COTELLIGENT INC
Form 10-Q
January 07, 2003

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

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2002

[ ] 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.
(Exact name of registrant as specified in its charter)

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

100 Theory, Suite 200, Irvine, California 92612
(Address of principal executive offices)

(949) 823-1600
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

At January 2, 2003, there were 14,801,354 shares of common stock outstanding.

COTELLIGENT, INC.

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Part I - Financial Information

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2002	Decem
ASSETS		
Current assets:		

Cash and cash equivalents	$ 22,931	$ 1
Refundable income taxes	199	
Accounts receivable, including unbilled accounts of $407 and $1,627 and net of allowance for doubtful accounts of $607 and $533, respectively	2,084	
Current assets of discontinued operations	--	
Notes receivable from officers and stockholder, net of valuation allowance of $1,703	--	
Current portion of note receivable from acquirer of discontinued operation	1,075	
Prepaid expenses and other current assets	649	
Total current assets	26,938	3
Property and equipment, net	265	
Note receivable from acquirer of discontinued operation	789	
Investment in marketable security	1,174	
Equity investment in alliance partner	420	
Other assets	348	
Total assets	$ 29,934	$ 3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 698	$
Accrued compensation and related payroll liabilities	1,577	
Restructuring liabilities	83	
Deferred revenue	207	
Other accrued liabilities	2,207	
Total current liabilities	4,772	
Restructuring liabilities, net of current portion	844	
Other long-term liabilities, net of current portion	150	
Income tax payable	2,618	
Total liabilities	8,384	1
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, 15,545,954 and 15,514,757 shares issued, respectively	155	
Additional paid-in capital	86,666	8
Notes receivable from stockholders	(6,193)	(
Accumulated deficit	(58,578)	(5
Treasury Stock	(500)	
Total stockholders' equity	21,550	2
Total liabilities and stockholders' equity	$ 29,934	$ 3

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

	Three Months Ended September 30,		Nine Months September	
	2002	2001	2002	
		(Restated)		(R
Revenues	$ 3,824	$ 10,444	$ 13,999	$
Cost of services	2,175	7,292	8,618	
Gross profit	1,649	3,152	5,381	
Research and development costs	530	305	1,348	
Selling, general and administrative expenses	5,178	9,308	14,799	
Impairment of long-lived assets	--	1,132	--	
Restructuring charge	--	2,029	--	
Operating loss	(4,059)	(9,622)	(10,766)	
Other income (expense):				
Interest expense	(22)	(29)	(93)	
Interest income	75	189	236	
Other	(465)	(277)	(752)	
Total other income (expense)	(412)	(117)	(609)	
Loss from continuing operations before income taxes	(4,471)	(9,739)	(11,375)	
Benefit for income taxes	--	--	7,496	
Loss from continuing operations	(4,471)	(9,739)	(3,879)	
Gain (loss) on sale of discontinued operations, net of income tax expense of $0, $0, $0, $0	379	(154)	461	
Net income (loss)	$ (4,092)	$ (9,893)	$ (3,418)	$
Earnings (loss) per share:				
Basic -				
Income (loss) from continuing operations	$ (0.30)	$ (0.66)	$ (0.26)	$
Income (loss) from discontinued operations	0.03	(0.01)	0.03	
Net income (loss)	$ (0.27)	$ (0.67)	$ (0.23)	$
Diluted -				
Income (loss) from continuing operations	$ (0.30)	$ (0.66)	$ (0.26)	$
Income (loss) from discontinued operations	0.03	(0.01)	0.03	
Net income (loss)	$ (0.27)	$ (0.67)	$ (0.23)	$
Weighted average number of shares outstanding				
Basic	14,901,054	14,824,310	14,897,724	1
Diluted	14,901,054	14,824,310	14,897,724	1

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended Sept	
	2002	200
		(Resta
Cash flows from operating activities:		
Income (loss) from continuing operations	$ (3,879)	$(17,
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Equity loss from investment in alliance partner	427	
Unrealized loss on investment in marketable security	326	
Depreciation and amortization	10	2,
Loss on sale of asset	5	
Impairment of long-lived assets	--	1,
Provision for doubtful accounts	74	2,
Deferred taxes, net	(7,496)	2,
Changes in current assets and liabilities:		
Accounts receivable	3,535	9,
Prepaid expenses and other current assets	157	(
Income taxes, net	14,305	(6,
Accounts payable and accrued expenses	(2,065)	(
Deferred revenue	(667)	
Other assets	50	
Cash provided by (used for) operating activities	4,782	(6,
Cash flows from investing activities:		
Payments received on note from acquirer of discontinued operations	535	
Purchases of property and equipment	(280)	(
Investment in marketable security	(1,500)	
Cash used for investing activities	(1,245)	(
Cash flows from financing activities:		
Payments on capital lease obligations	--	
Payments on amounts due sellers of acquired businesses	--	(
Net proceeds on issuance of common stock	4	
Purchase of treasury stock	--	(
Cash provided by (used for) financing activities	4	(
Cash flows provided by discontinued operations	612	
Net increase (decrease) in cash	4,153	(6,
Cash at beginning of period	18,778	26,
Cash at end of period	$ 22,931	$ 20,
Supplemental disclosures of cash flow information:		
Interest paid	$ 71	$
Income taxes paid (refunded)	$(14,305)	$
Return of common Stock previously issued to employee for note receivable	$ --	$
Accounts receivable exchanged for preferred stock	$ 1,739	$

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

Note 1 - Business Organization and Basis of Presentation

Cotelligent, Inc. ("Cotelligent" or the "Company"), a Delaware corporation, provides software consulting services to businesses with complex information technology ("IT") operations and also 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 into 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 has suffered significant operating losses as well as negative operating cash flows in the last two fiscal periods as it works through its repositioning in the market, 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 effects 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

The Company has restated its consolidated balance sheets as of December 31, 2001 and 2000 and its consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2001 and the nine months ended December 31, 2000. Additionally, the Company restated the quarterly financial data for each three month period within the year ended December 31, 2001 and nine months ended December 31, 2000. The restated consolidated financial statements and quarterly financial data, along with a description of the items causing the restatement, appear in the Company's Amendment No. 3 to Annual Report on Form 10-K/A for the year ended December 31, 2001, filed with the Securities and Exchange Commission on December 9, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

The following tables present the changes that have been made to the condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2001:

	As Previously Reported	Restated
	Three Months Ended September 30, 2001	
Consolidated Statement of Operations:		
Revenues	$ 10,444	$ 10,444
Cost of services	7,292	7,292
Gross profit	3,152	3,152
Research and development costs	--	305
Selling, general and administrative expenses	7,910	9,308
Impairment of long-lived assets	--	1,132
Restructuring charge	3,373	2,029
Operating loss	(8,131)	(9,622)
Other income (expense):		
Interest expense	--	(29)
Interest income	312	189
Other	(86)	(277)
Total other income (expense)	226	(117)
Income (loss) from continuing operations before income taxes	(7,905)	(9,739)
Benefit for income taxes	--	--
Income (loss) from continuing operations	(7,905)	(9,739)
Operating income (loss) from discontinued operations	(49)	--
Loss on sale of discontinued operations	--	(154)
Income (loss) from discontinued operations	(49)	(154)
Net income (loss)	$ (7,954)	$ (9,893)
Earnings (loss) per share:		
Basic -		
Income (loss) from continuing operations	$ (0.54)	$ (0.66)
Income (loss) from discontinued operations	--	(0.01)
Net income (loss)	$ (0.54)	$ (0.67)
Diluted -		
Income (loss) from continuing operations	$ (0.54)	$ (0.66)
Income (loss) from discontinued operations	--	(0.01)
Net income (loss)	$ (0.54)	$ (0.67)
Weighted average number of shares outstanding:		
Basic	14,824,310	14,824,310
Diluted	14,824,310	14,824,310

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

	As Previously Reported	Restated
	Nine Months Ended September 30, 2001	
Revenues	$ 39,500	$ 39,500
Cost of services	28,591	28,591
Gross profit	10,909	10,909
Research and development costs	--	620
Selling, general and administrative expenses	26,771	28,567
Impairment of long-lived assets	--	1,132
Restructuring charge	3,373	2,029
Operating loss	(19,235)	(21,439)
Other income (expense):		
Interest expense	(2)	(89)
Interest income	1,193	824
Other	(143)	(716)
Total other income (expense)	1,048	19
Income (loss) from continuing operations before income taxes	(18,187)	(21,420)
Benefit for income taxes	--	3,454
Income (loss) from continuing operations	(18,187)	(17,966)
Operating income (loss) from discontinued operations	(32)	--
Loss on sale of discontinued operations	--	(273)
Income (loss) from discontinued operations	(32)	(273)
Net income (loss)	$ (18,219)	$ (18,239)
Earnings (loss) per share:		
Basic -		
Income (loss) from continuing operations	$ (1.20)	$ (1.18)
Income (loss) from discontinued operations	--	(0.02)
Net income (loss)	$ (1.20)	$ (1.20)
Diluted -		
Income (loss) from continuing operations	$ (1.20)	$ (1.18)
Income (loss) from discontinued operations	--	(0.02)
Net income (loss)	$ (1.20)	$ (1.20)
Weighted average number of shares outstanding:		
Basic	15,150,770	15,147,107
Diluted	15,150,770	15,147,107

	As Previously Reported	Restated
	Nine Months Ended September 30, 2001	
Consolidated Statement of Cash Flows:		
Net cash used in operating activities	$(5,441)	$(6,126)
Net cash used in investing activities	(1,029)	(128)
Net cash used in financing activities	(1,247)	(954)
Cash provided by discontinued operations	1,403	894

Note 3 - Summary of Significant Accounting Policies

The accompanying interim financial statements do not include all disclosures included in the financial statements in Cotelligent's Amendment No. 3 to Annual Report on Form 10-K/A for the year ended December 31, 2001 ("Form 10-K/A"), and therefore these financial statements should be read in conjunction with the financial statements included in Cotelligent's Form 10-K/A.

In the opinion of management, the interim financial statements filed as part of this Quarterly Report on Form 10-Q reflect all adjustments necessary for a fair presentation of the financial position and the results of operations and of cash flows for the interim periods presented. Certain balances of the prior year have been reclassified to conform to the current presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

Note 4 - Changes in Stockholders' Equity

	Common Stock		Additional Paid-In	Notes Receivable From	Accum.
	Shares	Amount	Capital	Stockholders	Deficit
Balance at December 31, 2001	15,514,757	$155	$86,662	$(6,193)	$(55,160)
Issuance of common stock	31,197	--	4	--	--
Net loss	--	--	--	--	(3,418)
Balance at September 30, 2002	15,545,954	$155	$86,666	$(6,193)	$(58,578)

Note 5 - Discontinued Operations

On June 30, 2000, the Company sold the majority of its IT staff augmentation business and on July 14, 2000 and October 31, 2000 sold other components of the IT staff augmentation business. During the quarter ended September 30, 2002, the Company continued to hold one remaining component of its IT staff augmentation business. During the fourth quarter of fiscal 2001, the Company abandoned its plan to divest of this operation and consequently closed this business.

The following financial data reflects a summary of operating results for the Company's discontinued operations for the three and nine months ended September 30, 2001.

Summary of Operating Results of Discontinued Operations:

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Revenues	$ 335	$3,838
Cost of services	351	3,078
Gross profit	(16)	760
Selling, general and administrative expenses	138	1,033
Operating loss	(154)	(273)
Other income (expense)	--	--
Operating loss before provision for taxes	(154)	(273)
Provision for income taxes	--	--
Operating loss from discontinued operations	(154)	(273)
Reclassification to gain on sale of discontinued operations	154	273
Operating income (loss) from discontinued operations	$ --	$ --

Gain on Sale of Discontinued Operations in 2002:

The gain on the sale of discontinued operations for the three and nine months ended September 30, 2002 is the result of recoveries of trade accounts receivable in 2002 previously written off to bad debt expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

Note 6 -Investment in Marketable Security

On August 19, 2002, the Company acquired 3,055,540 shares of Series C Convertible Redeemable Preferred Stock ("Series C") of Bluebook International Holding Company, Inc. ("Bluebook"), representing an approximately 9% ownership interest (assuming conversion of all outstanding preferred stock) in exchange for $1,000 in cash, conversion of a $500 bridge loan from Cotelligent to Bluebook, advanced earlier in the third quarter of 2002, and services rendered in connection with the development of software for Bluebook. In accordance with the purchase and development agreement, management of the Company expects Cotelligent to be a preferred provider of implementation services for Bluebook's future software products.

Under the Series C purchase and development agreement, the Company is obligated to contribute additional services and fund an additional $1,500 in cash, due upon Bluebook's first sale of certain software associated with the purchase and development agreement. Upon payment of the additional $1,500 and delivery of the remaining services, the Company will receive an additional 2,261,164 shares of Series C, which will increase the Company's ownership interest in Bluebook to 15% (assuming conversion of all outstanding preferred stock, and assuming no further stock issuances on behalf of Bluebook). In December 2002, the Company funded the additional $1,500 after Bluebook satisfied the necessary conditions required for payment. In addition, Bluebook issued the remaining 2,261,164 Series C shares.

The Series C were initially recorded at $1,500, the amount of cash paid to Bluebook. The cost of the contributed services were recorded as research and development costs in the accompanying condensed consolidated statements of operations.

Under the certificate of designation of the Series C stock, Bluebook is required, at the Company's option, to either a) convert the Series C shares to common stock at any time or b) redeem the Series C shares for cash beginning four years and up through six years after the date of initial issuance.

The Series C meets the definition of a debt security under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". In accordance with SFAS No. 115, the Company classified the Series C as a trading security and consequently reports the investment at fair value, with unrealized gains and losses recorded in other income (expense) in the consolidated statements of operations. Accordingly, the initial investment was reduced by $326 during the three months ended September 30, 2002 due to the decrease in fair value since the acquisition date.

During the nine months ended September 30, 2002, the Company delivered software development services to Bluebook with a cost of $717. Of the total services contributed, $396 and $321 were recorded as research and development costs during the three months ended June 30, 2002 and September 30, 2002, respectively.

Note 7 - Income Taxes

On March 9, 2002, Congress approved the Job Creation and Worker Assistance Act of 2002 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 was reflected in the March 31, 2002 financial statements as changes in tax law must be reflected in the period of enactment. Consequently, the Company recorded a $7,496 tax benefit during the nine months ended September 30, 2002, which reflects the release of a valuation allowance against a deferred tax asset previously written down to zero due to the uncertainty of its realization. The Company received a $7,496 refund of taxes on August 10, 2002.

Note 8 - Subsequent Event - Restructuring Charge

During the fourth quarter 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 the Dallas sales office as well as consolidating the San Francisco headquarters into excess space at the Irvine, California facility, at the end of their respective lease terms. Accordingly, the Company adopted a restructuring plan, which is expected to result in a pre-tax restructuring charge of approximately $700 during the fourth quarter of 2002. This charge includes severance costs for approximately 28 management and operating staff.

Note 9 - Weighted Average Number of Shares Outstanding

	Three Months Ended September 30,		Nin
	2002	2001	20
Basic weighted average number of shares outstanding	14,901,054	14,824,310	14,89
Effect of stock options issued to employees and directors	--	--	
Diluted weighted average number of shares outstanding	14,901,054	14,824,310	14,89

Options to purchase 4,318,331 and 1,820,952 shares of common stock were outstanding at September 30, 2002 and 2001, respectively, but were not included in EPS for the three and nine months ended September 30, 2002 and 2001 because the Company had a loss from continuing operations making the options antidilutive.

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

Except for statements of historical fact contained herein, any statements contained in this report may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. All such forward-looking statements are based upon current expectations that involve risks and uncertainties. Cotelligent's actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed under "Risk Factors" in Cotelligent's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, other filings made with the Securities and Exchange Commission and Cotelligent's press release announcing earnings for the quarter ended March 31, 2002, which was issued on April 30, 2002. The following discussion is qualified in its entirety by, and should be read in conjunction with, the more detailed information set forth in our financial statements and the notes thereto included elsewhere in this filing. All forward-looking statements included in this report are based upon information available to Cotelligent as of the date thereof, and Cotelligent assumes no obligation to update any of such forward-looking statements.

OVERVIEW

Cotelligent provides software consulting services to businesses with complex information technology ("IT") operations and also provides maintenance, support and contract services on software products it licenses. These activities are provided under time and materials billing arrangements or on a fixed-fee basis. For time and materials billing arrangements, 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. For fixed-fee arrangements, work is performed in line with established deliverables and revenue is calculated on a percentage of completion basis. 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 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.

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

The Company has restated the condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2001 included in this Quarterly Report on Form 10-Q. For additional information regarding the restatement, please refer to Note 2 to the condensed consolidated financial statements included in Item 1.

CONSOLIDATED RESULTS OF OPERATIONS
(In Thousands)

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Revenues

Revenues decreased $6,620, or 63%, to $3,824 in the three months ended September 30, 2002 from $10,444 in the three months ended September 30, 2001. The decrease was due to a general reduction in demand for its services due to softening in the market coupled with a shift away from general IT consulting services towards offering mobile workforce management solutions and its associated ramp-up time.

Gross Profit

Gross profit decreased $1,503, or 48%, to $1,649 in the three months ended September 30, 2002 from $3,152 in the three months ended September 30, 2001. The decrease was due to lower revenues following a general reduction in demand for its services due to softening in the market coupled with a shift away from general IT consulting services towards offering mobile workforce management solutions and its associated ramp-up time. The gross profit margin increased to 43% from 30%, due to better pricing, a mix shift to higher margin projects, caused in part by the end of some long-term, lower margin, legacy system development engagements, and an increase in utilization of billable staff.

Research and Development Costs

Research and development costs were $530 for the three months ended September 30, 2002 compared to $305 for the three months ended September 30, 2001. The Company has a dedicated team of people solely focused on research and development activities associated with mobile workforce management and Web services solutions. The higher spending level during the three months ended September 30, 2002 was due to research and development costs incurred for the development of a software solution for a business partner (See Note 6 to the condensed consolidated financial statements included in Item 1).

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $4,130, or 44%, to $5,178 in the three months ended September 30, 2002 from $9,308 in the three months ended September 30, 2001. The decrease was primarily due to 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 revenues.

Impairment of Long-Lived Assets

In September 2001, the Company recognized an impairment of long-lived assets charge of $1,132 on property and equipment associated with locations where the Company ceased operations.

Restructuring Charge

In September 2001, 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 resulting in a $2,436 restructuring charge during the year ended December 31, 2001. 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." Restructuring costs of $2,029 were recorded in the three months ended September 30, 2001. The remainder of the charge was recorded during the three months ended December 31, 2001.

Other Income (Expense)

Other income (expense) primarily consists of interest income, interest expense, loss on an investment in an alliance partner accounted for under the equity method of accounting and the change in market value associated with an investment in a marketable security. Interest income net of interest expense was

$53 for the three months ended September 30, 2002 compared to $160 for the three months ended September 30, 2001. The decrease in net interest income was due to a lower cash balance on hand during the three months ended September 30, 2002. Other expense for the three months ended September 30, 2002 was $465 principally from the change in market value associated with an investment in a marketable security which resulted in a $326 unrealized loss.

Benefit for Income Taxes

The Company did not record an income tax benefit for the three months ended September 30, 2002 or 2001 due to the uncertainty of its realization.

CONSOLIDATED RESULTS OF OPERATIONS
(In Thousands)

Gain on Sale of Discontinued Operations

Discontinued operations was comprised of the Company's IT staff augmentation business. The gain on sale from discontinued operations of $379 for the three months ended September 30, 2002 compares to a loss of $154 for the three months ended September 30, 2001. The increase is the result of cash collected in 2002 on trade accounts receivable written off in prior years to bad debt expense.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Revenues

Revenues decreased $25,501, or 65%, to $13,999 in the nine months ended September 30, 2002 from $39,500 in the nine months ended September 30, 2001. The decrease was due to a general reduction in demand for its services due to softening in the market coupled with a shift away from general IT consulting services towards offering mobile workforce management solutions and its associated ramp-up time.

Gross Profit

Gross profit decreased $5,528, or 51%, to $5,381 in the nine months ended September 30, 2002 from $10,909 in the nine months ended September 30, 2001. The decrease was due to a general reduction in demand for its services due to softening in the market coupled with a shift away from general IT consulting services towards offering mobile workforce management solutions and its associated ramp-up time. The gross profit margin increased to 38% from 28%, due to better pricing, a mix shift to higher margin projects caused in part by the end of some long-term, lower margin, legacy system development engagements and an increase in utilization of billable staff.

Research and Development Costs

Research and development costs were $1,348 for the nine months ended September 30, 2002 compared to $620 for the nine months ended September 30, 2001. The higher level of spending during the nine months ended September 30, 2002 was due to research and development costs incurred for the development of a software solution for a business partner. See Note 6 to the condensed consolidated financial statements included in Item 1.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $13,768, or 48%, to $14,799 in the nine months ended September 30, 2002 from $28,567 in the nine months ended September 30, 2001. The decrease was primarily due to reductions in operating staff as well as the effects of other reductions in staff to streamline operations in line with revenue.

Impairment of Long-Lived Assets

In September 2001, the Company recognized an impairment of long-lived assets charge of $1,132 on property and equipment associated with locations where the Company ceased operations.

Restructuring Charge

In September 2001, 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 resulting in a $2,436 restructuring charge during the year ended December 31, 2001. 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." Restructuring costs of $2,029 were recorded in the nine months ended September 30, 2001. The remainder of the charge was recognized during the three months ended December 31, 2001.

Other Income (Expense)

Other income (expense) primarily consists of interest income, interest expense, loss on an investment in an alliance partner accounted for under the equity method of accounting and the change in market value associated with an investment in a marketable security. Interest income, net of interest expense was $143 for the nine months ended September 30, 2002 compared to net interest income of $735 for the nine months ended September 30, 2001. The decrease in net interest income was due to a lower cash balance on hand during the nine months ended September 30, 2002. Other expense for the nine months ended September 30, 2002 was $752, principally consisting of an unrealized loss of $326 resulting from the change in market value associated with an investment in a marketable security. Offsetting these reductions was a decrease in the equity loss from the investment in alliance partner.

Benefit for Income Taxes

The income tax benefit of $7,496 for the nine months ended September 30, 2002 was the results of the Job Creation and Worker Assistance Act of 2002, approved by Congress on March 9, 2002, 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 was reflected in the March 31, 2002 financial statements as changes in tax law must be reflected in the period of enactment. The income

tax benefit of $3,454 for the nine months ended September 30, 2001 resulted from a decrease in a valuation allowance previously established against a goodwill deduction that was written off on the March 31, 2001 tax return.

Gain on Sale of Discontinued Operations

Discontinued operations is comprised of the Company's IT staff augmentation business. The gain on sale of discontinued operations of $461 for the nine months ended September 30, 2002 compares to a loss of $273 for the nine months ended September 30, 2001. The increase in gain on sale of from discontinued operations is the result of cash collected on trade accounts receivable in 2002 written off in prior years to bad debt expense.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed itself principally through cash flows from operations, net proceeds from its public offerings, net proceeds from the sale of its IT staff augmentation business and tax refunds from the carry back of net operating losses.

The Company previously maintained a credit facility with a consortium of banks under which it borrowed to fund working capital needs. On June 30, 2000, the Company used a portion of the cash proceeds from the sale of its IT staff augmentation business to pay off all obligations under the credit facility and to pay existing earn-out obligations to sellers of an acquired business. Upon settlement of all obligations under the credit facility, the credit facility was terminated. Since June 30, 2000, the Company has not maintained a credit facility.

Cash provided by operating activities was $4,782 for the nine months ended September 30, 2002, and the average cash balance during the quarter was $21,743. The Company's primary sources of liquidity for the Company going forward include the collection of accounts receivable and federal and state income tax refunds resulting from the carry-back of net operating losses. In addition, the Company continues to utilize the cash proceeds generated from the sales of its IT staff augmentation businesses. Total receivables were 64 days of quarterly revenues at September 30, 2002 and 74 days at December 31, 2001. 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 resulted in a $7,496 tax refund received by the Company on August 10, 2002. The Company's management believes that the remaining cash on hand will provide adequate cash to fund its anticipated cash working capital needs at least through next year.

The following table reflects our contractual cash obligations, excluding interest, due over the indicated periods.

	Payments Due by Period				
Contractual Cash Obligations:	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	Af Y
Obligations due sellers of an acquired business	$ 499	$ 388	$ 111	$ --	
Operating leases	$5,394	$1,566	$3,412	$416	
Total contractual obligation	$5,893	$1,954	$3,523	$416	

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 include 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." Management has adjusted these obligations over the payment periods of each restructuring plan as liabilities have been settled and payments have been made. Management periodically reviews the accuracy of the restructuring liabilities, and accounts for any necessary adjustments due to changes in estimates in the statement of operations as originally provided.

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, except a) in the first quarter of 2001, the Company recognized an income tax benefit related to a net operating loss generated through March 31, 2001 that was carried back to early years and for which a refund of taxes was received and b) 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 was reflected in the March 31, 2002 financial statements as changes in tax law must be reflected in the period of enactment. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cotelligent's policy is to invest its cash in a manner that provides Cotelligent with the appropriate level of liquidity to enable the Company to meet its current obligations, primarily accounts payable, capital expenditures and payroll, recognizing that the Company does not currently have outside bank funding available.

During the quarter ended September 30, 2002, the Company invested approximately $1,500 of cash in convertible redeemable preferred stock in Bluebook International Holding Company, a publicly traded company. As the instrument is convertible into a publicly traded security, the investment has market risk which can result in fluctuations in the value. The Company looks to the publicly traded value to determine the fair value of the investment at each reporting date and recognizes unrealized gains or losses in the consolidated statement of operations in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Cotelligent has invested its existing cash in highly liquid money market accounts and does not use derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions. Accordingly, the Company believes that it is not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

Item 4. Controls and Procedures

Based on the evaluation by the Chief Executive Officer and Chief Financial Officer of the Company as of a date within 90 days of the filing date of this quarterly report, those officers believe that the Company's disclosure controls and procedures are reasonably effective to ensure that the information required to be included in this report has been recorded, processed, summarized and reported on a timely basis. There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls and there have been no corrective actions taken with regard to significant deficiencies and material weaknesses subsequent to the date of such officers' evaluation.

PART II - OTHER INFORMATION

Item 1. 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 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Series C Convertible Redeemable Preferred Stock Purchase Agreement, dated as of August 19, 2002, by and between the Bluebook International Holding Company, Mark A. Josipovich, Daniel E. Josipovich, Daniel T. Josipovich, Dorothy E. Josipovich and Cotelligent, Inc.

10.2 Voting Agreement, dated as of August 19, 2002, by and among the Bluebook International Holding Company, certain holders listed on the signature pages thereto and Cotelligent, Inc.

10.3 Right of First Refusal Agreement, dated as of August 19, 2002, by and among the Bluebook International Holding Company, Mark A. Josipovich, Daniel E. Josipovich, Daniel T. Josipovich, Dorothy E. Josipovich and Cotelligent, Inc.

10.4 Investor Rights Agreement, dated as of August 19, 2002, by and between The Bluebook International Holding Company and Cotelligent, Inc.

10.5 Indemnification Agreement, dated as of August 19, 2002, by and between The Bluebook International Holding Company and James Lavelle.

99.1 Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 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 8-K filed July 16, 2002 relating to change in Cotelligent's certifying accountant.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COTELLIGENT, INC.

Date: January 6, 2003

/s/ Curtis J. Parker

Curtis J. Parker
Executive Vice President,

Chief Financial Officer and Treasurer

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

I, James R. Lavelle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cotelligent, Inc.;

2. Based on my knowledge, this quarterly report 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in the quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether of not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 6, 2003

/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 quarterly report on Form 10-Q of Cotelligent, Inc.;

2. Based on my knowledge, this quarterly report 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in the quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether of not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 6, 2003

/s/ Curtis J. Parker

Curtis J. Parker
Executive Vice President and Chief Financial Officer