Had this change in tax law been reflected in the financial statements at December 31, 2001, additional tax benefits would have been recorded.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Cotelligent, Inc.:

We have audited the accompanying consolidated balance sheets of Cotelligent, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2001, and the nine months ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated statements of operations, stockholders' equity and cash flows of Cotelligent, Inc. and subsidiaries for the year ended March 31, 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 21, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cotelligent, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the year ended December 31, 2001, and the nine months ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company has restated the consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2001, and the nine months ended December 31, 2000, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

/s/ KPMG LLP

Costa Mesa, CA
December 6, 2002

The audit report of Arthur Andersen LLP, our former independent public accountants, which is set forth below, is included in this amended Annual Report on Form 10-K/A for purposes only of including the opinion of Arthur Andersen LLP on our financial statements for the year ended March 31, 2000. Our financial statements for the fiscal year ended December 31, 2001 and the nine month transition period ended December 31, 2000 have been re-audited by and are reported on by KPMG LLP at page 27 of this amended Annual Report on Form 10-K/A. As a result of this re-audit, you should not rely upon Arthur Andersen LLP's opinion set forth below on the financial statements for the year ended December 31, 2001 and the nine month transition period ended December 31, 2000.

The audit report set forth below is a copy of the original audit report dated March 21, 2002 rendered by Arthur Andersen LLP that was included in our Annual Report on Form 10-K filed on March 29, 2002, and has not been reissued by Arthur Andersen LLP since that date. We are including this copy of the March 21, 2002 Arthur Andersen LLP audit report pursuant to Rule 2-02(e) of Regulation S-X under the Securities Act of 1933. Your ability to assert claims against Arthur Andersen LLP based on its report may be limited.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cotelligent, Inc.:

We have audited the accompanying consolidated balance sheets of Cotelligent, Inc. and subsidiaries (a Delaware corporation) as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cotelligent, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

San Francisco, California
March 21, 2002

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

ASSETS

Current assets:
- Cash and cash equivalents ....
- Refundable income taxes ....
- Accounts receivable, including unbilled accounts of $1,627 and $4,043 and net of allowance for doubtful accounts of $533 and $3,241, respectively ....
- Deferred tax assets ....
- Current assets of discontinued operations ....
- Notes receivable from officers and stockholder, net of valuation allowance of $1,703 and $1,703, respectively ....
- Current portion of note receivable from acquirer of discontinued operation ....
- Prepaid expenses and other current assets ....

Total current assets ....

Property and equipment, net ....

Note receivable from acquirer of discontinued operation ....

Equity investment in alliance partner ....

Deferred tax asset ....

Other assets ....

Total assets ....

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
- Accounts payable ....
- Accrued compensation and related payroll liabilities ....
- Restructuring liabilities ....
- Current liabilities of discontinued operations ....
- Deferred revenue ....
- Income tax payable ....
- Other accrued liabilities ....

Total current liabilities ....

Restructuring liabilities, net of current portion ....

Other long-term liabilities ....

Income tax payable ....

Total liabilities ....

Commitments, contingencies and subsequent events

Stockholders' equity:
- Preferred Stock, $0.01 par value; 500,000 shares authorized, no shares issued or outstanding ....
- Common Stock, $0.01 par value; 100,000,000 shares authorized, 15,514,757 and 15,349,630 shares issued, respectively ....
- Additional paid-in capital ....
- Notes receivable from stockholders ....

Accumulated deficit	
Treasury Stock	
Total stockholders' equity	
Total liabilities and stockholders' equity	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

	Year Ended December 31, 2001 (Restated)	N
Revenues	$ 45,447	$
Cost of services	31,976	
Gross profit	13,471	
Research and development costs	862	
Selling, general and administrative expenses	32,332	
Impairment of long-lived assets	4,562	
Restructuring charge	2,436	
Operating loss	(26,721)	
Other income (expense):		
Interest expense	(119)	
Interest income	945	
Other	(899)	
Total other income (expense)	(73)	
Loss from continuing operations before income taxes	(26,794)	
Benefit for income taxes	3,455	
Loss from continuing operations	(23,339)	
Operating income (loss) from discontinued operations less provision (benefit) for income taxes of $ -, $ -, and ($5,379)	-	
Gain (loss) on sale of discontinued operations, net of income taxes of $-, $12,744 and $-	(190)	
Income (loss) from discontinued operations	(190)	
Net loss	$ (23,529)	$
Earnings per share:		
Basic and diluted -		
Loss from continuing operations	$ (1.55)	$
Income (loss) from discontinued operations	(0.01)	

Net loss	$ (1.56)	$
Basic and diluted weighted average number of shares outstanding	15,075,546	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In	Notes Receivable from	Retained Earnings (Accumulate
	Shares	Amount	Capital	Stockholders	Deficit)
Balance at March 31, 1999	14,489,510	$ 145	$ 93,667	$ -	$ 25,17
Issuance of Common Stock, net of costs	1,045,099	11	8,062	(6,149)	
Tax benefit on stock options exercised	-	-	38	-	
Repurchase of Common Stock ...	-	-	-	-	
Re-issuance of Treasury Stock	-	-	(13,635)	-	
Return of Common Stock previously issued to acquire company	(469,209)	(5)	(2,690)	-	
Net loss	-	-	-	-	(18,64
Balance at March 31, 2000	15,065,400	151	85,442	(6,149)	6,53
Issuance of Common Stock, net of costs	209,230	2	739	(332)	
Shares issued in connection with earn-out to sellers of acquired businesses	100,000	1	571	-	
Return of shares issued under note receivable from stockholder	(25,000)	(1)	(112)	113	
Warrants issued in connection with investment in joint venture - Restated	-	-	900	-	
Warrants cancelled in connection with dissolution of joint venture	-	-	(900)	-	
Net loss - Restated	-	-	-	-	(38,16
Balance at December 31, 2000 - Restated	15,349,630	153	86,640	(6,368)	(31,63
Issuance of Common Stock, net of costs	215,127	3	196	-	
Cancellation of LSPP Note	(50,000)	(1)	(174)	175	
Purchase of Treasury Shares ..	-	-	-	-	

Net loss - Restated	-	-	-	-	(23,52
Balance at December 31, 2001 - Restated	15,514,757	$ 155	$ 86,662	$ (6,193)	$ (55,16

	Total Stockholders' Equity
Balance at March 31, 1999	$ 107,833
Issuance of Common Stock, net of costs	1,924
Tax benefit on stock options exercised	38
Repurchase of Common Stock ...	(2,477)
Re-issuance of Treasury Stock	-
Return of Common Stock previously issued to acquire company	(2,695)
Net loss	(18,643)
Balance at March 31, 2000	85,980
Issuance of Common Stock, net of costs	409
Shares in connection with earn-out to sellers of acquired businesses	572
Return of shares issued under note receivable from stockholder	-
Warrants issued in connection with investment in joint venture - Restated	900
Warrants cancelled in connection with dissolution of joint venture	(900)
Net loss - Restated	(38,167)
Balance at December 31, 2000 - Restated	48,794
Issuance of Common Stock, net of costs	199
Cancellation of LSPP Note	-
Purchase of Treasury Shares ..	(500)
Net loss - Restated	(23,529)
Balance at December 31, 2001 - Restated	$ 24,964

See accompanying notes to consolidated financial statement

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	Year Ended December 31, 2001 (Restated)	Nine Mo Dece (Re
Cash flows from operating activities:		
Loss from continuing operations	$ (23,339)	$
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	2,634	
Impairment of long-lived assets	4,562	
Fair value of common stock issued to seller of acquired business in connection with forbearance agreement	-	
Equity loss from investments	919	
Deferred income taxes, net	2,745	
Loss on disposal of property and equipment	5	
Provision of doubtful accounts	904	
Valuation allowance on notes receivable from officers	-	
Loss on forgiveness of note receivable from acquirer of discontinued operation	400	
Changes in current assets and liabilities:		
Accounts receivable	12,896	
Prepaid expenses and other current assets	581	
Accounts payable and accrued liabilities	(6,280)	
Deferred revenue	781	
Income taxes, net	(6,264)	
Changes in other assets	18	
Net cash used in operating activities	(9,438)	
Cash flows from investing activities:		
Proceeds from sale of assets	-	
Investments in alliance partners	-	
Cash acquired upon dissolution of joint venture	-	
Payment received on note from acquirer of discontinued operation	430	
Purchase of businesses, net of cash of acquired	-	
Purchases of property and equipment	(440)	
Net cash used in investing activities	(10)	
Cash flows from financing activities:		
Borrowing under credit agreement	-	
Payments under credit agreement	-	
Payments on capital lease obligations	(12)	
Payments on amounts due sellers of acquired businesses	(600)	
Net borrowings on short-term debt	-	
Net repayments (borrowings) on notes receivable from officers	-	
Net proceeds from issuance of common stock	199	
Repurchase of common stock	(500)	
Net cash provided by (used in) financing activities	(913)	
Cash flows provided by discontinued operations:		
Cash provided by discontinued operations	2,639	
Net increase (decrease) in cash and cash equivalents	(7,722)	

Cash and cash equivalents at beginning of period	26,500	
Cash and cash equivalents at end of period	$ 18,778	$

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands, except share data)

	Year Ended December 31, 2001	Nine M Dece
	(Restated)	(Re
Supplemental disclosures of cash flow information:		
Interest paid	$ 2	$
Income taxes paid	74	
Significant non-cash transactions:		
Fair market value of Common Stock issued to acquire businesses	-	
Return of shares previously issued to acquire business	-	
Adjustments to purchase price of businesses acquired in prior years	-	
Common stock issued to employees for notes receivable	-	
Return of Common Stock previously issued to employee for note receivable	175	
Sale of discontinued operation for note receivable	-	

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (In Thousands, Except Share Data)

Note 1 - Business Organization

Cotelligent, Inc. ("Cotelligent" or the "Company"), a Delaware corporation, provides software consulting services to businesses with complex information technology ("IT") operations and provides maintenance, support and contract services on software products it licenses. These financial statements include the accounts of Cotelligent, Inc. and its subsidiaries.

During the fiscal year ended March 31, 2000, the Company was organized in two practice groups, Technology Solutions and Professional Services (also known as its IT staff augmentation business), and operated across the United States along with international consultant recruiting offices in Brazil and the Philippines. Prior to March 31, 2000, the Company entered into a plan to divest its IT staff augmentation business. Accordingly, the accompanying consolidated financial statements and related footnotes have been prepared to present as discontinued operations the Company's IT staff augmentation business for all periods

presented.

The Company historically operated on an April 1 to March 31 fiscal year. In July 2000, the Company changed its fiscal year to December 31, resulting in a nine-month transition period from April 1, 2000 through December 31, 2000.

The Company has suffered significant operating losses as well as negative operating cash flows in the last three fiscal periods and continues to be subject to certain risks common to companies in this industry. These uncertainties include the availability of financing, the retention of and dependence on key individuals, the affects of intense competition, the ability to develop and successfully market new product and service offerings, and the ability to streamline operations and increase revenues. There can be no assurance the Company will be profitable in the future.

Note 2 - Restatement

Our previously issued consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2001 and for the nine month transition period ended December 31, 2000 have been restated for the items described below.

Nine Months Ended December 31, 2000

Discontinued Operations

The majority of the discontinued IT staff augmentation business was sold on June 30, 2000 and the remaining portion of the business was sold or abandoned during a phase-out period ending on or about December 31, 2001, as described in Note 13. The consolidated financial statements were revised with respect to the accounting for the discontinued operations. Accordingly, current assets of discontinued operations, current liabilities of discontinued operations, notes receivable from acquirer of discontinued operations (current and long term), and prepaid expenses and other current assets were adjusted on the consolidated balance sheet. In addition, selling, general and administrative expenses, interest income, benefit for income taxes, operating income from discontinued operations and gain on sale of discontinued operations have been adjusted on the consolidated statement of operations.

The revisions resulted from (i) re-establishing net assets previously written off at June 30, 2000 for certain components of the discontinued segment that were not sold at that time and removing such net assets from the computation of the gain on sale of discontinued operations, (ii) removing the operations of these components during the phase-out period from a divestiture accrual initially recorded on June 30, 2000 and recording the operations as a component of the gain on sale of discontinued operations in accordance with APB No. 30, (iii) recording a promissory note received from former employees upon the sale of the international component of the discontinued operations at fair value, instead of at face value, resulting in a smaller gain on sale of discontinued operations, recognizing payments received on the note as a reduction of principal rather than as interest income since future collectibility was not reasonably assured, and reclassifying the current and long-term portions of the note receivable due to the aforementioned revisions, (iv) expensing unrecoverable costs related to the discontinued operations, which were initially capitalized in prepaid expenses and other current assets, (v) reducing the divestiture liability initially recorded on June 30, 2000, which increased the gain on sale of discontinued operations at June 30, 2000 and reversing operating expenses subsequently charged against the divestiture accrual or the gain on sale of discontinued operations and recording them to the appropriate line item within the consolidated statement of operations, (vi) classifying operating income (loss) from discontinued operations as a component of the gain on sale of

discontinued operations in accordance with APB No. 30 instead of as a separate line item within the consolidated statement of operations.

Investment in Joint Venture

Revenue and cost of services were reduced for services contributed to the bSmart.to LLC joint venture (bSmart) described in Note 7. The costs of the services were recorded as an increase to the bSmart investment. Also, the investment in bSmart and additional paid-in capital was reduced to reflect the cancellation of warrants originally issued to the bSmart.to joint venture partner. In 2000, bSmart was dissolved and the Company's investment in bSmart was impaired and written off.

Notes Receivable from Officers and Stockholders

The Company reclassified a valuation allowance on the notes receivable from officers and stockholder previously reported in other accrued liabilities against the notes receivable to properly reflect the notes at their net realizable value. Interest expense originally recorded on the notes was reversed, as collectibility was not reasonably assured.

An additional valuation allowance on notes receivable from officers and stockholder was recorded to selling, general and administrative expense to reduce the carrying amount to net realizable value (zero).

Equity Investment in Alliance Partner

The investment in Whitehorse described in Note 7 resulted in a difference between the carrying amount of the investment and the Company's share of the equity of Whitehorse. This difference, which is similar to goodwill, was not amortized in accordance with APB No. 18. Therefore, the restated financial statements reflect the amortization expense. Equity method losses were also increased and the revised amount, along with the amortization, is now included in other expense in the restated consolidated statement of operations. Both of these adjustments resulted in a reduction of the equity investment in alliance partner.

Accrued Liabilities

Accrued compensation and related payroll liabilities and selling, general and administrative expense were reduced for the over accrual of compensation costs.

Restructuring liabilities and related charges, as described in Note 11, were reduced to comply with EITF 94-3 and SAB No. 100. Also, an asset impairment charge, originally recorded as a restructuring charge, was reclassified to impairment of long-lived assets.

Included in other accrued liabilities and other long-term liabilities is a contractual obligation payable to sellers of an acquired business that does not have a stated interest rate. The financial statements have been revised to impute interest on the obligation in accordance with APB No. 21. The correction reduced the carrying amount of the obligation and the goodwill associated with the purchase of the business, which was ultimately impaired and written off in the nine months ended December 31, 2000. Accreted interest increased the original liability and increased interest expense in subsequent periods.

Included in other accrued liabilities was an over accrual related to an earn-out provision of a business combination. This amount was reversed, which reduced other accrued liabilities and the impairment of long-lived assets since the goodwill had already been written off.

Income Taxes

The tax provision was adjusted for i) the impact of adjustments described above, ii) recognition of a net operating loss benefit that was previously reported in the year ended December 31, 2001 and iii) an adjustment to the originally reported deferred tax assets and liabilities based on a revised computation.

Other
Several reclassifications and smaller adjustments were made for bookkeeping items.

The consolidated statement of cash flows was revised for the above adjustments.

Year Ended December 31, 2001

The December 31, 2001 balance sheet was restated to give effect to accumulated prior period adjustments and their related tax impacts, which are described above.

Allowance For Doubtful Accounts
Allowance for doubtful accounts was reduced to properly reflect accounts receivable at net realizable value, resulting in a reduction to selling, general and administrative expense.

Capitalized Software Development Costs
Previously capitalized software costs were written off to research and development costs because the Company had not met the technological feasibility requirements of SFAS No. 86.

Property and Equipment
Property and equipment was written off to impairment of long-lived assets as the fair value of the assets under the provisions of SFAS No. 121 was determined to be zero.

Equity Investment in Alliance Partner
Amortization of the difference between the Company's investment in Whitehorse and its underlying share of Whitehorse's equity and the appropriate amount of equity method losses were recorded to other expense, further reducing the equity investment in alliance partner in 2001.

Accrued Liabilities
Included in other accrued liabilities is a contractual obligation payable to sellers of an acquired business. Accreted interest not previously recognized was recorded to increase the liability and interest expense.

Restructuring liabilities and related charges, as described in Note 11, were reduced to comply with EITF 94-3 and SAB No. 100. Also, an asset impairment charge, originally recorded as a restructuring charge, was reclassified to impairment of long-lived assets.

The divestiture liability and the gain on sale of discontinued operations have been adjusted to record the operations of discontinued operations during the phase-out period as a component of the gain on sale of discontinued operations and several amounts incorrectly charged against the divestiture liability were corrected and expensed primarily to selling, general and administrative expense.

Revenue and Deferred Revenue
Revenue was reduced and deferred revenue was increased to properly reflect the progress on certain fixed priced consulting contracts.

Income Taxes
The tax provision was adjusted for i) the impact of adjustments described above, ii) recognition of a net operating loss benefit in the restated consolidated statement of operations for the nine months ended December 31, 2000, which was originally reported in the year ended December 31, 2001 and iii) an adjustment to the originally reported deferred tax assets and liabilities based on a revised computation.

Other
Several reclassifications and smaller adjustments were made for bookkeeping items.

The consolidated statement of cash flows was revised for the above adjustments.

The following tables present the changes that have been made to the consolidated statement of operations and cash flows for the year ended December 31, 2001 and the nine months ended December 31, 2000 as well as the consolidated balance sheets as of December 31, 2001 and 2000 as a result of the restatement.

	As Previously Reported
	December 3
Consolidated Balance Sheet:	
Accounts receivable, net of allowance for doubtful accounts	$ 19,229
Deferred tax assets	1,435
Current assets of discontinued operations	--
Notes receivable from officers and stockholder, net of valuation allowance...	1,703
Current portion of note receivable from acquirer of discontinued operation...	--
Prepaid expenses and other current assets	1,916
Total current assets	50,783
Note receivable from acquirer of discontinued operation	4,459
Equity investment in alliance partner	2,047
Deferred tax asset	--
Other assets	664
Total assets	64,714
Accounts payable	2,047
Accrued compensation and related payroll liabilities	5,826
Restructuring liabilities	2,136
Current liabilities of discontinued operations	--
Income tax payable	--
Other accrued liabilities	6,519
Total current liabilities	16,528
Other long-term liabilities	1,000
Deferred taxes	1,435
Total liabilities	19,711
Stockholders' equity:	
Additional paid-in capital	86,866
Accumulated deficit	(35,648)
Total stockholders' equity	45,003
Total liabilities and stockholders' equity	64,714

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	As Previously Reported	Restated
	For the Nine Months Ended December 31, 2000	
Consolidated Statement of Operations:		
Revenues	$ 66,292	$ 66,042
Cost of services	44,884	44,759
Gross profit	21,408	21,283
Selling, general and administrative expenses	39,777	41,238
Impairment of long-lived assets	41,478	42,450
Restructuring charge	4,200	1,620
Operating loss	(64,047)	(64,025)
Other income (expense):		
Interest expense	(1,564)	(2,237)
Interest income	1,194	1,123
Other	47	(246)
Total other income (expense)	(323)	(1,360)
Loss from continuing operations before income taxes	(64,370)	(65,385)
Benefit for income taxes	9,334	7,677
Loss from continuing operations	(55,036)	(57,708)
Operating income (loss) from discontinued operations	2,889	--
Gain on sale of discontinued operations	9,963	19,541
Income (loss) from discontinued operations	12,852	19,541
Net loss	(42,184)	(38,167)
Earnings per share:		
Basic and diluted -		
Loss from continuing operations	(3.61)	(3.79)
Income (loss) from discontinued operations	0.84	1.28
Net loss	(2.77)	(2.51)

	As Previously Reported	Restated
	For the Nine Months Ended December 31, 2000	
Consolidated Statement of Cash Flows:		
Net cash used in operating activities	$ (9,782)	$ (7,319)
Net cash used in investing activities	(7,875)	(8,593)
Net cash used in financing activities	(56,926)	(57,005)
Cash provided by discontinued operations	96,289	94,623

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As Previously
Reported

	December 3
Consolidated Balance Sheet:	
Current assets:	
Accounts receivable, net of allowance for doubtful accounts	$ 4,660
Deferred tax assets	13
Current assets of discontinued operations	--
Notes receivable from officers and stockholder, net of valuation allowance....	1,829
Current portion of note receivable from acquirer of discontinued operation....	525
Prepaid expenses and other current assets	1,022
Total current assets	33,835
Capitalized software costs, net	862
Property and equipment, net	3,430
Note receivable from acquirer of discontinued operation	3,508
Equity investment in alliance partner	1,860
Other assets	157
Total assets	43,652
Accounts payable	1,535
Accrued compensation and related payroll liabilities	2,217
Restructuring liabilities	1,334
Deferred revenue	420
Other accrued liabilities	5,942
Total current liabilities	11,448
Restructuring liabilities, net of current portion	--
Other long-term liabilities	538
Deferred taxes	13
Total liabilities	14,617
Stockholders' equity:	
Additional paid-in capital	86,888
Accumulated deficit	(51,315)
Total stockholders' equity	29,035
Total liabilities and stockholders' equity	43,652

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	As Previo Report Fo D
Consolidated Statement of Operations:	
Revenues	$ 45,90
Gross profit	13,92
Research and development costs	
Selling, general and administrative expenses	32,51
Impairment of long-lived assets	
Restructuring charge	3,37
Operating loss	(21,95
Other income (expense):	
Interest expense	(
Interest income	1,41
Other	(16
Total other income (expense)	1,24

Loss from continuing operations before income taxes	(20,70
Benefit for income taxes	5,07
Loss from continuing operations	(15,63
Operating income (loss) from discontinued operations	(3
Loss on sale of discontinued operations	
Income (loss) from discontinued operations	(3
Net loss	(15,66
Earnings per share:	
Basic and diluted -	
Loss from continuing operations	(1.0
Income (loss) from discontinued operations	
Net loss	(1.0

	As Previo Report ------ Fo D -
Consolidated Statement of Cash Flows:	
Net cash used in operating activities	$ (6,99
Net cash used in investing activities	(1,24
Net cash used in financing activities	(1,20
Cash provided by discontinued operations	1,72

Note 3 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts and results of Cotelligent, Inc. and its subsidiaries. In addition, the consolidated financial statements and related notes include those companies acquired utilizing the purchase method of accounting from their respective acquisition dates. All significant intercompany transactions and accounts have been eliminated.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. Receivables arising from services provided to clients are not collateralized and accordingly, the Company performs ongoing credit evaluations of its clients to reduce the risk of loss and provides a reserve for potentially uncollectible

accounts.

Software Development Costs

Costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional costs are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or otherwise Marketed". Because the Company believes that its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no software development has been capitalized as of December 31, 2001 and 2000.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the respective assets.

Goodwill

In prior periods, goodwill represented the excess of cost over fair value of net tangible assets acquired through acquisitions and was previously amortized on a straight-line basis over a period of 30 years.

Investments

Investments in other businesses where ownership is less than 20% are accounted for using the cost basis of accounting. Investments where ownership is between 20% and 50%, and where the Company has the ability to exercise significant influence, are accounted for using the equity method of accounting. Any difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized to the consolidated statement of operations over the expected life of the investment, currently three years.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying amount of long-lived assets to determine whether or not impairment to such amount has occurred.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, refundable income taxes, short-term accounts receivable, a note receivable, accounts payable and accrued liabilities for which current carrying amounts are equal to or approximate fair market value.

Revenue Recognition

The Company accounts for time and materials revenue under the provisions of SAB 101, "Staff Accounting Bulletin No. 101: Revenue Recognition in Financial Statements," which requires revenue to be recorded when there is evidence of an agreement, a fixed or determinable fee, collectibility is reasonably assured, and delivery has occurred. Revenues exclude reimbursable expenses charged to and collected from clients. Revenues pursuant to fixed-fee contracts are generally recognized as services are rendered on the percentage-of-completion method of accounting based on hours incurred to total estimated labor hours to complete. Revenues earned for software license sales and service contracts are recorded based on the provisions of AICPA SOP 97-2, "Software Revenue Recognition," which shares the basic criteria of SAB No. 101.

Cost of Services
Cost of services expenses consist primarily of compensation and benefits of Cotelligent's employees engaged in the delivery of consulting services.

Income Taxes
The Company uses the asset and liability method of accounting for income taxes. Provision is made in the Company's consolidated financial statements for current income taxes payable and deferred income taxes arising primarily from net operating loss carryforwards and temporary differences. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recorded a valuation allowance to reduce deferred tax assets to an amount whose realization is more likely than not. Refer to Note 12 - Income Taxes.

Repurchase of Common Stock
The Company records the repurchase of Common Stock as a reduction of stockholders' equity at cost. When common shares are reissued, the Company uses a first-in, first-out method.

Earnings Per Share
Basic earnings per share is calculated by dividing net income by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share includes the impact of Common Stock options outstanding, when dilutive.

Discontinued Operations
Discontinued operations consist of the Company's IT staff augmentation business. The Company entered into a plan to divest of these operations prior to March 31, 2000. The operating results of these operations subsequent to April 1, 2000, have been reflected in the accompanying consolidated financial statements as gain or loss on the sale of discontinued operations. Subsequent to June 30, 2000, the net assets of the remaining component of the segment are reflected in the accompanying consolidated financial statements as current assets and current liabilities of discontinued operations.

Restructuring Charges
Restructuring charges are recognized in the period when management enters into a plan to reorganize or streamline the operations. The charges include costs associated with the termination of employees and the closure of operating locations. Restructuring charges not resulting in a future benefit that do not qualify for accrual under EITF 94-3 or SAB No. 100 are recorded when due and payable.

Recent Accounting Pronouncements
A Financial Accounting Standards Board ("FASB") staff announcement was issued in November 2001 regarding "Income Statement Characterization of Reimbursement Received for `Out-of-Pocket' expenses Incurred." In this announcement, the FASB staff concluded that amounts billed by service providers for reimbursement of out-of-pocket expenses incurred should be characterized as revenue in the Company's income statement. Currently, the Company records revenue received on such arrangements as an offset to the expenses incurred, as these arrangements are billed at zero margin. In accordance with this announcement, the Company intends to reclassify amounts received for reimbursement of out-of-pocket expenses as revenues in its December 31, 2002 income statement. Management does not believe that the impact of this reclassification will have a material effect on the Company's gross margins.

Reclassifications
Certain reclassifications have been made in the prior years' financial statements to conform to the presentation in the current period.

Note 4 - Business Combinations

During the year ended March 31, 2000, Cotelligent acquired one company accounted for under the purchase method for aggregate consideration of $2,800 (100,758 shares issued at fair market value of $500 and $2,300 of cash). Total assets acquired related to this acquisition were $1,481, which resulted in the recognition of goodwill of $2,085. The results of this acquisition have been included in the Company's results from its respective acquisition date.

Pro forma Statement of Operations
The following pro forma consolidated statement of operations for the year ended March 31, 2000 gives effect to the acquisition of the business during that fiscal year as if this acquisition was made on April 1, 1999. The pro forma consolidated income statement reflects adjustments for interest expense on cash consideration and amortization of goodwill.

	(Unaudited) Year Ended March 31, 2000
Revenues	$ 108,608
Cost of services	72,152
Gross profit	36,456
Selling, general and administrative expenses	46,339
Operating loss	(9,883)
Other expense	(3,922)
Loss from continuing operations before income taxes	(13,805)
Benefit for income taxes	4,660
Loss from continuing operations	$ (9,145)
Basic and diluted loss from continuing operations per share	$ (0.64)
Basic and diluted weighted average shares	14,340,538

Note 5 - Allowance for Doubtful Accounts

Allowance for doubtful accounts activity is presented below.

Balance, March 31, 1999	$ 1,449
Balance of newly acquired companies' allowance for accounts at acquisition	174
Charges to costs and expenses	818
Write-offs	(561
Balance, March 31, 2000	1,880
Charges to costs and expenses	3,610

Write-offs	(2,249
Balance, December 31, 2000 - Restated	3,241
Charges to costs and expenses	904
Write-offs	(3,612
Balance, December 31, 2001 - Restated	$ 533

Note 6 - Property and Equipment

Property and equipment is comprised of the following:

	December 31, 2001	December 3 2000
Computer and office equipment	$ --	$ 10,5
Furniture and fixtures	--	1,7
Leasehold improvements	--	1,1
	--	13,4
Less: Accumulated depreciation	--	(6,6
Property and equipment, net of accumulated depreciation.....	$ --	$ 6,7

Depreciation is provided on the estimated useful lives of the respective assets(ranging from three to ten years). Leasehold improvements are amortized over the useful life of the improvements or the term of the lease, which ever is shorter. Depreciation expense of property and equipment, included in selling, general and administrative expense, for the twelve months ended December 31, 2001 and the nine months ended December 31, 2000 was $2,634 and $1,839, respectively.

The Company recognized a $4,562 impairment of property and equipment charge during the year ended December 31, 2001, under the provisions of SFAS No. 121.

Note 7 - Investments

During the fiscal period ended December 31, 2000, the Company made two investments as follows:

Investment in White Horse Interactive

On July 18, 2000, the Company paid $2,000 to acquire a 35% ownership interest in White Horse Interactive, an integrated media agency, which resulted in a difference between the cost of the investment and the amount of underlying equity in net assets totaling

$1,300. The Company uses the equity method of accounting for this investment and recorded an equity loss, including the amortization of the difference between the cost of the investment and the amount of underlying equity in the net assets, of $234 for the nine months ended December 31, 2000, and an equity loss

of $919 for the year ended December 31, 2001.

Investment in bSmart.to LLC
On August 8, 2000, the Company executed a definitive joint venture agreement with bSmart.to Technologies, Inc. The Company contributed: (1) cash of $5,000, of which $2,500 was paid directly to the joint venture and $2,500 was distributed to the developer of certain technology, and (2) its Philadelphia-based IT solutions staff and ASP data center and, accordingly, reclassified $1,200 of working capital and property and equipment as well as $10,073 of goodwill, in exchange for a 50% interest in the joint venture. In addition, the Company incurred approximately $2,040 in transaction costs that were capitalized as a part of its investment in the joint venture. In connection with the investment in the joint venture with bSmart.to Technologies, Inc., the Company issued to and received from bSmart.to Technologies, Inc. warrants for the purchase of common shares. Accordingly, the Company recognized an additional investment of $900 for the warrants issued to bSmart.to Technologies, Inc., and a corresponding amount in additional paid-in capital.

On December 6, 2000, the Company exercised its right under the joint venture agreement to terminate the relationship. As a result, the Company regained complete ownership of the Philadelphia-based operation, including $1,281 in cash and more working capital than originally contributed, 100% ownership in JAS Concepts, Inc., an investment made by the joint venture prior to its dissolution, and consequently, recognized a charge of $2,519 to reduce the investment in the joint venture to its realizable value (zero). The charge is included in impairment of long-lived assets in the statement of operations for the nine months ended December 31, 2000.

During the period August 8, 2000 through December 6, 2000 the Company used the equity method of accounting for this investment and recorded an equity loss of $33 for the nine months ended December 31, 2000. The Company commenced consolidating the results from the Philadelphia-based operation upon regaining a controlling financial interest on December 6, 2000.

Note 8 - Other Current Liabilities

	December 3 2001
Current portion of obligation due sellers of an acquired business, net of discount for imputed interest	$ 330
Accrual for obligations due sellers of acquired businesses	492
Other accrued liabilities	1,252
Total other current liabilities	$ 2,074

Note 9 - Other Long-Term Liabilities

	December 3 2001

Long-term portion of obligation due sellers of an acquired business, net of discount for imputed interest, net of current portion	$ 426
Lease deposits on sublet properties	39
Total other long-term liabilities	$ 465

Note 10 - Impairment of Long-lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company considers, among other factors, deterioration of operating performance or a general reduction in demand for services for a sustainable period to be indicators of potential impairment of long-lived assets. The Company has experienced a reduction in demand for its services. As a result of this reduction in demand for its services, the Company recognized a $37,831 goodwill impairment charge in the nine months ended December 31, 2000, as the future discounted cash flows (fair value) of its certain long-lived assets were estimated to be less than the asset's related carrying value. In addition, in the same fiscal period, the Company ceased operating at certain locations as part of a plan to streamline operations and took a $2,100 impairment charge of property and equipment and also took a $2,519 write-off of its investment in bSmart.to (see Note 7).

During the year ended December 31, 2001, the Company continued to experience a further decline in demand for its services and in September 2001, entered into a restructuring plan to further streamline operations in line with its existing revenue stream. In connection with this restructuring, the Company ceased operations at several operating locations and recognized a $1,132 property and equipment impairment charge. This restructuring caused the Company to further test for impairment of long-lived assets, which resulted in a $3,430 property and equipment impairment charge as the future discounted cash flows (fair value) of its property and equipment were estimated to be less than the related carrying value.

Note 11 - Restructuring Programs

In June 1999, as part of the Company's reorganization into practice groups, the Company identified opportunities to align its operating structure by closing certain of its redundant facilities and rationalizing headcount to conform to the Company's new operating structure. Accordingly, the Company adopted a restructuring plan, which resulted in a restructuring charge of $4,920. The charge included provisions for severance of approximately 60 management and operating staff ($3,510) as well as closure costs related to a plan of consolidating certain operating locations ($1,410). The change was originally recorded as an operating expense in June 1999. Upon the Company's decision to discontinue its IT staff augmentation segment the amount was reclassified to discontinued operations, as all charges related to severance or other activities of the discontinued operations (see Note 13).

In December 2000 and September 2001, as part of the Company's efforts to streamline its operations commensurate with its revenue base, the Company identified additional opportunities to reduce its cost structure. Accordingly, the Company adopted a exit plan in accordance with EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and Staff

Accounting Bulletin No. 100, "Restructuring and Impairment Charges" which resulted in a restructuring charge of $1,620 during the nine months ended December 31, 2000 and $2,436 during the year ended December 31, 2001. The December 2000 charge included provisions for severance of approximately 90 management and operating staff ($707) as well as closure costs associated with a plan to consolidate or dispose of certain locations ($913). The September 2001 plan included provisions for severance of approximately 145 management and operating staff ($1,034) as well as closure costs associated with a plan to consolidate or dispose of certain locations ($1,402). The September 2001 plan did not meet the requirements of the aforementioned standards in order to accrue costs as of a commitment date. Therefore, the September 2001 plan costs that did not provide a future benefit were charged to operations when due and payable.

The following summarizes the activity and balances in each restructuring program from inception through December 31, 2001:

	June 1999		December 2000		
	Severance	Facilities Closure	Severance	Facilities Closure	Seve
Restructuring Charge	$ 3,510	$ 1,410	$ --	$ --	$
Spending and write-downs	(2,636)	(409)	--	--	
Balance-March 31, 2000	874	1,001	--	--	
Restructuring charge	--	--	707	913	
Spending and write-downs	(505)	--	(200)	--	
Release of excess restructuring liability	(312)	(1,001)	--	--	
Balance-December 31, 2000	57	--	507	913	
Restructuring charge	--	--	--	--	1
Spending and write-downs	(57)	--	(507)	(913)	(1
Balance-December 31, 2001	$ --	$ --	$ --	$ --	$

Note 12 - Income Taxes

The income tax provision (benefit) from continuing operations consists of the following:

	Year Ended December 31, 2001	Nine M Dec
Current:		
Federal	$ (6,264)	$
State	64	

	(6,200)	
Deferred:		
Federal	2,745	
State	-	
	2,745	
Total provision (benefit) for income taxes	$ (3,455)	$

The tax benefits associated with nonqualified stock options reduced taxes currently payable as shown above by $38 for the year ended March 31, 2000. Such tax benefits are credited to additional paid-in capital when realized. No benefits were realized for the fiscal periods ended December 31, 2001 and 2000. In addition to the benefit recorded on continuing operations for the nine months ended December 31, 2000, the Company recorded a tax provision associated with discontinued operations and the gain on the sale of its discontinued operations of $12,744.

Significant components of deferred tax assets and liabilities of the Company are as follows:

	Decembe 200
Current	
Deferred tax assets:	
Allowance for doubtful accounts	$
Allowance for officer notes	
Restructuring liabilities	
Accrued vacation	
Accrued liabilities	
Other	
Valuation allowance	
Net current deferred tax assets	
Non-current	
Deferred tax assets:	
Net operating loss carry forwards	
Goodwill	
Contract obligations	
Depreciation and amortization	
Restructuring liabilities	
Other	
Valuation allowance	
Net non-current deferred tax assets	
Deferred tax liabilities:	

Depreciation and amortization	
Total deferred tax liabilities	
Net deferred taxes	$

During the year ended March 31, 2000, the Company decided to dispose of its IT staff augmentation business and recorded a deferred tax asset for $7,190 on the books of its discontinued operations (see Note 13). Upon the ultimate sale of the majority of these operations during the nine months ended December 31, 2000, the Company reclassified this deferred tax asset to continuing operations. During the year ended December 31, 2001, the Company utilized a portion of its net operating losses in a carryback claim, thus resulting in a current benefit. At December 31, 2001, the Company has fully reserved for all net deferred tax assets generated from continuing operations, including net operating losses, due to management's uncertainty of their realizability. The Company will continue to assess the adequacy of and need for the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets will be recognized in the future. The Company had approximately $15,600 of net operating losses carryforwards for U.S. federal tax purposes that will begin expiring in the 2021 tax year.

In the first quarter of 2002, Congress approved the Job Creation and Worker Assistance Act of 2002 (the Act) allowing net operating losses for the Company's fiscal tax year ending March 31, 2002 to be carried back five years. In accordance with SFAS No. 109, the effect of this change in tax law is not reflected in the December 31, 2001 financial statements as changes in tax law must be reflected in the period of enactment. Management expects that its fiscal year 2001 net operating losses reserved for above will become fully realizable during the first quarter 2002 as a result of the enactment of the Act.

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The Company's effective income tax rate for its continuing operations varied from the U.S. federal statutory tax rate as follows:

	Year Ended December 31, 2001	Nine De
U.S. federal statutory rate	(34.0%)	
State income taxes, net of federal benefit	(6.0)	
Non-deductible items	2.3	
Change in valuation allowance	24.7	
Other	0.1	
Effective tax rate	(12.9%)	

Note 13 - Discontinued Operations

Prior to March 31, 2000, the Company entered into a plan to divest its IT staff augmentation business. The following financial data reflects the net assets at December 31, 2001 and 2000, and the summary of operating results for the year ended December 31, 2001, the nine months ended December 31, 2000, and the year

ended March 31, 2000 for these discontinued operations.

Net Assets of Discontinued Operations:

--

Assets	
Accounts receivable, including unbilled accounts of $0 and $375	
Prepaid expenses and other	
Total assets	
Liabilities	
Accounts payable	
Accrued compensation	
Other current liabilities	
Total liabilities	
Net assets of discontinued operations	

Summary of Operating Income (Loss) From Discontinued Operations:

	Year Ended December 31, 2001	Nine Months End December 31, 2000
Revenues	$ 3,453	$ 69,5
Cost of services	2,692	51,4
Gross profit	761	18,0
Impairment of long-lived assets	-	
Restructuring charge	-	(1,3
Selling, general and administrative expenses	951	17,1
Operating income (loss)	(190)	2,2
Other income	-	
Income (loss) before provision for income taxes	(190)	2,2
Provision (benefit) for income taxes	-	8
Income (loss) from discontinued operations before reclassification to gain on sale of discontinued operations	(190)	1,4
Reclassification to gain on sale of discontinued operations	190	(1,4
Operating income (loss) from discontinued operations	$ -	$

On March 31, 2000, the Company committed to a plan to discontinue its IT staff augmentation segment, which was comprised of operating locations throughout the United States of America. The Company's initial intent was to sell the entire segment to one buyer on or about June 30, 2000. Ultimately, the Company sold the segment in three components and abandoned any unsold operations as more fully described below.

On June 30, 2000, the Company sold the majority of its IT staff augmentation business for $116,495 and approximately $10,000 of assumed liabilities. The Company also took responsibility and has reserves for certain aged receivables greater than 90 days.

On July 14, 2000, the Company sold its staff augmentation operations in Orlando for a cash payment of $650 and approximately $385 of assumed liabilities. As of June 30, 2000, the Company has written down goodwill to zero and accrued the anticipated loss on sale as a component of the gain on sale of discontinued operations, during the quarter ended June 30, 2000.

On October 31, 2000, the Company sold its international IT staff augmentation business for a secured promissory note with a face value of $4,459 bearing interest at the prime rate of interest, plus one percent and payable over five years. The Company recorded the secured promissory note at fair value ($3,300), using a market interest rate. Collections under the note agreement will first reduce principal as the ultimate collectibility is uncertain. The goodwill related to this operation was written down to zero during the quarter ended June 30, 2000 based on the preliminary estimate of the entity's net realizable value prior to the sale.

The net gain on the disposal of the IT staff augmentation businesses was $19,541 for the nine months ended December 31, 2000 which includes the proceeds, less the asset value of the businesses sold and the expense of sale, together with the operating income from discontinued operations subsequent to the date management entered into a plan to dispose of the discontinued operations, March 31, 2000.

From March 31, 2000 until the fourth quarter of 2001, the Company held one remaining component in discontinued operations. The Company could not find a buyer for this component and therefore closed the business in the fourth quarter of 2001.

Note 14 - Lease Commitments

Cotelligent leases various office space and certain equipment under noncancelable lease agreements which expire at various dates. Future minimum rental payments under such leases at December 31, 2001 for the Company's continuing operations are as follows.

	Operating Leases
2002	$ 2,991
2003	2,172
2004	1,691
2005	1,105
2006	613
Thereafter	150

Total minimum lease payments	8,722
Less: Sublease payments due Cotelligent	(2,295)
Net minimum lease payments	$ 6,427

Rental expense under these leases for the year ended December 31, 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000 was $2,601, $3,061 and $3,126, respectively. The rental expense in fiscal 2001 and fiscal 2000 is net of sublease income totaling approximately $355 and $67, respectively.

Note 15 - Employee Benefit Plans

Long-term Incentive Plan
The Company maintains the 1998 Long-Term Incentive Plan (the "1998 Plan") and the 2000 Long-Term Incentive Plan (the "2000 Plan"). The 1998 Plan was adopted as a replacement to the Company's 1995 Long-Term Incentive Plan (the "1995 Plan"). No further awards may be granted under the 1995 Plan, although awards granted prior to the adoption of the 1998 Plan remain outstanding under the 1995 Plan in accordance with their terms. The 2000 Plan is similar to the 1998 Plan, except that (i) awards under the 2000 Plan are to be made primarily to employees who are not officers or directors, (ii) the 2000 Plan does not contain a limit as to the number of shares that may be subject to outstanding awards granted either individually or in the aggregate (whereas the 1998 Plan contains 750,000 per individual annual limit, and aggregate limit of 18% of total outstanding shares), and (iii) incentive stock options (ISOs) cannot be granted under the 2000 Plan. Of the non-qualified options granted to date, a majority are generally exercisable beginning one year from the date of the grant in cumulative yearly amounts of 25% to 33% of the shares under option and all expire ten years from the date of the grant. Under the provisions of the plans, stock-based awards are granted at terms and prices determined by the Long-Term Incentive Plan Committee as defined in each plan.

A summary of option transactions is described in the table below. All options described below are non-qualified and were granted with exercise prices no less than the fair market value of the underlying stock on the date of the grant, except for options issued and exchanged on January 4, 1999 in connection with one of the Company's acquisitions. The difference between the grant price and the market value of these options was recorded as purchase price.

	Number of Shares	Option Price Range per Share	Weighte Average Exercis Price
Outstanding at March 31, 1999...............	2,574,892	$1.54-$29.00	$16.16
Granted................................	341,425	$ 4.00-$6.13	$ 5.02
Exercised..............................	(45,808)	$ 1.54-$9.00	$ 2.60
Cancelled..............................	(980,216)	$1.54-$29.00	$17.09
Outstanding at March 31, 2000..............	1,890,293	$1.54-$29.00	$13.99
Granted................................	1,459,965	$ 2.56-$6.69	$ 4.25
Exercised..............................	(900)	$1.54	$ 1.54
Cancelled..............................	(1,150,642)	$3.44-$29.00	$10.32
Outstanding December 31, 2000..............	2,198,716	$1.54-$29.00	$ 9.37
Granted................................	5,097,732	$ 0.14-$1.13	$ 0.23
Exercised..............................	-	-	-

Cancelled............................	(2,215,994)	$0.17-$29.00	$ 9.02
Outstanding at December 31, 2001...........	5,080,454	$0.14-$27.25	$ 0.35

On March 9, 2001, the Company notified all option holders under the Long-Term Incentive Plan of a stock option exchange program. The exchange program was developed as a way to bring the option exercise prices back in line with the market price for the Company's Common Stock. Completely voluntary on the part of the option holder, the program allows the option holder to exchange existing stock option grants for a new option grant of the same number of options at an exercise price equal to the fair value of the Company's Common Stock as of the date of grant, September 21, 2001. The vesting schedule was not interrupted as a result of the exchange program. The number of options cancelled in the year ended December 31, 2001 include 1,229,714 options surrendered and cancelled on March 16, 2001 in order to participate in the option exchange program. These options surrendered had an option price range per share of $1.04-$23.06. The number of options issued in the year ended December 31, 2001 include 1,169,446 new options granted on September 21, 2001 at $0.25 per share as part of the option exchange program.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2001:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Nu O Exe
$0.14-$0.25	4,591,457	9.77	$0.19	1,
$0.30-$16.25	485,865	8.90	$1.77	
$17.53-$27.25	3,132	6.20	$19.84	
$0.14-$27.25	5,080,454	9.69	$0.35	1,

Exercisable options at December 31, 2001, December 31, 2000, and March 31, 2000 were 1,191,706, 1,004,512, and 943,571 at exercise prices between $0.14 and $27.25, and weighted average exercise prices of $0.50, $13.72, and $15.79, respectively.

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and the Company continues to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25 and FASB Interpretation No. 44 in accounting for its employee stock option plans. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing ("Black-Scholes") model with the following weighted average assumptions for the year ended December 31, 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000, respectively: (1) risk-free interest rates of 4.67%, 4.77%, and 6.04%, (2) a dividend yield of 0%, (3) volatility factors of the expected market price of the Company's common stock of 193%, 106%, and 89%, and (4) a weighted average expected life of 4.76, 4.61 years and 4.8 years. The

weighted average fair values of options granted during the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000 were $0.23, $2.74, and $3.62 per share, respectively.

The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restriction and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected volatility of the Company's Common Stock.

For purposes of pro forma disclosure, the estimated fair value of options is amortized to expense over the options' vesting period. If the Company had elected to recognize compensation expense for options granted during the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000 based on the fair value as described in SFAS No. 123, net loss and earnings per share would have been changed to the pro forma amounts indicated below.

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	Year Ended December 31, 2001		Nine Months Ended December 31, 2000	
	As Reported	Pro Forma	As Reported	Pro Forma
Loss from continuing operations........	$ (23,339)	$ (23,573)	$ (57,708)	$ (63,838
Net loss............................	$ (23,529)	$ (23,763)	$ (38,167)	$ (44,297
Loss per share:				
Basic and diluted -				
Loss from continuing operations...	(1.55)	(1.56)	(3.79)	(4.19
Net loss	(1.56)	(1.58)	(2.51)	(2.91

Employee Stock Purchase Plan
The Company's Employee Stock Purchase Plan (the "ESPP") allows eligible employees to purchase shares of the Company's Common Stock at a price equal to 85% of the lower of the closing market price on the first or last trading day of the ESPP's quarter. A total of 950,000 shares of Common Stock have been reserved for issuance under the ESPP. During the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000, employees purchased 215,127, 101,719 and 318,802 shares for aggregate proceeds to the Company of $199, $395 and $1,251, respectively.

On February 1, 2002, the Company terminated the Employee Stock Purchase Plan (ESPP). Because the number of employees in the Company had decreased significantly over the prior two fiscal years, the administrative costs of the plan were out of line with the remaining number of active participants. The Company terminated the plan as a means to streamline its operating expenses going forward.

401(k) Plan
The Company sponsors the Cotelligent, Inc. 401(k) Retirement Saving Plan (the "401(k) Plan") for the benefit of all employees upon date of hire. The 401(k) Plan is funded by employee payroll deductions and a matching program whereby the Company contributes 25% of an employee's first 4% of salary deferral to the 401(k) Plan. Matching contributions vest over a four-year period. The Company

contributed $109, $152 and $503, respectively, in connection with the matching program during the year ended December 31, 2001, the nine months ended December 31, 2000, and the year ended March 31, 2000.

Leveraged Stock Purchase Plan
In 1999, the stockholders approved the Cotelligent, Inc. 1999 Leveraged Stock Purchase Plan (the "LSPP") which authorizes the purchase of shares of Common Stock by eligible employees who are selected by the Compensation Committee of the Board of Directors (the "Committee") to participate in the LSPP on terms and conditions determined by the Committee.

Through December 31, 2001, 1,691,842 shares are outstanding under the LSPP resulting in notes receivable from stockholders for $6,193 which is included as a component of stockholders' equity. The notes receivable (1) include varying rates of interest; (2) are secured by the pledge of Cotelligent stock issued; (3) are full recourse as to the employee, except that in the case of death, disability, termination by the Company without cause or a change of control of the Company, where recourse against the employees is limited to the pledged stock; and (4) have a term of five years from date of issuance, provided that if the stock is sold, the loan shall be prepaid, and if the stock is not sold, the loan may not be prepaid. The stock issued under the LSPP is restricted from sale in the open market for a period of two years from the date of issuance, provided, however, that in the case of death, disability, termination by the Company without cause or change of control of the Company, the stock may be sold and the proceeds used to repay the loan.

Note 16 - Stockholders' Equity

Preferred Stock
The Company has authorized 500,000 shares of one class of $0.01 par value Preferred Stock. The Board of Directors has authority, without further vote or action by stockholders, to issue the shares, fix the number of shares and change the number of shares

constituting any series, and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (and whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), a redemption price or prices, conversion rights and liquidation preferences of the shares constituting any class or series of the Preferred Stock. No Preferred Stock was outstanding at December 31, 2001 or 2000. The Company has no current plans to issue any shares of Preferred Stock.

Common Stock
The Company has authorized 100,000,000 shares of one class of $0.01 par value Common Stock. The holders of Common Stock are entitled to one vote for each share on all matters voted upon by stockholders, including the election of the directors. At December 31, 2001 and 2000, there were 15,514,757 and 15,349,630 shares of Common Stock outstanding, respectively. In May 1998, the Company registered 4 million shares of its Common Stock to be used in connection with merger and acquisition activities. The Company repurchased 644,600 and 238,400 shares of its Common Stock during the year ended December 31, 2001 and the year ended March 31, 2000, respectively. In addition, during the year ended March 31, 2000, the Company negotiated the return of 469,209 shares of Common Stock from the original seller of its Orlando operations pursuant to terms in the original purchase agreement.

Anti-takeover Provisions

The Company has a stockholder rights plan in effect (the "Rights Plan"). Under the terms of the Rights Plan, the holders of the Common Stock received one preferred share purchase right (each, a "Right") as a dividend for each share of Common Stock held as of the close of business on September 24, 1997. Each Right entitles the holder to buy 1/10,000 of a share of Series A Junior Preferred Stock of the Company at an exercise price of $90.00. Further, each Right gives the holder the right to buy Common Stock of the Company having twice the value of the exercise price of the Rights if a person or group acquires beneficial ownership of 20% or more of the Common Stock or commences a tender or exchange offer that would result in such a person or group owning 20% or more of the Common Stock. In addition, the Board of Directors of the Company is empowered to issue up to 500,000 shares of Preferred Stock, and to determine the price, rights, preferences and privileges of such shares, without any further stockholder action. The existence of the Rights Plan and this "blank check" preferred stock may have the effect of delaying, discouraging, inhibiting, preventing or rendering more difficult an attempt to obtain control of the Company by means of a tender offer, merger, proxy contest or otherwise. In addition, this "blank check" preferred stock, or any issuance thereof, may have an adverse effect on the market price of the Common Stock. The Company's Certificate of Incorporation provides for a "staggered" Board of Directors, which may also have the effect of inhibiting a change of control of the Company and may have an adverse effect on the market price of the Common Stock.

Note 17 - Earnings Per Share

Earnings per share is as follows:

	For The Year Ended December 31, 2001		
	Income (Loss)	Shares	Per Share Amount
Basic/diluted earnings (loss) per share-			
Loss from continuing operations	$ (23,339)	15,075,546	$(1.55)
Loss from discontinued operations	(190)	15,075,546	(0.01)
Net loss applicable to common shareholders	$ (23,529)	15,075,546	$(1.56)

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	For The Nine Months Ended December 31, 2000		
	Income (Loss)	Shares	Per S Amo
Basic/diluted earnings (loss) per share-			
Loss from continuing operations	$ (57,708)	15,230,969	$ (3
Income from discontinued operations	19,541	15,230,969	1

Net loss applicable to common shareholders	$ (38,167)	15,230,969	$ (2

	For The Year Ended March 31, 2000		
	Income (Loss)	Shares	Per S Amo
Basic/diluted earnings (loss) per share-			
Loss from continuing operations	$ (8,653)	14,298,693	$ (0
Loss from discontinued operations	(9,990)	14,298,693	(0
Net loss applicable to common shareholders	$ (18,643)	14,298,693	$ (1

Options to purchase common shares of 5,080,454, 2,198,716, and 1,890,293 were excluded from the computation of diluted earnings per share for the year ended December 31, 2001, the nine months ended December 31, 2000 and for the year ended March 31, 2000, respectively, due to the loss position of the Company's continuing operations.

Note 18 - Commitments and Contingencies

Employment Agreements
The executive officers have entered into employment agreements with the Company which contain provisions for compensation upon termination without cause or changes in control. Pursuant to such employment agreements, each such officer is eligible to earn bonus compensation payable out of a bonus pool determined by the Board of Directors or its Compensation Committee. Bonuses will be determined by measuring, among other objective and subjective measures, such officer's performance, the performance of the local operation for which such officer has primary responsibility and the Company's performance against targets.

Loans to White Horse Interactive
The Company has agreed to advance White Horse Interactive up to $70 for short-term working capital purposes. At December 31, 2001, no advances had been made under this agreement.

Legal Matters
The Company is involved in various legal matters in the normal course of business. In the opinion of management, these matters are not anticipated to have a material adverse effect on the financial position or results of operations or cash flows of the Company.

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Note 19 - Segment Information

During the year ended March 31, 2000, the Company streamlined its operations into two operating segments, Professional Services, also known as the IT staff augmentation business, and Technology Solutions. The Company subsequently discontinued the IT staff augmentation business. Accordingly, assets, liabilities, results of operations and cash flows have been segregated and

reported as discontinued operations for all periods presented and previously reported results have been restated (see Note 13). Within the Technology Solutions segment, the Company continues to provide licensed software, consulting services including custom application software development and outsourcing solutions, solutions in conjunction with national partnerships with leading enterprise application software companies, network design, intranet and internet application design and development, hosting and support service, and IT Education. Management has considered the requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", and has determined that the Company has one continuing operating segment; therefore, no additional disclosure has been provided.

Note 20 - Quarterly Financial Data (Unaudited)

The following is quarterly data for the periods presented on the consolidated statement of operations.

The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its financial statements for the year ended December 31, 2001 and the nine month transition period ended December 31, 2000. See Note 2 for a description of the restatement.

	For the Year Ended	
	First Quarter	Second Quarter
Revenues	$ 16,022	$ 12,073
Gross profit	4,740	3,017
Income (loss) from continuing operations	(1,451)	(6,776)
Income (loss) from discontinued operations	(120)	1
Net income (loss)	(1,571)	(6,775)
Earnings per share:		
Basic -		
Income (loss) from continuing operations	$ (0.09)	$ (0.44)
Income (loss) from discontinued operations	(0.01)	-
Net income (loss)	$ (0.10)	$ (0.44)
Diluted -		
Income (loss) from continuing operations	$ (0.09)	$ (0.44)
Income (loss) from discontinued operations	(0.01)	-
Net income (loss)	$ (0.10)	$ (0.44)
Weighted average shares:		
Basic	15,349,060	15,273,716
Diluted	15,349,060	15,273,716

	For the Nine Months Ended Decemb	
	First Quarter	Second Quarter
Revenues	$ 23,756	$ 22,475
Gross profit	7,253	7,571
Income (loss) from continuing operations	(5,426)	(3,188)
Income (loss) from discontinued operations	19,118	40
Net income (loss)	13,692	(3,148)
Earnings per share:		
Basic -		
Income (loss) from continuing operations	$ (0.36)	$ (0.21)
Income (loss) from discontinued operations	1.26	-
Net income (loss)	$ 0.90	$ (0.21)
Diluted -		
Income (loss) from continuing operations	$ (0.36)	$ (0.21)
Income (loss) from discontinued operations	1.26	-
Net income (loss)	$ 0.90	$ (0.21)
Weighted average shares:		
Basic	15,123,639	15,235,827
Diluted	15,123,639	15,235,827

The following tables reconcile our previously filed quarterly financial data to the restated quarterly financial data included herein for revisions described more fully in Note 2 (in thousands, except for share data). A summary of the nature of the reconciling items for each quarter has been provided below each table and should be read in conjunction with Note 2.

	For the Three Months Ended Marc	
	As Previously Reported	Adjustments
Revenues	$ 16,022	-
Gross profit	4,740	-
Income (loss) from continuing operations	(4,265)	2,814
Income (loss) from discontinued operations	(6)	(114)
Net income (loss)	(4,271)	2,700
Earnings per share:		
Basic -		
Income (loss) from continuing operations	$ (0.28)	
Income (loss) from discontinued operations	-	
Net income (loss)	$ (0.28)	
Diluted -		
Income (loss) from continuing operations	$ (0.28)	
Income (loss) from discontinued operations	-	

Net income (loss)	$ (0.28)
Weighted average shares:	
Basic	15,349,060
Diluted	15,349,060

Loss from continuing operations was reduced as a result of revising amortization expense and equity method losses for the equity investment in alliance partner, expensing capitalized software development costs, reversing interest income on notes from officers and shareholders, expensing selling, general and administrative costs recorded against the divesture liability, recording payments received on note receivable from acquirer of discontinued operations as principal reduction instead of interest income, recording interest expense on a contractual obligation due to sellers of an acquired business, allocation of a tax benefit originally reported in the month of December 2001 to March 2001, the quarter in which the tax year ended and the corresponding benefit applied, and revising other less significant book keeping items.

Loss from discontinued operations was increased for bad debt expense related to accounts receivable of the discontinued operations, revising the tax provision for the items described in Note 2, and adjusting other less significant book keeping items.

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	For the Thre
	As Previously Reported
Revenues	$12,073
Gross profit	3,017
Income (loss) from continuing operations	(6,017)
Income (loss) from discontinued operations	23
Net income (loss)	(5,994)
Earnings per share:	
Basic -	
Income (loss) from continuing operations	$ (0.39)
Income (loss) from discontinued operations	0.00
Net income (loss)	$ (0.39)
Diluted -	
Income (loss) from continuing operations	$ (0.39)
Income (loss) from discontinued operations	0.00
Net income (loss)	$ (0.39)
Weighted average shares:	
Basic	15,273,716
Diluted	15,273,716

The nature of the items increasing loss from continuing operations and decreasing income from discontinued operations was primarily the same as in the three months ended March 31, 2001, except for a restructuring charge that increased selling, general and administrative expense, and not recording a tax benefit recorded in the three months ended March 31, 2001.

	For the Three Mo
	As Previously Reported
Revenues	$10,187
Gross profit	3,152
Income (loss) from continuing operations	(7,905)
Income (loss) from discontinued operations	(49)
Net income (loss)	(7,954)
Earnings per share:	
Basic -	
Income (loss) from continuing operations	$ (0.54)
Income (loss) from discontinued operations	0.00
Net income (loss)	$ (0.54)
Diluted -	
Income (loss) from continuing operations	$ (0.54)
Income (loss) from discontinued operations	0.00
Net income (loss)	$ (0.54)
Weighted average shares:	
Basic	14,824,310
Diluted	14,824,310

The nature of the items increasing loss from continuing operations and discontinued operations was the same as in the three months ended March 31, 2001, except for reversing a restructuring charge, reducing the valuation allowance on accounts receivable, recording a legal settlement to selling, general and administrative expense, and not recording a tax benefit recorded in the three months ended March 31, 2001.

For the Three
As Previously Reported

Revenues	$7,619
Gross profit	3,016
Income (loss) from continuing operations	2,552
Income (loss) from discontinued operations	-
Net income (loss)	2,552
Earnings per share:	
Basic -	
Income (loss) from continuing operations	$ 0.17
Income (loss) from discontinued operations	0.00
Net income (loss)	$ 0.17
Diluted -	
Income (loss) from continuing operations	$ 0.17
Income (loss) from discontinued operations	0.00
Net income (loss)	$ 0.17
Weighted average shares:	
Basic	14,852,326
Diluted	14,852,326

The nature of the items increasing loss from continuing operations and increasing income from discontinued operations was primarily the same as in the three months ended March 31, 2001, except for reducing selling, general and administrative expense for the over accrual of accounts payable, accrued compensation, and other accrued liabilities, deferring revenue to accurately reflect the progress on certain fixed price consulting contracts, expensing selling, general and administrative costs charged against the restructuring liability, recording an impairment on property and equipment, and not recording a tax benefit recorded in the three months ended March 31, 2001.

	For the Three
	As Previously Reported
Revenues	$23,753
Gross profit	7,253
Income (loss) from continuing operations	(5,130)
Income (loss) from discontinued operations	6,011
Net income (loss)	881
Earnings per share:	
Basic -	
Income (loss) from continuing operations	(0.34)
Income (loss) from discontinued operations	0.40
Net income (loss)	$ 0.06
Diluted -	
Income (loss) from continuing operations	$ (0.34)
Income (loss) from discontinued operations	0.40
Net income (loss)	$ 0.06
Weighted average shares:	

Basic	15,123,639
Diluted	15,124,960

Loss from continuing operations was reduced as a result of expensing selling, general and administrative expense recorded against the divesture liability, expensing prepaid assets that are not recoverable, correcting continuing operation expenses recorded against the gain on sale of discontinued operations, expensing period costs recorded against the divestiture and restructuring accruals, reducing restructuring expense for the over accrual of restructuring liabilities, revising the tax provision for continuing operations, and adjusting other less significant book keeping items.

Income from discontinued operations was increased for revising continuing operating expenses recorded against the gain on sale of discontinued operations, increasing the gain on sale for the over accrual of the divestiture liability, revising the tax provision for discontinued operations, and adjusting other less significant book keeping items.

	For the Three M
	As Previously Reported
Revenues	$22,475
Gross profit	7,571
Income (loss) from continuing operations	(2,856)
Income (loss) from discontinued operations	148
Net income (loss)	(2,708)
Earnings per share:	
Basic -	
Income (loss) from continuing operations	$ (0.19)
Income (loss) from discontinued operations	0.01
Net income (loss)	$ (0.18)
Diluted -	
Income (loss) from continuing operations	$ (0.19)
Income (loss) from discontinued operations	0.01
Net income (loss)	$ (0.18)
Weighted average shares:	
Basic	15,235,827
Diluted	15,235,827

Loss from continuing operations was increased overall as a result of expensing selling, general and administrative costs recorded against the divesture liability, revising amortization expense for the equity investment in alliance

partner, revising the tax provision related to continuing operations, and revising other less significant book keeping items.

Income from discontinued operations decreased overall as a result of writing off uncollectible accounts receivable of the discontinued operations, revising the tax provision for discontinued operations, and revising other less significant book keeping items.

	For the Three
	As Previously Reported
Revenues	$ 20,064
Gross profit	6,584
Income (loss) from continuing operations	(47,050)
Income (loss) from discontinued operations	6,693
Net income (loss)	(40,357)
Earnings per share:	
Basic -	
Income (loss) from continuing operations	$ (3.07)
Income (loss) from discontinued operations	0.44
Net income (loss)	$ (2.63)
Diluted -	
Income (loss) from continuing operations	$ (3.07)
Income (loss) from discontinued operations	0.44
Net income (loss)	$ (2.63)
Weighted average shares:	
Basic	15,332,273
Diluted	15,332,273

Loss from continuing operations and income from discontinued operations were impacted by the items listed in Note 2 for the nine months ended December 31, 2000.

Note 21 - Related Party Transactions

Notes Receivable From Officers and Stockholder

The Company has notes receivable due from certain Officers and a former Officer of the Company. At December 31, 2000, the notes included $683 due from the Chief Executive Officer to cover margin calls, $516 due from the Chief Operating Officer for relocation assistance ($83) and to cover margin calls ($433), and $504 due from a former Chief Operating Officer to cover margin calls. The notes are unsecured except for the notes due from the former Officer of the Company, which are secured by the principal residence of that individual. The notes, although due on demand, were issued with original due dates in 2000 and 2001. The notes due from the Chief Executive Officer and the Chief Operating Officer

were extended by a vote of the Compensation Committee of the Board of Directors on October 29, 2001 for three years to October 29, 2004. There is also acceleration on payment of the Chief Executive Officer's and Chief Operating Officer's notes should the Company's stock reach certain sustained target values.

During the nine months ended December 31, 2000, the Company provided a valuation allowance against all the notes receivable related to the margin calls because the Company's market price for its Common Stock has remained beneath levels that would result in repayment for an extended period of time. In addition, a valuation allowance was provided against a relocation loan upon extension of the due date of the loan.

Investment in Alliance Partner

During 2000 and 2001, the Company engaged White Horse Interactive, to provide design services in connection with the Company's Web site and paid White Horse Interactive $204 and $182 in 2000 and 2001, respectively.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10 - Directors and Executive Officers of the Registrant

Pursuant to the Company's Certificate of Incorporation and By-laws, the Board of Directors is divided into three classes, Class I, Class II and Class III, serving staggered three-year terms. One class of directors is elected at each annual meeting of stockholders to serve for the following three years. Currently there are two Class I directors whose terms will expire at the Annual Meeting, two Class II directors whose terms expire in 2003 and one Class III director whose term expires in 2004. The Company's Certificate of Incorporation provides that the classes of directors shall be as nearly equal in number as possible.

Class I Directors

Edward E. Faber is 69 years old and is Vice Chairman of the Board of Directors of the Company. Mr. Faber joined the Company as a director in March 1993 and served as Chairman from August 1995 to April 1996. From 1990 through 1992, he was Vice Chairman, President and Chief Executive Officer of Supercuts, Inc., a company specializing in hairstyling. Mr. Faber was founding President and Chief Executive Officer of Computerland Corporation ("Computerland"), a company specializing in the sale of computer equipment and accessories, from 1976 through 1983. He retired from Computerland in 1983 and returned in 1985 as Chairman of the Board and Chief Executive Officer, serving in that capacity until 1987 when he again retired. Mr. Faber is a director of Outdoor Broadcasting TV.com and is chairman of Gumtech International, Inc. Mr. Faber has a Bachelor of Science degree from Cornell University and served as an officer in the United States Marine Corps.

Daniel E. Jackson is 41 years old and is a director of the Company, as well as its President and Chief Operating Officer. Mr. Jackson has served as a director of the Company since September 1999. Mr. Jackson was promoted to the position of Chief Operating Officer and President in July 2000. Mr. Jackson served as Executive Vice President, Chief Financial Officer and Treasurer from June 1999 until July 2000. From September 1995 until June 1999, Mr. Jackson served in the capacities of Executive Vice President, Corporate Development and General

Counsel. Mr. Jackson served as Secretary from September 1996 until September 1997 and as Chief Financial Officer from November 1996 until January 1998. From 1994 to 1995, Mr. Jackson served as Vice President and General Counsel of an affiliate of Notre Venture Capital, Ltd., a partnership specializing in industry consolidation transactions. Prior to that, he was Corporate Counsel and Secretary of Sanifill, Inc., an environmental services company, from its founding in 1990 through 1994. From 1986 until 1990, Mr. Jackson was an associate at Morgan, Lewis & Bockius LLP in New York, where he practiced law in the areas of securities and mergers and acquisitions. Mr. Jackson received a Bachelor of Science degree in business administration from The Ohio State University and a Juris Doctor degree from the University of Pennsylvania.

Class II Directors

James R. Lavelle is 51 years old and is the founder, Chairman of the Board and Chief Executive Officer of the Company. Mr. Lavelle has served as Chief Executive Officer since he founded the Company in 1993. From inception of the Company until August 1995, Mr. Lavelle was also Chairman of the Board of the Company, a position that he reassumed in April 1996. From 1985 to 1993, he was a business consultant specializing in strategic marketing and organization development. From 1983 to 1985, Mr. Lavelle was Senior Manager and Director of Management Consulting Services for the San Francisco office of KPMG Main Hurdman, an international accounting firm. Prior to that, he was Manager of Management Consulting Services in the San Francisco office of Price Waterhouse LLP, an international accounting firm. Mr. Lavelle has a bachelor's degree from University of California at Santa Barbara and a Master of Business Administration degree from Santa Clara University.

Debra J. Richardson is 47 years old, and joined the Company as a director on August 8, 2001. Dr. Richardson joined the faculty at UC Irvine in 1987, where she researches formal quality analysis and testing methods, had developed leading edge tools, and worked with several companies in adopting technology to improve the quality of critical software systems. She is currently director of the Microelectronics Innovation and Computer Research Opportunities (MICRO), one of the University of California's Industry-Cooperative Research Programs, and is a founding member of the UC Institute for Software Research. Dr. Richardson holds the Ted and Janice Smith Family Foundation Endowed Chair. Dr. Richardson earned a Doctorate of Philosophy and a Master of Science in Computer and Information Science from the University of Massachusetts, Amherst, and received a Bachelor of Arts degree in mathematics from Revelle College of the University of California, San Diego.

Class III Director

Anthony M. Frank is 70 years old and is a director of the Company. He joined the Company in that capacity in March 1993. In September 1994, Mr. Frank became co-founding General Partner and Chairman of Belvedere Capital Partners, the general partner of the California Community Financial Institutions Fund, the primary purpose of which is investing in California community banks. From 1992 to 1994, Mr. Frank was an independent financial consultant and venture capitalist. From March 1988 to March 1992, Mr. Frank served as the Postmaster General of the United States. From 1971 until 1988, he served as Chairman and Chief Executive Officer of First Nationwide Bank. Mr. Frank is a graduate of Dartmouth College and the Tuck School of Business and was an overseer of the Tuck School of Business. He is also a director of several companies, including The Charles Schwab Corporation, Crescent Real Estate Equities Ltd., Temple Inland Corporation and Bedford Properties Investors.

Other Executive Officers

Curtis J. Parker is 47 years old and is Executive Vice President, Chief Financial Officer, Treasurer & Assistant Secretary of the Company. From November 1996 until December 2000, Mr. Parker served as Vice President and Chief Accounting Officer. From January 1996 until March 1996, he served as a consultant to the Company and was appointed Corporate Controller in March 1996. From 1988 through 1995, Mr. Parker was employed by Burns Philp Food Inc., a manufacturer of food products, where he rose to the position of Vice President - Finance for the Industrial Products Division. Mr. Parker has a Bachelor of Commerce degree from the University of British Columbia and is a Certified Public Accountant.

Item 11 - Executive Compensation

The following table sets forth certain information regarding the compensation earned by or awarded to the Chief Executive Officer and remaining executive officers of the Company for the fiscal year ended December 31, 2001, the twelve month period ended December 31, 2000 and the fiscal year ended March 31, 2000.

Summary Compensation Table

	Annual Compensation		
Name and Principal Position	Fiscal Year	Salary($) (2)	Bonus($)
	2001	361,166	0
James R. Lavelle	2000(1)	450,000	0
Chairman and Chief Executive Officer	2000	450,000	0
Daniel E. Jackson	2001	302,120	0
President and Chief Operating Officer	2000(1)	375,000	0
	2000	368,750	0
Curtis J. Parker	2001	166,500	0
Executive Vice President, Chief	2000(1)	175,000	100,000
Financial Officer, Treasurer and	2000	160,000	0
Assistant Secretary			

(1) In July 2000, the Company changed its fiscal year end from March 31 to December 31. Accordingly, for each of the following persons identified, compensation for the period January 1, 2000 - March 31, 2000 is included in the twelve months ended December 31, 2000 and the fiscal year ended March 31, 2000: James R. Lavelle - $112,500, Daniel E. Jackson - $93,750, Curtis

J. Parker - $40,000.

(2) Base salary and commissions earned. Effective January 1, 2001, Mr. Lavelle and Mr. Jackson each voluntarily took a 20% reduction in base salary to help the Company during a difficult financial period.

(3) Represents payments made as an automobile allowance.

(4) Imputed interest on below market loans. See Item 13, "Certain Relationships and Related Transactions."

Stock Option Grants Table

The following table sets forth, as to the executive officers named in the Summary Compensation Table, information related to the grant of stock options pursuant to the Company's 1998 Long-Term Incentive Plan during the fiscal year ended December 31, 2001.

OPTIONS GRANTED IN THE FISCAL YEAR ENDED DECEMBER 31, 2001

The following table sets forth, as to the executive officers named in the Summary Compensation Table, information related to the grant of stock options pursuant to the Company's 1998 Long-Term Incentive Plan during the fiscal year ended December 31, 2001.

	Individual Grants		
Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in the fiscal year ended December 31, 2001	Exercise or Ba Price Per Sha ($/Share)(1
James R. Lavelle	400,000(3)	7.8%	$0
Daniel E. Jackson	250,000(4)	4.9%	$0
Curtis J. Parker	47,500(5)	0.9%	$0
Curtis J. Parker	10,000	0.2%	$0
Curtis J. Parker	17,500	0.3%	$0
Curtis J. Parker	200,000	3.9%	$0

(1) The exercise price per share for all options granted is equal to the market price of the underlying Common Stock as of the date of grant.

(2) The potential realizable value has been determined using market price on the date the options were granted, compounded annually over ten years, net of exercise price. These values have been determined based upon assumed rates of appreciation and are not intended to forecast the future value or trading prices of the Company's Common Stock. There can be no assurance that the amounts reflected in this table will be achieved.

(3) Represents options issued under the Company's stock option exchange program initiated in March 2001 to replace a corresponding number of options cancelled under such program with exercise prices ranging from $12.75 to $19.00 per share.

(4) Represents options issued under the Company's stock option exchange program initiated in March 2001 to replace a corresponding number of options cancelled under such program with exercise prices ranging from $12.75 to $19.00 per share.

(5) Represents options issued under the Company's stock option exchange program

initiated in March 2001 to replace a corresponding number of options cancelled under such program with exercise prices ranging from $9.00 to $20.75 per share.

Stock Option Exercises and Year End Values Table
The following table shows, as to the executive officers named in the Summary Compensation Table, information with respect to the unexercised options to purchase Common Stock granted under the 1995 and 1998 Long-Term Incentive Plans and held as of December 31, 2001.

VALUE OF OPTIONS AT DECEMBER 31, 2001

Name	Number of Shares Acquired On Exercise	Value Realized ($)	Number of Securities Underlying Unexercised Options Held at December 31, 2001	
			Exercisable	Unexercisable
James R. Lavelle	0	0	400,000	0
Daniel E. Jackson	0	0	250,000	0
Curtis J. Parker	0	0	78,125	221,875

(1) Options are "in-the-money" if the closing market price of the Company's Common Stock exceeds the exercise price of the options. The value of the unexercised options represents the difference between the exercise price of such options and the closing market price ($0.26) of the Company's Common Stock on the OTC Bulletin Board on December 31, 2001.

Item 12 - Security Ownership of Certain Beneficial Owners and Management
The following table sets forth as of April 24, 2002 information regarding the beneficial ownership of the Common Stock of the Company by (i) each person known to beneficially own more than 5% of the outstanding shares of Common Stock, (ii) each of the Company's directors, (iii) each named executive officer and each officer named in the Summary Compensation Table and (iv) all

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executive officers and directors as a group. All persons listed have an address c/o the Company's principal executive offices and have sole voting and investment power with respect to their shares unless otherwise indicated.

Name
James R. Lavelle (1) ....
Daniel E. Jackson (2) ....
FMR Corp. (3) ....
Anthony M. Frank (4) ....
Edward E. Faber (5) ....
Curtis J. Parker (6) ....
Debra J. Richardson (7) ....

All executive officers and directors as a group (6 persons) (8) ....

*Less than 1%

(1) Includes 400,000 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(2) Includes 250,000 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(3) The address of the stockholder is 82 Devonshire Street, Boston, Massachusetts, 02109. Data obtained from the stockholder's Schedule 13G, filed with the Securities and Exchange Commission, on February 14, 2002.
(4) Includes 102,500 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(5) Includes 102,500 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(6) Includes 78,125 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(7) Includes 5,000 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.
(8) Includes 938,125 shares issuable upon exercise of options exercisable within 60 days of April 24, 2002.

Item 13 - Certain Relationships and Related Transactions
The following is information with respect to certain relationships and related transactions between directors and officers, on the one hand, and the Company, on the other hand.

Employment Agreements; Covenants-Not-To-Compete

Mr. James R. Lavelle, Cotelligent's Chairman and Chief Executive Officer, is a party to a three-year employment agreement effective January 5, 2000 which, unless terminated or not renewed by him, continues thereafter on a year-to-year basis on the same terms and conditions. Mr. Lavelle's employment agreement provides that, in the event of termination of employment by the Company without cause, he shall be entitled to receive from the Company an amount equal to (i) three times the minimum base salary, as defined in the employment agreement, plus (ii) three times his most recent annual bonus (not including any payments made under Cotelligent's Long-Range Bonus Incentive Plan), without regard to whether he obtains subsequent employment. His employment agreement provides that, in the event of a change in control of the Company where he has not received at least five days' notice of such change in control, he will be deemed to have been terminated without cause and shall be entitled to compensation as respectively described in the preceding sentence. Additionally, in such event he will not be bound by any non-compete terms in his employment agreement, as discussed below. If given at least five days notice of such change in control, he may elect to terminate his employment agreement and collect the respective compensation provided above.

Mr. Daniel E. Jackson, Cotelligent's President and Chief Operating Officer, is a party to a two-year employment agreement effective January 25, 2000 which, unless terminated or not renewed by him, continues thereafter on a year-to-year basis on the same terms and conditions. Mr. Jackson's employment agreement provides that, in the event of termination of employment by the Company without cause, he shall be entitled to receive from the Company an amount equal to (i) two times the minimum base salary, as defined in the employment agreement, plus (ii) two times his most recent annual bonus (not including any payments made under Cotelligent's Long-Range Bonus Incentive Plan), without regard to whether he obtains subsequent employment. His employment agreement provides that, in the event of a change in control of the Company where he has not received at least five days' notice of such change in control, he will be deemed to have been terminated without cause and shall be entitled to compensation as respectively

described in the preceding sentence. Additionally, in such event he will not be bound by any non-compete terms in his employment agreement, as discussed below. If given at least five days notice of such change in control, he may elect to terminate his employment agreement and collect the respective compensation provided above.

In the event of a change in control, Mr. Lavelle and Mr. Jackson are entitled to reimbursement for any excise taxes the employee incurs under Section 4999 of the Internal Revenue Code, as well as any interest or penalties related to the excise tax and any

entitlements outside of the employment agreement that are described in Section 280G(b)(2)(A)(i) of the Internal Revenue Code. In the employment agreements of both, a "Change in Control" is deemed to occur if: (1) any person or entity, other than the Company, a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the Common Stock of the Company, or an employee benefit plan of Company or a subsidiary of Company, acquires directly or indirectly Beneficial Ownership (as defined in Rule 13d-3 of the Exchange Act) of any voting security of the Company and immediately after such acquisition such person or entity is, directly or indirectly, the Beneficial Owner of voting securities representing 30% or more of the total voting power of all of the then-outstanding voting securities of the Company; (2) a change in the composition of the individuals on the Board of Directors as a result of which fewer than one-half of the incumbent directors are directors who either (a) had been directors of Company on the date 24 months prior to the date of the event that constitutes a change in control (the "original directors") or (b) were elected, or nominated with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; (3) the consummation of a merger or consolidation of Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of Company immediately prior to such merger, consolidation or other reorganization; or (4) the liquidation of the Company or the sale, transfer or other disposition of all or substantially all of the Company's assets.

The employment agreements of Mr. Lavelle and Mr. Jackson contain a covenant-not-to-compete with the Company for a period of two years immediately following the termination of employment; or, in the case of a termination without cause, for a period of one year following the termination of his employment; or, in the case of a Change in Control in which he is not given at least five days' notice of such Change in Control, the covenant not-to-compete does not apply for any period of time. If any court of competent jurisdiction determines that the scope, time or territorial restrictions contained in the covenant are unreasonable, the covenant-not-to-compete shall be reduced to the maximum period permitted by such court. The compensation to which Mr. Lavelle or Mr. Jackson is entitled, as the case may be, shall nonetheless be paid to him.

Annual base salary paid to Mr. Lavelle for the fiscal year ended December 31, 2001 was $361,166. For the fiscal year ended December 31, 2001, he was eligible for, but did not receive, a bonus based upon achieving certain performance objectives and upon the operating results of the Company, which objectives and results had been established by the Compensation Committee. Pursuant to the Long-Range Bonus Incentive Plan, Mr. Lavelle is eligible for bonuses in fiscal years 2003 and 2006 based upon the operating results of the Company.

Annual base salary paid to Daniel E. Jackson for the fiscal year ended December 31, 2001 was $302,120. For the fiscal year ended December 31, 2001, he was eligible for, but did not receive, a bonus based upon achieving certain performance objectives and upon the operating results of the Company, which objectives and results had been established by the Compensation Committee. Pursuant to the Long-Range Bonus Incentive Plan, Mr. Jackson is eligible for bonuses in fiscal years 2003 and 2006 based upon the operating results of the Company.

Mr. Curtis J. Parker, as Cotelligent's Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary, is a party to a one-year employment agreement effective December 19, 2000 which was extended for a two-year period as of December 19, 2001 and then, unless terminated by either party or not renewed by him, continues thereafter on a year-to-year basis, in each case on the same terms and conditions. Mr. Parker's employment agreement provides that, in the event of termination of employment by the Company without cause, he shall be entitled to receive from the Company an amount equal to (i) one times the Market Based Salary, as defined in the employment agreement, plus (ii) one times his most recent annual bonus, without regard to whether he obtains subsequent employment. His employment agreement provides that, in the event of a Change in Control of the Company where he has not received at least five days' notice of such change in control, he will be deemed to have been terminated without cause and shall be entitled to compensation as respectively described in the preceding sentence. Additionally, in such event he will not be bound by any non-compete terms in his employment agreement, as discussed below. If given at least five days' notice of such change in control, he may elect to terminate his employment agreement and collect the respective compensation provided above.

The employment agreement of Mr. Parker contains a covenant-not-to-compete with the Company for a period of one year immediately following the termination of employment; or, in the case of a termination without cause, for a period of six months following the termination of his employment; or, in the case of a Change in Control in which the he is not given at least five days' notice of such Change in Control, the covenant not-to-compete does not apply for any period of time. If any court of competent jurisdiction determines that the scope, time or territorial restrictions contained in the covenant are unreasonable, the covenant-not-to-compete shall be reduced to the maximum period permitted by such court. The compensation to which Mr. Parker is entitled shall nonetheless be paid to him.

Mr. Parker's employment agreement provides for a minimum base salary of $180,000 per year (subject to increase to $200,000 per year by the Chief Executive Officer when he determines it appropriate in light of the Company's operating performance and subject to any requisite approval by the Board of Directors or the Compensation Committee) and the right to receive annually discretionary incentive bonuses of up to fifty percent (50%) of the amount of his base salary provided by the Compensation Committee. During 2001, Mr. Parker agreed to a series of salary reductions and at the end of 2001 was earning a salary of $141,525 and had received no bonus.

Certain Transactions

From May 1996 through early July 1996, the Company advanced to Daniel E. Jackson, President and Chief Operating Officer, $250,000 to facilitate relocation of his residence to Northern California. Of the amount due, there is a remaining balance of $82,500. The remaining balance is evidenced by a demand

note. The note is non-interest bearing and the principal balance was originally due July 15, 2001 or upon termination of employment if prior to the due date. The note to cover relocation was extended by a vote of the Compensation Committee of the Board of Directors on October 29, 2000 for three years to July 15, 2004. Since the beginning of the 2000 fiscal year, the Company has also advanced to Mr. Jackson an aggregate amount of approximately $480,000, evidenced by five separate unsecured demand promissory notes, three dated August 11, 1999, one dated September 30, 1999, and one dated November 23, 1999. The purpose of such advances was to cover margin calls made on brokerage accounts held by Mr. Jackson. On May 5, 2000, Mr. Jackson repaid $68,270 of principal and $31,730 of interest. The notes, although due on demand, were issued with original due dates in 2001. These notes were also extended by a vote of the Compensation Committee of the Board of Directors on October 29, 2001 for three years to October 29, 2004. The interest rates on these notes remained unchanged at rates between 7.75% and 8.75%. Payment of the notes is accelerated if the Company's Common Stock reaches certain sustained target levels.

On March 31, 1996, the Company advanced to James R. Lavelle, Chairman of the Board and Chief Executive Officer of the Company, $37,902, evidenced by an unsecured demand promissory note bearing interest annually at a rate of 6%. The entire amount of such advance remains outstanding. Since the beginning of the 2000 fiscal year, the Company has also advanced to Mr. Lavelle an aggregate amount of $619,000, evidenced by seven separate unsecured demand promissory notes. The purpose of such advances was to cover margin calls made on brokerage accounts held by Mr. Lavelle. On May 1, 2000, Mr. Lavelle repaid $15,330 of principal and $34,670 of interest. The notes, although due on demand, were issued with original due dates in 2001. The notes were extended by a vote of the Compensation Committee of the Board of Directors on October 29, 2001 for three years to October 29, 2004. The interest rates on these notes remain unchanged at rates between 7.75% and 8.25%. Payment of the notes is accelerated if the Company's Common Stock reaches certain sustained target levels.

On September 8, 1999, the stockholders approved the Cotelligent, Inc. 1999 Leveraged Stock Purchase Plan (the "LSPP") which authorizes the purchase of shares of Common Stock by eligible employees who are selected by the Compensation Committee of the Board to participate in the LSPP on terms and conditions determined by the Compensation Committee. Since the LSPP's inception through March 31, 2000, Mr. Lavelle has been issued 750,000 shares of Common Stock and Mr. Jackson has been issued 736,842 shares of Common Stock. Shares issued under the LSPP resulted in notes receivable from Mr. Lavelle for $2,671,875 at 5.93% interest, and from Mr. Jackson for $2,625,000 at 5.93% interest. The total principal amount of the notes remains outstanding. The notes (1) are secured by the pledge of Common Stock issued; (2) are full recourse as to the employee, except that in the case of death, disability, termination by the Company without cause or a change of control of the Company, recourse against the employees is limited to the pledged stock; and (3) have a term of five years from date of issuance, provided that if the stock is sold, the loan shall be prepaid, and if the stock is not sold, the loan may not be prepaid. The Common Stock issued under the LSPP is restricted from sale in the open market for a period of two years from the date of issuance, provided, however, that in the case of death, disability, termination by the Company without cause or change of control of the Company, the Common Stock may be sold and the proceeds used to repay the loan.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as a part of the Annual Report on Form 10-K:

1. Financial Statements

Report of Independent Public Accountants'

Condensed Consolidated Balance Sheets at December 31, 2001 and 2000

Condensed Consolidated Statements of Operations for the year ended December 31, 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000

Condensed Consolidated Statements of Stockholders' Equity for the year ended December 31, 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000

Condensed Consolidated Statements of Cash Flows for the year ended December 31, 2001, the nine months ended December 31, 2000 and the year ended March 31, 2000

Notes to Condensed Consolidated Financial Statements

2. The following is a list of all Exhibits filed as part of this report. Exhibit 11.1 is omitted because the information is included in Note 16 to Consolidated Financial Statements, page 43.

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of Cotelligent, Inc. (Exhibit 3.1 of the Company' Form S-1 (File No. 33-80267), effective February 9, 1996, is hereby incorporate
3.2	Amended and Restated By-Laws of Cotelligent, Inc. (Exhibit 4.1 of the Company' Form S-8 (File No. 333-67589), filed with the SEC on November 19, 1998, is here
3.3	Certificate of Amendment of Certificate of Incorporation of Cotelligent, Inc. Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on June 29, 1 by reference)
4.1	Form of certificate evidencing ownership of Common Stock of Cotelligent, Inc. (Registration Statement on Form S-1 (File No. 33-80267), effective February 9, 1 reference)
4.2	Rights Agreement, dated as of September 24, 1997, between Cotelligent, Inc. and the Company's Form 8-K (File No. 0-27412), filed with the SEC on September 24, by reference)
10.1	Amended and Restated Employment Agreement, dated as of January 5, 2000, be James R. Lavelle (Exhibit 10.1 of the Company's Annual Report on Form 10-K (Fil on July 14, 2000, is hereby incorporated by reference)*
10.2	Amended and Restated Employment Agreement, dated as of January 25, 2000, betwe Daniel E. Jackson (Exhibit 10.2 of the Company's Annual Report on Form 10-K (Fi on July 14, 2000, is hereby incorporated by reference)*
10.3	Employment Agreement, dated as of December 19, 2000, between Cotelligent, Inc.

10.4 Long-Range Bonus Incentive Plan, effective as of November 18, 1999, among Cotel
Daniel E. Jackson (Exhibit 10.6 of the Company's Annual Report on Form 10-K (Fi
on July 14, 2000, is hereby incorporated by reference)*

10.5 Cotelligent 1995 Long-Term Incentive Plan (Exhibit 10.9 of the Company's Registration Statement on Form S-1/A (File No. 33-80267), filed with the SEC on January 24, 1996, is hereby incorporated by reference)*

10.6 Amended and Restated Senior Secured Credit Agreement, dated as of March 12, 1999, among Cotelligent, Inc., the Co-Borrowers named therein, the Banks named therein and BankBoston, N.A. (Exhibit 10.12 of the Company's Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on June 29, 1999, is hereby incorporated by reference)

10.7 Cotelligent 1998 Long-Term Incentive Plan (Exhibit 10.13 of the Company's Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on June 29, 1999, is hereby incorporated by reference)*

10.8 Cotelligent, Inc. 1999 Leveraged Stock Purchase Plan (Exhibit 2 of the Company's Schedule 13D (File No. 5-47567), filed with the SEC on January 31, 2000, is hereby incorporated by reference)*

10.9 Forbearance and Reinstatement of Noncompetes Agreement, dated as of May 2, 2000, among Cotelligent USA, Inc., Cotelligent, Inc., E.W. & Associates, Inc., Thomas H. Edwards and Timothy M. Wooten (Exhibit 10.1 of the Company's Registration Statement on Form S-3 (File No. 333-37586), filed with the SEC on May 22, 2000, is hereby incorporated by reference)

10.10 Securities Issuance Agreement, dated as of May 2, 2000, between Cotelligent, Inc. and E.W. & Associates, Inc. and/or its assigns (Exhibit 10.2 of the Company's Registration Statement on Form S-3 (File No. 333-37586), filed with the SEC on May 22, 2000, is hereby incorporated by reference)

10.11 Asset Purchase Agreement, dated as of June 14, 2000, by and among Cotelligent, Inc., Cotelligent U.S.A., Inc. and Comsys Information Technology Services, Inc. (Exhibit 10.3 of the Company's Registration Statement on Form S-3/A (File No. 333-37586), filed with the SEC on June 20, 2000, is hereby incorporated by reference)

10.12 Settlement and Mutual Release, dated as of December 21, 2000, among Comsys Information Technology Services, Inc. and Cotelligent USA, Inc. (Exhibit 10.18 of the Company's Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on April 2, 2001 is hereby incorporated by reference)

10.13 Cotelligent 2000 Long-Term Incentive Plan (Exhibit 10.19 of the Company's Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on April 2, 2001 is hereby incorporated by reference)

21.1 Subsidiaries of the registrant ***

23.1 Consent of KPMG LLP **

24.1 Power of attorney as reflected on signatures page included herewith **

99.1 Letter pursuant to temporary note 3T***

99.2 Certification pursuant to 18 U.S.C. Section 1350, or adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

99.3 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

(b) Reports on Form 8-K
Current Report on Form 8-K dated December 6, 2000, filed with the SEC on January 3, 2001

* Management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K.

** Filed herewith.

*** Previously filed

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Irvine, State of California on the 5th day of December, 2002.

COTELLIGENT, INC.

By: /s/ James R. Lavelle

James R. Lavelle
Chief Executive Officer

POWER OF ATTORNEY

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. Each person whose signature appears below hereby authorizes and constitutes James R. Lavelle, Daniel E. Jackson and Curtis J. Parker, and each of them singly, his true and lawful attorneys-in-fact with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities (including his capacity as a director and/or officer of Cotelligent, Inc.) to sign and file any and all amendments to this report with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, and he hereby ratifies and confirm as all that said attorneys-in-fact or any of them, or this or his substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Capacity	
/s/ James R. Lavelle James R. Lavelle	Chairman of the Board of Directors, Director and Chief Executive Officer (Principal Executive Officer)	Dece

/s/ Curtis J. Parker ------------------------------- Curtis J. Parker	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	Dece
/s/ Anthony M. Frank ------------------------------- Anthony M. Frank	Director	Dece
/s/ Debra J. Richardson ------------------------------- Debra J. Richardson	Director	Dece

Certifications Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002

I, James R. Lavelle, certify that:

1. I have reviewed this amended Annual Report on Form 10-K/A of Cotelligent, Inc.;

2. Based on my knowledge, this amended Annual Report on Form 10-K/A does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended Annual Report on Form 10-K/A and;

3. Based on my knowledge, the financial statements, and other financial information included in this amended Annual Report on Form 10-K/A, fairly present in all material respects the financial condition, results of operations and cash flows of Cotelligent, Inc. as of, and for, the periods presented in this amended Annual Report on Form 10-K/A.

Date: December 5, 2002

/S/ James. R. Lavelle

James R. Lavelle
Chairman of the Board and Chief Executive Officer

Certifications Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002

I, Curtis J. Parker, certify that:

1. I have reviewed this amended Annual Report on Form 10-K/A of Cotelligent, Inc.;

2. Based on my knowledge, this amended Annual Report on Form 10-K/A does not

contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 3 to Annual Report on Form 10-K/A and;

3. Based on my knowledge, the financial statements, and other financial information included in this amended Annual Report on Form 10-K/A, fairly present in all material respects the financial condition, results of operations and cash flows of Cotelligent, Inc. as of, and for, the periods presented in this amended Annual Report on Form 10-K/A.

Date: December 5, 2002

/s/ Curtis J. Parker

Curtis J. Parker
Executive Vice President and Chief
Financial Officer