WATCHIT MEDIA, INC.
Form 10-K
April 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2005

o **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

WATCHIT MEDIA, INC.

Delaware	**94-3173918**

(State of incorporation) (I.R.S. ID)

655 Montgomery Street, Suite 1000, San Francisco, CA 94111

(415) 477-9900

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 if the registrant is a well-known seasoned issuer, as defined in the Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý NO o

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES o NO ý

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $2,700,261 based on the closing price of $0.10 of the registrant s Common Stock as reported on the OTC Bulletin Board on June 30, 2005.

The number of shares of the registrant Common Stock outstanding as of April 13, 2006 was 33,668,896.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of this registrant s definitive proxy statement for its 2004 annual meeting to be filed with the SEC no later than 120 days after the end of the fiscal year are incorporated by reference in Part III of this Annual Report on Form 10-K.

WATCHIT MEDIA, INC.

FORM 10-K

For The Fiscal Year Ended December 31, 2005

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PART I

Item 1. Business

COMPANY OVERVIEW

During 2005, we operated two distinct business units; narrowcasting and Information Technology (IT) services. Our IT services business operated under the name of Cotelligent, Inc. and the narrowcasting business operated under the name of our wholly-owned subsidiary Watchit Media, Inc. In July 2005 we divested our IT services business to focus our strategy taking advantage of growth factors in the narrowcasting sector of the media industry. As part of this transformation we merged Watchit Media, Inc. into us and changed our name from Cotelligent, Inc. to Watchit Media, Inc.

On December 8, 2005, Watchit Media, Inc. (OTCBB-WMDA) changed the company s ticker symbol to WMDA from CGZT. The change in the company s ticker symbol reflects its change in identity from Cotelligent, Inc to Watchit Media, Inc. The company is in the process of transitioning all aspects of its former brand, name and identity to Watchit Media, Inc.

Watchit Media, Inc. uses digital media to produce and present television programming to out-of-home place based private television networks (narrowcasting). These private television networks are in both consumer and commercial environments. The convergence of television and the Internet has enabled new rapidly growing applications and markets to evolve. According to a leading market research firm, world-wide spending on narrowcasting was approximately $630 million in 2004 and is expected to grow to over $2.0 billion in 2009.

Watchit Media s clients are among the largest gaming, lodging and hospitality companies in the world. Today Watchit produces and presents television programming and advertising using digital and Internet Protocol (IP) technology to over 100 gaming, lodging and hospitality venues in Nevada, New Jersey, California, Oregon, Indiana, Mississippi and Louisiana, Missouri, Illinois and Iowa. We produce and present all of our television programming from our creative media center and television studio in Las Vegas, Nevada.

Watchit has significant market share in the gaming and hospitality markets. Forty nine of our clients and approximately 52,000 of the hotel rooms we present our television programming and advertising to are in Las Vegas, Nevada. This represents 47% market share of the available gaming related hotel rooms in this market. Watchit produces and presents its television programming on the gaming floor, in the registration center, in common areas, in restaurants, on outdoor signs and in hotel rooms. Our in-room programming reaches over 17,000,000 viewers a year.

In hotel rooms, we present our clients own brand advertising and The Watchit Television Network (WTN). WTN is formatted in topic-specific templates that allows our television programming to be easily changed by our client to match the demographic profile of WTN s audience. In most case our clients license the use of Watchit s Manageit Enterprise IP television network platform by simply using a browser. Channels on WTN include sports, entertainment, visitor, music, business and others. The difference between WTN and broadcast / cable television is that Watchit s channels present the hotel s own brand advertising as part of its

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programming. The cost of similar advertising time on broadcast and cable television would be cost prohibitive. We also sell advertising time to third party advertisers on WTN that matches guest demographic profiles. We re able to offer our advertisers audiences that are both targeted and engaged.

Lodging and hospitality companies are seeking ways of differentiating their brand and building brand loyalty. Watchit gives these organizations a way, using their private television channels and systems, to accomplish this goal with quality television programming and high-impact advertising. Our clients rely on us to i) produce their television content ii) provide the television network for their private televison channels and iii) sell advertising time on their private television networks to third party advertisers.

Our business and financial models are highly scalable and combine the strength of high-impact relevant television programming in the gaming, lodging and hospitality markets with our experience and competency in Internet and interactive technology. We believe our narrowcasting and Internet technology capabilities favorably differentiate us giving us a competitive advantage.

Company History

Cotelligent, Inc. was founded in February 1993. In February 1996 we executed a transaction that merged four regional IT service and consulting firms at the same time the Company issued common stock in an initial public offering on the NASDAQ Stock Market. At that time, several factors favorably influenced our future opportunities including:

1) Growth in demand for the outsourcing of information technology services;

2) High fragmentation in the implementation services market with over three thousand private IT services firms in the US market generating over $1.0 million in revenue each;

3) The absence of a market leader among companies in the IT services competitive environment; and,

4) The influx of capital in the public markets fueling growth companies.

By May 1999 Cotelligent was generating approximately $340 million in revenue with 32 offices in 5 countries. During this period Cotelligent acquired 24 private businesses and integrated them into our operating structure. In February 1998 we moved from the NASDAQ Stock Market and began listing our stock on the New York Stock Exchange. In March 1998 we executed a successful follow-on stock offering raising $65 million. At the close of this transaction, we had a market capitalization of approximately $500 million. We also had a $100 million line of credit with a syndicate of five banks led by Fleet Bank.

Revenue and profit began declining in Q2 1999. A trend of losses and negative cash flow followed. Our business declined through March 2000 and at the end of March our Company announced the divestiture of a significant part of our business related to IT staffing. On June 30, 2000 we sold 20 of our offices for $130 million. After the settlement of our bank debt and other payments, we had approximately $44 million in cash remaining.

On July 1, 2000, we refined our business focus by concentrating on projects involving Internet business applications in the enterprise. Unfortunately, six months later, the dot com bubble burst and in September 2001, terrorists attacked the United States. The negative impact of the attack affected all sectors of our economy, especially technology. Our clients began deferring projects to future periods. Our sales prospects began delaying decisions. At the same time the impact of cheap off-shore labor in the IT services sector materially and adversely affected the competitive environment.

In April 2003 we announced our plans to seek a merger partner. The ideal merger candidate would have the following attributes:

- Compete in an industry showing rapid growth;
- Have a strong reputation and reliable product or service;
- Demonstrate the ability to grow revenue, profit and cash;
- Have greater opportunity when combined with our business; and
- Give Cotelligent the ability to dramatically improve stock performance.

We evaluated several hundred companies in a variety of industries. Our market research indicated the narrowcasting sector of the media industry demonstrated the potential for dynamic growth in the years ahead. In March 2004 we acquired Las Vegas-based OnSite Media, Inc. Cotelligent created Watchit Media, Inc., a wholly-owned subsidiary of Cotelligent at the closing of the OnSite Media transaction.

The Onsite Media, Inc. Acquisition / Watchit Media, Inc.

Cotelligent, Inc. had been in the business of providing complete business solutions, specializing in mobile business and Web services solutions, to extend information technology beyond the desktop all the way to the mobile enterprise to businesses in the US. By acquiring OnSite Media, Inc., a narrowcasting service provider, we entered the dynamic and growing business.

Our vision is to become the preeminent producer of television programming and advertising on out-of-home place based private television networks. We also believe our capabilities in wireless technology, when combined with our television production, gives us the ability to enter interactive and mobile entertainment markets.

Over the past several years as Internet, video media and wireless technology have advanced, costs have come down and technical capabilities have dramatically improved. The convergence of Internet, video media and wireless technologies represents the next great trend for consumers and commercial enterprise. For over seven years, Cotelligent had been developing Internet-based business application systems and media in both connected and disconnected environments. In addition, Cotelligent s FastTrack sales force automation business software and JAS Middleware proprietary products supported over 5000 users. Cotelligent s experience in providing IT services in these areas of technology in hundreds of business environments is well documented.

As the influence, quality and availability of video media has improved, more sophisticated approaches to employing video have emerged. The result has been the evolution of a new sector of the media industry called narrowcasting. As opposed to broadcast and cable television, narrowcasting is the programming of video content driven to captive audiences through private television systems. These captive audiences may be customers, guests, constituents, attendees, trainees and many other such audiences.

The Narrowcasting industry is transitioning from the early adapter to growth phase in the U.S. According to InfoTrends / CAP Ventures, a market research firm, spending on Narrowcasting products and services in 2004 was approximately $630 million and spending is projected to grow to over $2.0 billion by 2009. While growth in narrowcasting has been projected in the past, it was not until recently that rapid adoption became possible because the only true method of delivery (flat LCD or Plasma screens) was too expensive.

In 2004, this and other delivery hardware became affordable and costs are projected to continue to fall in the years ahead. As with many early stage industries, the narrowcasting competitive landscape is highly fragmented with many small private businesses providing video content, equipment, technical services and related support to a variety of vertical markets across the U.S.

Watchit uses the Internet, digital video and computer editing technology to produce and move content from Watchit s creative media and television studio to our client s venues. Watchit s responsiveness and the high level of reliability of Watchit s video infrastructure have distinguished the Company as a leader in this market over the past twelve years. In December 2005 Watchit moved into a new, state-of-the-art facility in Las Vegas, Nevada that gives the Company the ability to create, produce and present dynamic, highly customized television programming and advertising in conventional or HD format anywhere in the world.

A private venue in virtually any commercial or government environment can use a private television network to entertain, inform, educate and influence an audience once it understands that audience s profile. The premise of Watchit s television programming for its clients private television networks is based on the fact that every private venue (whether retail store, recreation facility, business office, class room, hotel, etc.) has a captive audience that is demographically specific, predictable and consistent.

By analyzing and understanding the demographic and related data for each venue s profile, Watchit is able to develop highly targeted television programming and advertising appealing specifically to and therefore influencing each captive audience. We focus our video content on what is of greatest appeal and interest to each captive audience. As a result Watchit is far more likely to attract their attention and influence their behavior. Whether the desire is to influence a buying decision, establish brand awareness and loyalty, build a connection with a customer or educate a trainee, Watchit Media s approach to our television programming on private television networks has the most immediate impression on the captive audience.

Our strategy has been to grow Watchit s existing service business and build distribution to provide a stream of revenue which is predictable and recurring. We have one and two year exclusive renewable contracts with each of our clients. Our contracts provide our clients with a license to use our Internet infrastructure for the transmission of televison programming to their private televison systems and channels.

We also generate revenue from clients that choose to outsource their television production activities to Watchit. These have been our primary sources of revenue for the past twelve years. While most of Watchit s historical revenue has been generated from contracts and television production services, our business and financial model since mid-2005 includes revenue derived from third party advertising on the Watchit Televison Network (WTN).

An example of WTN proprietary programming is Watchit Gaming Television Network (WGTN), a television channel offering programming related to learning casino games. Our research indicates a high demand for a new, innovative approach to televised gaming instruction. WGTV is a television experience that includes both venue specific and third party advertising that will be relevant to our target audience. Watchit Business Television Network, Watchit Visitor Television Network and Watchit Music Television Network are other examples of proprietary television programming.

A technological extension of our proprietary programming model involves the use of Internet Protocol (IP) to enable an interactive connection for hotel room guests. Internet technology infrastructure can be presented to provide our audience with a mechanism to take immediate action and make buying decisions. We are currently in discussions with technology companies that have developed interactive services that are well suited to this application in the hospitality and gaming sectors.

Summary

We are executing a strategy that combines our technical and video media expertise to elevate narrowcasting to the next level for the hospitality and gaming market. Our business and financial models have been developed around the following:

Narrowcasting Services

Third Party Advertising

Proprietary and Licensed Television Programming

Interactive Media

Mobile Entertainment

On July 13, 2005 we sold our IT services business to FastTrack, LLC, an affiliate of Beverly Hills, California private equity firm Skyview Capital, LLC and divested our remaining IT services business for aggregate consideration of $2.3 million in cash at closing and an earn-out of up to $950 if the buyer achieves certain revenue levels over the three years following completion of the sale.

The narrowcasting sector is transitioning from the early adapter to growth phase in the United States. According to InfoTrends/ CAP Ventures, a market research firm, spending on narrowcasting in 2004 was approximately $600 million and spending is projected to grow to over $2.0 billion by 2009. While growth in narrowcasting has been projected in the past, it was not until recently that rapid adoption became possible because the only true method of delivery (flat LCD or Plasma screens) was too expensive. In 2004, this and other delivery hardware became affordable and costs are projected to continue to decline in the years ahead. As with many early stage industries, the narrowcasting competitive landscape is highly fragmented with many small private businesses providing video content, equipment, technical services and related support to a variety of vertical markets across the United States.

NARROWCASTING INDUSTRY OVERVIEW

The advent of the television set and commercial video transmission in the early 1950 s introduced a break-through communication medium to the world and an industry was born. It was called broadcast television. Over the years, as this technology improved and the cost of television sets decreased, more and more consumers found it affordable to have television in their homes. Advertisers flocked to present their messages to this growing market as the production, presentation and scheduling of television programming improved.

During the early 1960 s, television found application in a variety of government and commercial environments beyond the home. So-called closed circuit television was initiated in small television studios and presented to captive audiences for specific purposes. These purposes included education and training, public relations and promotion, internal communication and other narrowly targeted activities. The cost of the technology meant that it was only affordable to big companies and agencies of local, state and federal government. In addition, in the early 1970 s, cable television introduced a new variety of programming options to consumers broadening the options available for entertainment in the home.

During the 1970 s and 1980 s, improvements in cost and capabilities of video technology continued, making private use more affordable and the applications of video technology increased. Broadcast and cable television became more targeted, the measurement of the effectiveness of advertising became more scientific, new theme-based television channels like HBO, MTV and Discovery Channel captured the attention of audiences as cable television offered new, exciting program options.

The introduction of commercially available and affordable video cassette recorders and video cameras gave consumers the ability to both record and play video tape in the privacy of their own homes. Similarly, this new technology provided a way for businesses large and small to communicate, market, merchandise, promote, educate and train captive audiences as never before. The new flexibility in the use of video recorders gave their users the ability to present a single video recording across numerous television sets or video monitors within a single location at the same time. As opposed to broadcast or cable television, this new capability had a narrow audience and the term narrowcasting emerged.

During the 1990 s, the use of video communication became pervasive. The video cassette gave way to the digital video disc, the cost and capabilities of players and recorders continued to improve and the world

evolved from analog to digital. Video cameras that once weighed hundreds of pounds and cost hundreds of thousands of dollars have been replaced with video cameras that fit in the palm of the hand costing several hundred dollars. These efficiencies created by digital media are the key drivers to the growth of the narrowcasting industry.

Narrowcasting is defined as the digital delivery of motion media through electronic displays placed out-of-home in indoor and outdoor settings, where all content is centrally managed and controlled. This new medium allows retailers, brand marketers and other entities to communicate with the public by using an unprecedented level of customization and timeliness. Besides promotional messages narrowcasting can be used by many other content providers that wish to entice viewers with other types of programming; most commonly news programs, personal care information and other customer service messages.

The key aspects of the narrowcasting value proposition will be directly connected to content provided, regardless of the type of network and application. In order to become successful, narrowcasting program content must satisfy the following conditions:

Visually stimulating content must hold a captive audience s attention;

Targeted content must be relevant to the audience, the site, geography, time and other factors;

Dynamic content that can be changed quickly;

Interactive capabilities the audience can act upon according to their interests; and

Integrated content that can be linked to other information and systems relevant to the audience.

The major types of technology and features provided by narrowcasting systems are the following:

Digital displays, including CRT monitors, LCD screens, LEDs, gas plasma screens, rear projection, tiled video walls or a combination of these displays;

Display management hardware, ranging from a PC for a single display site to multiple PCs or a server that can run multi-display sites;

Software at the customer site for content control;

High-bandwidth communications for routine control and monitoring, and satellites for periodic downloading of large digital video and graphic files; and,

Central control site capable of managing a multi-site network.

There are currently more than 100 companies operating in this industry, excluding the various broadband providers and large content creators. Industry product and service providers are categorized as follows:

Network operators such as CNN, CTN, Next Generation Network and Watchit Media who are responsible for the central control centers, working as a key interface between system users and other partners;

Systems integrators such as Watchit Media and Hoffman who install systems, integrate software and components;

Software developers such as Allure, AlivePromo, FRED Systems and Watchit Media who program and deploy control, management, content creation and manipulation software;

Bandwidth providers such as AT&T Broadcast, Verizon and Time Warner Cable who have satellite and high speed communication pipelines; and

Display manufacturers such as Barco, Clarity Visual Systems and NEC who build and sell displays and perform ongoing research and development on technical improvements.

Despite these broad categories, there are competitors in the sector capable of vertical integration. In several cases, software developers act as system integrators. Also, system integrators are sometimes involved in managing network operations. The display manufacturer is usually a clearly defined category, although from time to time, they become involved in system integration activities. Often, to create a competitive advantage, partnerships are formed across competitive market segments to implement entire systems.

Independent distributors and value added resellers also implement systems for smaller businesses that lack the scale to attract the interest of the larger companies described above. We expect value added resellers will play a more significant role in the market in the future, once narrowcasting product and service providers start marketing industry-specific generic systems to single-site operators.

The most important category of those described above is the network operator. Network operators are responsible for selling to end users, interacting with advertisers, managing the network, interfacing with the other product and service providers and handling administrative issues.

Narrowcasting Market Context

We have learned that people want choices and the more choices the better. The kinds of things people want to choose depends on the values and behaviors of the individual. Since these values and behaviors are the DNA of lifestyle, they ve become increasingly important to understand especially to media advertisers. We can define broad categories and identify people with certain values and behaviors fitting these categories. Data companies have built significant businesses by profiling individuals based on, among other criteria, their choices.

The power of communication media has been its ability to bring very specific messages to targeted audiences. As an example, advertising is a $260 billion industry. Of that, $60 billion is focused on television. But the effectiveness of television advertising has been decreasing. Recently the global head of marketing for Proctor and Gamble indicated that in 1965 80% of the audience 18 to 49 years old could be reached with three 60 second commercials while in 2002, 117 prime-time commercials were needed to reach the same audience. This is not very encouraging news for broadcast and cable television.

While the reasons are subject to interpretation, we believe that, as the number of choices available to the television audience have increased, attention spans have decreased. Channel surfing makes it easy to avoid commercials having no relevance to the audience as the viewer randomly surveys the program landscape. The introduction of TIVO and similar digital video recorders has the potential to render the broadcast television financial and business model obsolete. The question is what will take its place?

Digital media is revolutionizing communication and, therefore, the world as we know it. The Internet is now clearly at the center of the revolution. The rate of consumer adaptation of digital media is accelerating. This is driving innovation surrounding digital media at light-speed as new technologies converge devices, protocol and access at lower and lower costs making more powerful, higher capacity, faster and better choices available to more and more consumers. Consider that Internet advertising was a $10 billion business in 2004 and it is expected to grow at a compound annual growth rate exceeding 25% per year.

Digital media is the driving force behind the convergence of the Internet and television as we know it today. Conventional analog television technology is being replaced by digital and high-definition television formats allowing for interactive television. This shift is being driven by consumer demand. People want more choices and they want them in a form and format that s easily accessible and digestible 24x7x365.

In the context of digital media the emergence of narrowcasting is not a surprise. In essence we re moving toward a time when each of us will be a private television network. We see a world where one s profile, which is comprised of an index of lifestyle and personal interests, forms the foundation of what is presented directly to one s communication devices whether it be in-home or out-of-home. Whether on your television at home, your computer at work, your laptop computer when traveling, your cellular phone or other personal appliance, digital media will be produced, packaged and presented to entertain, inform, educate and influence each of us on our private television network. Narrowcasting is making this possible.

Anytime the viewer desires more, new and different choices, simply modify the profile. And when the narrowcast content is flying fast and furious directly to whatever digital device is being used one can simply opt-in, temporarily set it aside, store it for viewing later when it s more convenient or opt-out all together.

In the Internet environment advertiser s messages can be packaged and narrowcast along with other rich video content relevant to their audience. Interactive technology provides this capability. Instead of paying higher and higher rates to broadcast and cable television, advertisers will pay fees to data companies, access providers and narrowcasters. Narrowcasting presents highly targeted content to audiences with very specific profiles.

The primary enabling technologies for narrowcasting are high definition television and broadband. At the present time approximately 30% of US households have broadband. Adaptation and usage is growing. By the end of 2005 it is expected that broadband will be in over 40,000,000 households.

Broadband is the principle enabler of rich digital media, particularly video. With data compression becoming more efficient, processing capacity and speeds improving and broadband connectivity growing, Internet television will make narrowcasting of highly targeted, customized programming and advertising content produced and presented to commercial and consumer private television networks pervasive. Taken to the extreme, virtually every video monitor on every device has the potential to present unique video content.

WATCHIT MEDIA DIFFERENTIATION

Watchit Media, Inc. is a leader in creating, producing television programming and advertising on out-of-home place based private television networks in the gaming, lodging and hospitality markets

Watchit is the process of establishing a significant market share in the the markets in which we compete first in the United States then in other countries. We currently have over 100 active gaming, lodging and hospitality clients. Our clients are located in Nevada, New Jersey, California, Michigan, Mississippi, Oregon, Illinois, Iowa, Indiana, and Louisiana (see list below). At present our television programming is presented in 47% of the available gaming related hotel rooms in Las Vegas. Approximately half of the jumbo screens of the Las Vegas Strip are presenting Watchit s video content. In the other geographic markets in which we compete we have double-digit market share however Las Vegas is our largest market.

The following represents a partial listing of Watchit clients.

Watchit s Clients

Caesars Entertainment Nevada New Jersey Mississippi

Boyd Gaming Nevada Mississippi Indiana

Boyd Gaming Coast Casinos - Nevada

Harrah s Entertainment Nevada New Jersey California Iowa Missouri

Cannery Casino Resorts	Nevada

Hard Rock Hotel Nevada

Sahara Hotel and Casino Nevada

Aztar Corporation Nevada

MGM Mirage - Primm Valley Resorts - Nevada

Mandalay Resorts Nevada Mississippi

Pala Casino California

Chumash Casino - California

Valley View Casino   California

Fitzgerald   s Las Vegas - Nevada

Hawaiian Gardens Casino   California

Binion s Gambling Hall & Hotel Nevada

Starwood Hotels & Resorts Worldwide Nevada

Four Queens Hotel & Casino Nevada

Marriott Hotels	Nevada
Embassy Suites	Nevada
Imperial Palace Hotel & Casino	Nevada
La Quinta Inn & Suites	Nevada
Monte Carlo Resort & Casino	Nevada

New Frontier Hotel & Casino	Nevada
Royal Resort & Casino	Nevada

Tuscany Hotel & Casino	Nevada
The Westin Casuarina Hotel & Spa	Nevada
Chinook Winds Casino & Resort	Nevada
Isle of Capri Casino & Hotel	Missouri
Riverside Resort Hotel & Casino	Nevada

Grand Traverse Hotel & Casino Michigan

Lake of the Torches Hotel & Casino Wisconsin

Ramada Hotel Nevada

Quality Inn Nevada

Hilton Garden Inn Nevada

WVTV Hotels Southern California

We Use Internet Protocol (IP) and Digital Video Technology

Our foundation of experience in information technology is a competitive advantage to Watchit Media in the narrowcasting sector. Over the past six years Cotelligent has focused on providing its clients with Internet application development, local area network, wide area network, wireless and other advanced technologies. At this stage in the evolution of narrowcasting, video data compression, digital video, computer aided video editing and broadband delivery of data is becoming increasingly important. As evidence of this fact, we have been awarded a number of significant client engagements because of our expertise in both technology and the production of video media.

The Watchit Media Financial Model Is Based on License, and Digital Video Production Service

Our clients retain us to manage their private television channels and related system infrastructure,and to produce television programming pertinent to their brand, marketing communications and hotel property amenities. We have annual renewable contracts with our clients for managing the IP infrastructure that interfaces with their television systems and, in some cases, their information system infrastructure. Watchit engages each of its clients in one to two year exclusive annual contracts and charges a base monthly license fee for these services.

Watchit Media Proprietary Television Programming With Third Party Advertising

During 2004, Watchit Media introduced its Watchit branded television programming designed to be relevant to the viewing audience at each gaming and hospitality venue. Our approach to proprietary television programming is based on the fact that each of our hotel client venues has a unique guest profile based on location, style, character, price, amenities, and other related factors. The profiles of the guests that frequent a hotel tend to be similar and consistent. By understanding the characteristics of that profile, Watchit is able to produce and present television programming that is relevant and entertaining to the guest and, at the same time, include venue specific and third party advertising that is targeted and focused on that audience at a cost that is significantly less than broadcast and cable television advertising.

It is prohibitively expensive for a private venue like a hotel to advertise on broadcast or cable television. With the cost of advertising on broadcast and cable television going up, mass market, regional and local advertisers are seeking more cost effective ways of reaching target audiences. Watchit proprietary television programming allows the venue to maximize the use of its television asset by customizing its programming and advertising directly to their captive audience. They already have the television system in place; we re converting it into a powerful branding, marketing and communication system.

STRATEGIC ACQUISITIONS

In August 2005, the Company acquired California Visitor Network (CVN). The acquisition has been in business for 5 years and has a dominant share of the hospitality market with private video networks in 32 hotels presenting venue related and third party advertising to over 2,500 guest rooms. The acquisition of California Visitor Television has given Watchit entry into an expansive market with a well respected television channel. We plan to aggressively expand our footprint throughout the Orange County market then to San Diego and Los Angeles areas within the next two years.

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SALES AND MARKETING

We initiated a number of important selling and marketing initiatives during 2005. These initiatives were focused on helping us transform our identity from IT services to its new Watchit Media, Inc. brand and to increase revenue. Significant marketing initiatives included:

Conduct active, aggressive outreach to Watchit Media, Inc. clients in order to educate them about Watchit s approach to narrowcasting following the acquisition of OnSite Media, Inc.

Convert all Watchit Media, Inc. client agreements from month-to-month to exclusive one year or longer terms.

Market the Watchit brand to the gaming, lodging and hospitality markets more broadly in order to win new clients.

Commence regular internal communications to employees of our Company announcing events, client wins and successes to promote involvement and build our culture.

NEW MARKET DEVELOPMENT

Today, Watchit Media creates dynamic television programming on private television networks for gaming, lodging and hospitality companies. Watchit manages and produces its video content, which is seen on the gaming floor, in registration centers, in common areas, in restaurants, on outdoor signs and in guest rooms, that pertains to the client s gaming, dining, entertainment, spa and fitness, and retail store amenities.

An important of Watchit s business strategy leverages our current distribution network/relationships and our production capabilities to build Watchit proprietary television programs on the Watchit Television Network (WTN). These proprietary television programs will help us to transition our business model from one of providing only services to being a media and entertainment company focused on producing relevant targeted programming and advertising for private television networks that includes third party advertising.

Watchit is focused on building its distribution network because, we believe, the larger the scale of our distribution network, the more attractive we become to third party advertisers. Watchit has already presented Watchit Gaming Television (WGTV presents gaming instruction programming), Watchit Music Television (WMTV presents music video programming with play lists matching venue / guest demographic profiles) and Watchit Visitor Television (WVTV presents point-of-interest programming at the visitors destination). Watchit proprietary television programs are provided to client hotels free of charge and Watchit derives revenue from third party advertising.

Based on our discussions with top advertising agencies as well as with our clients, a success factor to this model will be our ability to combine the interests of the demographic profile of the guest who will be watching our programming with third party advertising that is compatible with that guest lifestyle. Fortunately, most gaming, lodging and hospitality companies have significant profile data on their guests. Using select data points, we are able to draw conclusions about the viewing interests of our targeted audiences. Our goal is to attract and retain the guest s attention to our programming to the extent that the advertising becomes a relevant part of the viewing experience.

Once our television programming is presented, we intend to have third party firms conduct surveys at hotels and conferences to measure the effectiveness of Watchit s programming. In addition, we will have special promotional programs that will attract our audience in ways that will help us to measure who s watching our programming and whether we are being effective in presenting the best advertising for that audience.

Building a large-scale distribution network will drive opportunities to produce proprietary programs like WGTV, WVTV, WBTV, and WMTV bringing third party advertising to our client s private television networks. However, it will be Watchit s in-house television production capabilities and our ability to license relevant content from other television content libraries and archives that will make it happen.

The greatest benefit of our television programming is derived from each hospitality venue presenting Watchit. Each hour of our television programming will include advertising spots for the venue s own brand communication, venue amenities and other promotional information. So, for example, rather than running a half hour program on the hotel s amenities that loops and runs 48 times a day (which few guests watch) their own brand communication will be presented in the context of Watchit s relevant television programs.

It is important to remember that broadcast television, cable television and video-on-demand, which most hotels run on their television systems do not offer an opportunity for the venue to promote their brand. The lodging industry is continuously seeking novel ways to improve brand awareness and brand loyalty yet the industry has passed their most powerful communication platform to broadcast, cable and video-on-demand. While hotel venues derive revenue from video-on-demand, there is no direct benefit, aside from offering conventional television programming, to offering broadcast and cable television.

The Watchit Television Network enables each hotel venue to use the most powerful communication platform available, their own television system, to their best advantage. Watchit s demographically specific television programming complimented by the venue s brand communication elevates the brand to the highest level of their guest s awareness.

Consider the broadcast and cable television models. Due to the fact the audience is, for the most part in-home, the programming has to change all the time to keep the audiences interest. Both programming and advertising must constantly be refreshed to be relevant. Conversely on average, hotel guests stay approximately two and one half days per visit. Due to the fact that our captive audiences are transient and, therefore being refreshed constantly, Watchit s television programming doesn t have to change nearly as often. This means we re able to use our programming for a longer period of time. This helps derive much more value from our programming and, therefore higher gross margins.

On the other hand, by using our IP television network platform Manageit Enterprise, Watchit (or the hotel) may change the programming whenever necessary to engage and suit their captive audiences by simply using a brower.

Watchit Gaming Television (WGTV)

Given the Company s strong market presence in the gaming sector, we are continually looking for ways to leverage our strengths. Watchit is currently in the process of developing a WGTV, a proprietary one-hour program that profiles the latest trends in the gaming industry including gaming results, strategies and interviews with players. We plan to produce and manage this channel in hotels free of charge and share a percentage of the revenue with the hotel presenting WGTV.

Watchit Gaming is one hour in length with 20 minutes of advertising. Of the 20 minutes, five minutes is for the hotel to either promote their brand and amenities or sell to third parties. The remaining 15 minutes is sold by Watchit to third party advertisers. We believe the gaming companies are interested in this programming because it will stimulate their customers to gamble and will provide them with a new income source at no charge.

We also believe this type of programming will appeal to hotel customers because the majority of people staying at gaming hotels are interested in gambling and in related lifestyle programming (an example of this is the widespread following of the television program The World Series of Poker). Initially, we will be targeting existing clients as potential venues of this program and then we will use this WGTV as an entry into other prospective clients.

Watchit Visitors Television (WVTV)

We recently launched WVTV in Las Vegas with a demographically specific one hour television program that includes 20 minutes of both venue specific and third party advertising. In addition in September 2005 Watchit acquired California Visitor Television (CVTV) in Orange County California. CVTV has been presented in over 30 hotels in the Orange County beach cities for the past five years. By acquiring CVTV, Watchit has now entered one of the top destination resorts in the United States with its television programming. Furthermore, this acquisition gives Watchit entry into one of the largest hotel markets in the world in Southern California.

WVTV currently presents point-of-interest and historical television programming relevant to the hotel guest s experience in the Las Vegas and Orange County California beach area markets. We have the expertise, in-house capabilities, and technology infrastructure to create a continuous, powerful venue specific television guest experience.

Watchit Music Television (WMTV)

Watchit Music Television (WMTV) presents music videos conforming to a demographically specific play list. For example, the guest profile at the Bellagio, Wynn or Four Seasons is very different than the guest profile at the Holiday Inn, Best Western or Sheraton. As a result, the play lists at these hotels are very different. It is likely the play list at Bellagio, Wynn and Four Seasons includes jazz and classical while play list at Holiday Inn, Best Western and Sheraton may include gospel, rock and pop.

In WMTV we present our own video jockeys (VJ). Our VJ s bring a unique personality to WMTV along with presenting venue specific content that customizes programming for the hotel brand / venue. This is yet another way Watchit engages its captive audience in a television experience that connects the hotel more intimately with each guest.

Over the next four quarters, Watchit will be aggressively marketing its other Private Venue Programs to current and targeted hospitality companies and hotel venues. We are currently developing the following channels to round-out our first Watchit Television Network program package :

Watchit Business Television Network

Watchit Sports Television Network

Watchit Golf Television Network

Watchit Travel Television Network

Watchit Fashion Television Network

Watchit Movie Television Network

Watchit Food Television Network

Watchit Entertainment Television Network

Watchit Children s Television Network

Watchit Luxury Television Network

As is indicated above, our approach is to package our television programs presenting them to the owners of private television networks in a way that targets demographically specific captive audiences. We have already initiated this in Las Vegas with a package that includes WVTV, WMTV and WGTV. As we produce / license / acquire the content for the other networks we have listed, they will be added to the Watchit Television Network.

We believe, as we broaden the scale of our distribution and the number of networks we offer in our package, the Watchit Television Network will become a viable replacement / supplement to broadcast and cable television.

Our goal is to help our hotel clients offer the Watchit Television Network as an important differentiator when a visitor is deciding to make a reservation.

Watchit s Television Content

Watchit produces its own content and licenses content from other content providers. The Company is in the process of starting Watchit Entertainment, Inc., a wholly-owned subsidiary of Watchit Media, Inc. for the purpose of isolating Watchit s content related television production activities. We are currently establishing strategic alliances with major domestic and international content providers.

The Watchit Television Network will present outstanding, highly-relevant television programming for each of the networks identified above. It is important to remember, the majority of our television programming isn t time sensitive. The programming we require is available and accessible to Watchit. In addition, with our expertise in technology and our expanding distribution channels and network, we expect to repurpose much of the content we produce and license in order to present across a variety of video delivery platforms.

In the future we expect to produce our own television programs and proprietary television content.

Beyond Gaming, Lodging and Hospitality

Watchit has identified other related markets to which we believe our approach and demographically specific television programming are applicable. These markets include:

Time Share

Condo Hotels

Mixed Residential and Commercial Developments

Secure Residential Communities

Business Centers

Assisted Living Centers

Mobile Entertainment

One of the most dynamic consumer markets today and in the years ahead is mobile entertainment; the delivery of subscription based entertainment and information on cellular mobile telephones and PDA s. Our market research has clearly identified mobile entertainment as a significant Narrowcasting opportunity for Watchit Entertainment, Inc. Consider that in the next 12 months, over 800,000,000 mobile phones will be sold world-wide. The new generation of mobile phones is capable of receiving and presenting motion media downloaded from the Internet.

This is not new to mobile telephones in other parts of the world. In European countries, Scandinavia, Japan and parts of China, mobile phones are able to run short video (MPEG) files. Within the year, Fox Television is planning to produce the program 24 in short segments and a 24 game for mobile phones. Time / Warner and other major communication companies are in this rapidly growing market.

One of our goals is to launch our own subscription service to the mobile entertainment market called VT3 . Vegas Top Ten Today . This service will present the top ten significant news events in Las Vegas, the entertainment capital of the world, everyday. The Company is partnering with a well known television personality in producing and publishing this content on mobile phones.

WATCHIT S IP TELEVISION NETWORK TECHNOLOGY

Watchit Media provides products and services for the creation, management and distribution of video programming for private television networks. Watchit s approach allows any business or enterprise to facilitate the production and delivery of motion media advertising and programming to any type of video display device, including plasma, LCD, LED, projectors, and televisions in an efficient and cost-effective way.

Watchit Media owns a proprietary technology that enables users to create their own advertising media then present the advertisement within minutes on their own Private Video Network which we call Watchit s Makeit. An important tool within Makeit is Manageit. This comprehensive Internet application is comprised of computer-based tools addressing every step in the process of creating an advertising message then running it on our client s own Private Video Network. We view its ease of use and low cost to be critical success factors.

Watchit also owns a proprietary software product called Scheduleit. This software technology provides a high level of flexibility in the scheduling of all video programming on our clients private television networks. Watchit s Scheduleit is an important part of all of our client s systems.

The following sections describe Scheduleit and the computer-based tools that comprise Makeit.

Makeit

Broadcast quality video in minutes from your desktop ..Makeit is an online video advertising creation product designed for digital signage and information kiosks. Each client logs onto their own creation and management online studio where step-by-step instructions and a user-friendly interface guide the user through the production process. The user may select from a complete set of pre-built motion backgrounds segregated into different areas such as dining, sports, entertainment, and gaming. The user may also upload their own motion background if they choose.

After selecting a background, text is added into place and formatted, transitions are added and a logo overlaid. Then the user may add music or other vocal to complete a 10-second to 30-second video advertisement. Within minutes users are able to create a fully customized animated MPEG2 encoded video advertisement using Makeit.

Completion of the advertisement is confirmed and a link to an online preview is emailed to the user. Once the user approves the advertisement the finished MPEG2 file may be purchased with a major credit card then downloaded into Watchit s Scheduleit software for registered clients.

Makeit offers any user with Internet access the ability to maintain their own online database of graphics, video and audio media and backgrounds, along with access to the Makeit library, to create compelling video advertising in minutes.

Scheduleit

Scheduleit is a Windows-based application for local area management of media on a private television network. The software allows users to connect to pre-configured video appliances (players) to schedule the playing of encoded video on televisions, plasma screens, LCD monitors, LED reader boards or projectors.

Once a video player device has been selected, Scheduleit communicates with each appliance individually and allows the user to upload, manage and schedule the video programming that is stored on the selected player.

Any programming may be scheduled within a play list that runs on a 24/7 continuous loop sending a signal to connected display devices. Video programs are scheduled to play at selected days and times over a designated period, and can be archived when not designated to a slot in the current play list.

ScheduleIT contains convenient tools for grouping, sorting and previewing video programs on the player. A split screen interface provides simple navigation and a single view of the play list and archived video programs, with easy button access for importing video programs and other application functions.

ScheduleIT is the perfect tool for managing video media within a single location Private Video Network.

ManageIT Enterprise

ManageIT Enterprise is a complete enterprise video media management and display solution. Whether your enterprise is located over several blocks or over several continents, ManageIT can provide the flexible control, distribution, and security necessary for targeted messaging and programming throughout a large or geographically dispersed Private Video Network.

Users can create and schedule programming for across the hall or around the world, via an easy web-based interface. Administrators add and assign rights to users for access to the system allowing them to operate only within the limits of their authorization.

Manageit can interface with databases allowing the system to overlay or scroll real-time information on televisions or video displays. Templates provide an easy way for advertisements to be created and updated with the help of online creation wizards that guide the user with prompts and fill in forms.

Clients can have the Manageit server on their premises or choose to have Watchit host and administer their complete enterprise system, which is seamless and transparent to the end user.

Manageit players are capable of playing any type of video program or media file and can display them concurrently within a created template. ManageIT can administer any number of players, displays, video media files and users, as the system is completely scalable.

Manageit allows integration via a gaming controller with progressive meters and triggers for the gaming industry and allows for interruptive programming to provide jackpot or progressive hits, special announcements and emergency broadcast.

Manageit is a full-featured video media management and display system specifically designed for the enterprise wide private television and communication network.

Services

Watchit media provides full service video and film production services, specializing in creating dynamic programming and advertising specifically targeted at profiled audiences within a designated location or enterprise.

Video/Film Production

Script Writing - Watchit Media offers script writing for video advertisements and Private Venue Programming. We walk our clients through a simple questionnaire to provide the basic message to be conveyed, the approximate length, then we provide a first draft for their review. We make all necessary changes on the final voice-over.

Shooting - Watchit provides on-location digital video and film production services. These services range from small single camera B-roll filming to a full-scale television production. We manage equipment, cast and logistics. Watchit Media offers the complete video production crew including Director, Director of Photography, gaffers and grips. We can produce video programming on virtually any budget.

Studio - At Watchit Media s creative media and television studio in Las Vegas we have a complete sound stage that can be retrofitted to any specifications that require studio work. We are capable of producing infomercials, newscasts, interviews or any other studio setting programming. Our green screen and latest lighting and keying technology are ideally suited to the requirements of Watchit s target markets.

Post Production

Watchit Media has five complete edit bays for post edit and FX compositing. We work side-by-side with our clients or take direction and provide dailies for client approval. We handle all video formats and can output to any media platform.

Our workflow includes full Standard Definition resolution, DV and High Definition 720p or 1080i standards. Our application suite consists of Apple G5 computers running Final Cut pro HD software, as well as Adobe After Effects, 3D Max and other professional compositing applications. Watchit also has edit suites for Avid and Adobe Premiere projects. We can cut any project from full feature film to a 15 second interstitial advertisement in any format (film, DV, SD or HD).

COMPETITION

The narrowcasting sector is comprised of many small niche companies and a few large well capitalized companies. The market is highly fragmented at this early stage of the industry s development. The majority of the narrowcasting companies in the competitive market use static delivery media like VHS tape or Digital Video Discs (DVD) to present video content. Increasingly, users of dynamic motion media require frequent changes to content. Using Internet Protocol and advanced digital video technology is an important differentiator for our Company because we are able to change content anytime and immediately. Watchit has another competitive advantage because of our strong background as system integrators and in the development and installation of local and wide area networks which are becoming the technology backbone of dynamic motion media.

In addition, we believe we have an advantage in making acquisitions due to our past success as an active acquirer in the IT services and solutions market. The narrowcast competitive market has few public companies. We believe another competitive advantage for our Company is our past experience in operating as a public company, raising significant capital, and effectively managing a dynamically growing enterprise.

REGISTRANT INFORMATION

Watchit was incorporated in February 1993 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. In November 2005, we changed our name to Watchit Media, Inc. Unless the context otherwise requires, references to Watchit, Cotelligent, Company, we, us and c refer toWatchit Media, Inc., a Delaware corporation.

Our headquarters are located at 655 Montgomery Street, Suite 1000, San Francisco, California 94111 and our telephone number is 415.477.9905. Our internet address is www.watchitmedia.com. We make available free of charge on our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a)-15(d) of the Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

EMPLOYEES

At December 31, 2005 we had 30 employees.

RISK FACTORS

The following discussion contains certain cautionary statements regarding Watchit Media, 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.

Risks Related to Our Business

By completing the sale of the IT services business to FastTrack, LLC, we are losing a substantial source of our revenues.

By discontinuing the operations of our IT services segment and selling our remaining IT services component, we will no longer have assets that historically generated the majority of our revenue stream. The IT services segment represented 100% of our revenues in 2002 and 2003 and approximately 89% of our revenues (from both continuing and discontinued operations) in 2004.

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

We believe the economic landscape has created opportunity for us to invest in, or acquire businesses that have undergone severe downward pressure in revenues, profit, cash and stock price. We may not be able to identify, acquire or profitably manage additional businesses that we may invest in or acquire without substantial costs, delays or other problems. In addition, acquisitions may involve a number of special risks, including:

- Diversion of management s attention;
- Failure to retain certain key personnel
- Risks associated with unanticipated events, circumstances or legal liabilities.

In addition, if the acquired businesses have operating losses or negative operating cash flow, our ability to achieve positive cash flow and profitability, as well as our liquidity, could be adversely affected. 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 and therefore negatively impact our consolidated financial position, results of operations and cash flows.

We have decided to focus on our narrowcasting business and have only limited experience in this area.

Our business strategy in 2005 was to dispose of our IT services business and focus on expanding our narrowcasting business. We have only been operating our narrowcasting business since March 2004 when we acquired OnSite Media, Inc. As a result, our senior management has only limited experience in this area and we cannot assure you that we will be successful in our efforts to expand our narrowcasting business.

The market for narrowcasting may not materialize.

Our ability to generate revenues in future periods will increasingly depend upon the market for narrowcasting services, solutions and products. There is a risk that the market for narrowcasting services, solutions and products will not materialize. Critical issues concerning the use of computer hardware and software platforms as well as other video equipment and media, their security, reliability, cost, accessibility and quality continue to evolve. The variability of these factors could materially affect our ability to compete in the market, resulting in an adverse effect on our consolidated financial position, results of operations and cash flows.

The decline in tourism, business travel or the gaming industry could have a material adverse effect on our narrowcasting business.

A stagnation or downturn in the economy of Nevada, any jurisdiction in which we operate, or the United States as a whole could have a material adverse effect upon our revenues, results of operations and financial condition. Currently, we provide our narrowcasting services to hotels and casinos primarily in Las Vegas, Nevada. Because our narrowcasting business is not diversified, we will be particularly vulnerable to adverse economic conditions in tourism, business travel or the gaming industry in Nevada.

Our growth plan requires a significant infusion of capital.

We intend to expand our existing narrowcasting business as well as create and develop new narrowcasting services, which may require infusions of capital. If we are not able to raise additional capital, revenue growth and profitability may be adversely affected.

We may need to invest heavily to create, produce, market and sell new narrowcasting services.

As the demand for narrowcasting services increases, there will be opportunity to provide these services in new and innovative ways. In order to provide these new narrowcasting services, we may need to invest heavily in the creation, production, marketing and selling of new narrowcasting services.

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

The demand for narrowcasting services is expected to reflect dynamic growth over the next several years. We expect the demand will result in intense competition to provide narrowcasting services. If we are not able to successfully execute our strategy, our business may be materially and adversely affected.

We may have difficulty managing growth.

Our development has required and is expected to continue to require, the full utilization of our management, financial and other resources, which to date has had limited working capital. Managing our growth will depend upon our ability to improve and expand our operations, including our financial and management information systems, and to recruit, train and manage executive staff and employees. We may not be able to efficiently scale our operations, and this failure to effectively manage growth may have a materially adverse effect on our operating results and financial condition.

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 and consolidated financial position, results of operations and cash flows could be adversely affected. We do not maintain key person life insurance on our senior management.

We may not receive any proceeds from the exercise of the warrants issued in connection with the acquisition of OnSite Media, Inc.

If the warrant shares issued in connection with our acquisition of OnSite Media, Inc. are exercised, we will receive aggregate gross proceeds of approximately $1.3 million. Given the historical share price and market for Watchit Media common stock, there is no way to know whether the warrants will be in-the-money during the two years period in which they are exercisable. Consequently, we cannot predict whether the warrants will be exercised prior to their expiration or whether any funds from their exercise will be made available to us at anytime in the future. Additionally, the exercise of warrants will have dilutive effect on the holders of our common stock.

We may lose certain tax attributes as a result of our acquisition program.

At December 31, 2005, Watchit Media had available federal and state net operating loss (NOL) carry-forwards of approximately $45 million. Under Section 382 of the Internal Revenue Code of 1986, as amended, the use of prior losses, including NOLs, is limited if a corporation undergoes an ownership change. Our merger with OnSite Media, together with future issuances of equity interests by us or the exercise of outstanding warrants or options to purchase our capital stock, may result in an ownership change that is large enough for this limitation to apply. If the limitation applies, we may be unable to use a material portion of its available NOL carry-forwards to reduce future taxable income.

Risks Related to the IT Services Business

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. A significant portion of our revenues come from engagements which are terminable at any time by our clients without penalty. If we lose a major client or suffer a reduction in business our consolidated financial position, results of operations and cash flows may be adversely affected.

Our software applications may not work as intended.

Our IT services business includes a delivery strategy to provide synchronization and transfer of information between disparate systems, platforms and devices, and rapidly implement them on our own and our client s platforms. If our software products, including our JASware products and FastTrack framework, do not work as intended, we will not be able to provide these solutions to our clients and our consolidated financial position, results of operations and cash flows would be adversely affected.

We may be unable to protect our proprietary technology.

Our success in providing our technology solutions to our clients 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 consolidated financial position, results of operations and cash flows.

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

Our markets are 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 custom software development skills obsolete. Our success will depend, in part, on our ability to acquire or license leading technologies useful in our business; 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. To be successful, we must adapt to the rapidly changing market by continually improving the performance and reliability of software applications for our clients. We could also incur substantial costs to modify our software applications to adapt to these changes. Our consolidated financial position, results of operations and cash flows could be adversely affected if we incurred significant costs without adequate results.

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 business strategy is to form partnerships and strategic alliances with entities that have complementary products, services or technologies which can help us provide complete services 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 services to our clients. If we fail to establish successful partnerships or strategic alliances, our ability to provide clients with complete service could be adversely affected.

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

Our success depends upon our ability to attract, hire and retain technical and professional personnel who possess the necessary skills and experience to conduct our business. We continually identify, screen and retain qualified personnel to keep pace with client demand. Competition for individuals with proven technical skills is intense. In the past, we have experienced difficulties in identifying and retaining qualified personnel and, in some instances, we were unable to meet requests for services. We cannot assure that qualified personnel will continue to be available to us in sufficient numbers.

Item 2. Properties

Our executive office is located in San Francisco, California and we operate our narrowcasting business from an office in Las Vegas, Nevada. These facilities have an aggregate of approximately 14,500 square feet and are leased at aggregate current monthly rents of approximately $19 with no lease commitment for these properties extending past the year 2007. In addition, the Company has lease commitments for a property included in discontinued operations as well as certain other properties from which we no longer operate. None of these lease commitments extend past 2007.

On March 16, 2006 Watchit Media, Inc. announced it will be moving its headquarters from its current location at 655 Montgomery Street Suite 1000, San Francisco, California to its Las Vegas, Nevada office location at 3485 West Harmon Avenue, Suite 100. The move is excepted to be completed by May 31, 2006.

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.

In June 2005, Advance at Branchburg, LLC (Advance) filed a lawsuit against the Company in the Superior Court of New Jersey, Law Division, Somerset County. The lawsuit arises out of a commercial lease agreement between Advance as landlord and Cotelligent as tenant. Specifically, Advance alleges that Cotelligent breached the lease agreement by failing to make base and additional rent payments for the months of March 2005 to the present. Advance seeks payment of all amounts allegedly due under the lease, including base rent, late charges, interest and attorneys fees and costs. Advance also seeks loss of bargain damages, consisting of all rent due through the end of the lease term, reduced to present value using an interest rate of 6% per annum. The lawsuit does not specify the specific amount of damages sought. At December 31, 2005, the Company has accrued $595 related to the lease obligation, which is classified as part of restructuring liabilities. The accrual covers obligations for base and additional rent and late charges, offset by estimated potential rent from the sublet of the facility. In addition, the Company maintains a $180 security deposit with Advance in connection with the lease, classified as part of other long term assets.

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

No matters were submitted to a vote of security holders in the fourth quarter of 2004.

PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock. The Common Stock was listed on the NYSE under the symbol CGZ , until October 11, 2001, when it was listed on the OTC Bulletin Board, and then temporarily moved to the OTC Pink Sheets on September 25, 2002, returning to the OTC Bulletin Board on February 10, 2003. The Common Stock has been listed on the OTC under the symbol CGZT .

On December 8, 2005, Watchit Media, Inc. (OTCBB-WMDA) changed the company s ticker symbol to WMDA from CGZT. The change in the company s ticker symbol reflects its change in identity from Cotelligent, Inc to Watchit Media, Inc. The company is in the process of transitioning all aspects of its former brand, name and identity to Watchit Media, Inc.

	Quarter End			
	31-Mar	**30-Jun**	**30-Sep**	**31-Dec**
Fiscal Year Ended Dec 31, 2004				
Common stock price per share:				
High	0.29	0.29	0.20	0.19
Low	0.18	0.14	0.10	0.10
Fiscal Year Ended Dec 31, 2005				
Common stock price per share:				
High	0.15	0.15	0.18	0.16
Low	0.10	0.08	0.09	0.04

On April 1, 2006, the last reported sales price of the Common Stock, as reported on the OTC Bulletin Board, was $0.10 per share. On April 13, 2005, there were 848 stockholders of record of the Common Stock. We did not repurchase any securities of the Company in the fourth quarter of 2005.

Item 6. ***Selected 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 and per share data)

Statement of Operations Data (1) (2) (3):	Year Ended December 31, 2005	2004	2003	2002	2001
Revenues	$ 1,844	$ 862	$	$	$
Cost of services	806	364			
Gross profit	1,038	498			
Selling, general and administrative expenses	3,472	1,953			
Operating loss	(2,434)	(1,455)			
Other income (expense)	251	82	(1,349)	(1,784)	(73)
Loss from continuing operations before income tax benefit	(2,183)	(1,373)	(1,349)	(1,784)	(73)
Income tax benefit	72	28			
Loss from continuing operations	(2,111)	(1,345)	(1,349)	(1,784)	(73)
Loss from discontinued operations, net of income tax benefit of $-, $2,509, $7,493, $3,455, $7,677	(469)	(2,860)	(11,001)	(6,939)	(23,456)
Income on sale of discontinued operations, net of income taxes of $-, $-, $-, $-, $-	1,520				
Loss from discontinued operations	(1,051)	(2,927)	(11,001)	(6,939)	(23,456)
Net loss	$ (1,060)	$ (4,205)	$ (12,350)	$ (8,723)	$ (23,529)
Loss per share					
Basic and diluted:					
Loss from continuing operations	$ (0.08)	$ (0.06)	$ (0.10)	$ (0.13)	$ (0.01)
Loss from discontinued operations	(0.02)	(0.13)	(0.83)	(0.53)	(1.75)
Gain on sale of discontinued operations	0.06				
Net loss	$ (0.04)	$ (0.19)	$ (0.93)	$ (0.66)	$ (1.76)
Weighted average number of shares outstanding:					
Basic and diluted	27,673,563	22,351,924	13,324,217	13,201,532	13,379,320

	December 31, 2005	2004	2003	2002	2001
Balance Sheet Data:					
Working capital (deficiency)	(1,739)	(1,053)	4,567	16,396	26,689
Total assets	4,150	5,373	8,363	25,033	36,080
Long-term debt					
Stockholders equity	1,955	2,605	4,483	16,697	25,456

(1) 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 December 31, 2004, the Company entered into a plan to divest its IT services segment. Accordingly, the accompanying financial data have been prepared to present as discontinued operations the Company s IT services 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.

(3) Cotelligent acquired OnSite Media, Inc., a Nevada corporation, on March 2, 2004. The results of OnSite Media, Inc. were included in the Company s results from its acquisition date.

Item 7. 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, an 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. Watchit Media 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 Watchit Media s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and other filings made with the Securities and Exchange Commission. 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 Watchit Media as of the date thereof, and Watchit Media assumes no obligation to update any of such forward-looking statements.

Watchit Media was formed in February 1993 to acquire, own and operate IT services businesses. Watchit Media 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. In 2004, the Company was organized into two reportable segments, IT services and narrowcasting (which became effective with the acquisition of OnSite Media, Inc. on March 2, 2004). The results of OnSite Media, Inc. have been included in the Company s results from its acquisition date. Prior to December 31, 2004, the Company entered into a plan to divest its IT services segment. Accordingly, the financial information on the Quarterly Report has been restated to present as discontinued operations the Company s IT services segment for all periods presented.

On a continuing operations basis, Watchit Media provides narrowcasting services which includes Internet protocol (IP) technologies and production services for video content, distribution, scripting and playback on digital display video channels and networks, as well as maintenance, support and contract services on software and hardware products it licenses. The Company provides these services primarily to gaming and hospitality businesses. Narrowcasting, maintenance and support services are provided under term contracts of which most are one year or longer. These contracts are renewable at the discretion of our clients.

The Company recognizes revenue for the subscription of maintenance, support and contract services on software and hardware products it licenses to its narrowcasting clients as the Company performs the services. Revenues earned for software license sales and service contracts are recorded based on the provisions of AICPA SOP 97-2, *Software Revenue Recognition*, as amended, which shares the basic criteria described above. For each element in a software arrangement (e.g. license, maintenance, and services), the amount of revenue recognized is based upon vendor specific objective evidence of fair value using the residual method. Revenue for production services for video content, distribution, scripting and playback on digital display video channels and networks on either a time and materials basis, when services are provided or where pursuant to fixed-fee contract, the revenue is 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 include reimbursable expenses charged to and collected from clients.

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 the number of gaming and hospitality properties that subscribe to the narrowcasting services as well as the number of channels for different narrowcasting services each property elects to subscribe to and the level of video production service purchased by the client. Gross profits can be adversely impacted if clients do not renew contracts, if the Company is not effective in managing its service activities, or if fixed-fee engagements for production services are not properly priced.

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.

OVERVIEW OF 2005 AND 2004

In the years leading up to 2004, we strategically shifted from providing general IT services and solutions to a targeted approach to offering mobile workforce management and Web services. We changed our go-to-market strategy to better focus our resources and leverage our experience and solid client base in these areas. Our decision to do this was reinforced at the time by market research, financial research and our own research and analysis indicating that mobile workforce management and Web services were the next emerging growth markets. Our solutions utilized broadly accepted as well as cutting edge technologies. We spent considerable time on the development of these core competencies after divesting the majority of our IT staffing business in 2000. In addition, the Company carefully assessed and exited a number of solutions and service offerings that were not core to the principal service offerings outlined above.

While executing this strategy we believed we were focused on offering services that would help us increase revenue in the near term. From 2001 through the third quarter of 2003 the Company continued to invest heavily in a large scale sales, marketing and business development organization working to capture new business. In September 2002, the Company hired a marketing executive to develop and implement a more formalized and systematic marketing program for the Company because of the difficulty we were having in selling new business to new clients. Marketing programs re-designed and put in place by early 2003 offered promising results when measured against prior year sales opportunity pipeline and business backlog. By the second quarter of 2003, the Company gained more confidence in its marketing program and saw an unprecedented number of prospect and client proposals. Nevertheless, throughout 2003 we continued to be disappointed by prospects and clients either delaying decisions to initiate projects or pursuing lower cost off-shore technical resource to executing their projects. In spite of the Company s investments in its selling organization, we were not successful in signing new business with companies we had not done business with before. We did, however, continue to sign new contracts with existing clients.

In August of 2003, it became clear to us that a number of opportunities that only a few months before looked promising were not going to close. The Company performed an in-depth review of each opportunity and concluded that businesses were reticent to use discretionary expenditures to invest in mobile workforce and Web service technologies (or other new projects) given the fact that their current IT environments operated satisfactorily. In addition, fearful of continuing poor economic conditions and market pressures, we observed that many of the prospects that decided to pursue projects did so with larger, better capitalized firms than Cotelligent.

It became evident to us that the outlook for spending in IT services would continue to be uncertain without any clear indication of when a turnaround could be expected. Accordingly, in August 2003, the Company terminated the majority of its senior executive staff along with most of the sales and business development organization. At the same time we aggressively engaged our existing clients and committed ourselves to supporting their project requirements. In some cases we have been successful in securing longer term commitments. By scaling back expenses and focusing intensely on generating business from our long term clients we began to stabilize our revenue trend allowing us to move forward in our attempt to restore profitability and positive cash flow.

Throughout the remainder of 2003, the Company continued to reduce headcount and looked closely at expense activity to scale back and streamline operating costs in line with revenue. The Philadelphia-based operation that supports Cotelligent s sales force automation application FastTrack achieved stable revenue over the past several years and our clients continued to give us high marks for performance and client service. In addition, the core team responsible for our custom software development activities helped us to take advantage of recurring projects with existing clients. By keeping only the top sales account executives and account managers, we lowered our selling cost and improved our client relationships and retention.

In April 2003, our Chief Executive Officer, James Lavelle, sent a letter to our stockholders indicating the Company s intention to engage in merger and acquisition activities in order to help improve Cotelligent s prospects for the future and increase our scale. As a matter of course since we started our Company in 1996 and successfully executed an aggressive merger and acquisition strategy through early 1999, we believed this strategy would help us improve our prospects. We researched and analyzed a variety of vertical markets that could provide new growth opportunities for us through merger or acquisition. In mid-2003 Cotelligent signed a letter of intent to acquire a field force automation firm. After 90 days of due diligence, we decided not to consummate the transaction.

In September 2003, Cotelligent engaged in a dialog with a Las Vegas based narrowcasting company, OnSite Media, Inc. The combination of Cotelligent s deep history in Internet, media and wireless technologies and OnSite s strength in driving video content to high growth venues in the gaming and hospitality industries looked promising. Cotelligent entered into a definitive agreement to acquire OnSite Media, Inc. on November 24, 2003, and closed the acquisition transaction on March 2, 2004. By integrating OnSite s business with Cotelligent s infrastructure, and by utilizing our public company know how to position us for the future, we have set about executing a strategy that we believe will allow us to play an important role in the convergence of Internet, video and mobile technology. This is a growing, fast paced market in which we believe the ability to integrate these technologies will help us to differentiate us from many other companies.

Upon completion of the acquisition, OnSite Media was renamed Watchit Media USA, Inc., and became a wholly-owned subsidiary of Cotelligent, Inc. The newly acquired business was immediately integrated into the Cotelligent infrastructure from March through October 2004. Our Board of Directors carefully followed and evaluated the financial and operating performance of our Company s two business segments. While the IT services and solutions business continued to struggle, Watchit Media performed well and experienced significant revenue growth, together with stabile to increasing gross margin performance. In addition, Watchit s near and longer term business opportunities appeared to indicate the strong possibility of future revenue growth.

In November 2004, we announced our plan to divest our entire IT services and solutions business and change our name to Watchit Media, Inc. allowing us to focus all of our attention on narrowcasting. On July 13, 2005, the Company s stockholders approved the sale of the IT services business located at Broomall, Pennsylvania, the remaining component of our discontinued operations, pursuant to an Asset Purchase Agreement, dated as of April 1, 2005, as amended on June 27, 2005 (the Asset Purchase Agreement) entered into between the Company and certain of its subsidiaries and FastTech Integrated Solutions, LLC, an affiliate of Beverly Hills, California-based private equity firm Skyview Capital, LLC. The transaction was completed on July 15, 2005. Pursuant to the Asset Purchase Agreement, aggregate consideration for the business included: cash at closing of $2,300, subject to closing date adjustments, and an earn-out of up to $1,450 if certain future revenue targets are attained over the three years following completion of the sale.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Revenues increased $982, or 114%, to $1,844 in the twelve months ended December 31, 2005, from $862 in the twelve months ended December 31, 2004. Effective with the acquisition of OnSite Media, Inc. on March 2, 2004, the Company commenced reporting revenues under its narrowcasting segment. The increase in revenues resulted from marketing efforts and a corresponding expansion of business together with the full twelve months effect of including revenue resulting from the March 2, 2004 acquisition.

Our narrowcasting clients retain us to manage a part of their television system infrastructure, produce video content pertinent to their brand, marketing communications and hotel property amenities, and present this content on their Private Video Networks. We have annual renewable contracts with our clients for managing the computer hardware that interfaces with their television systems and, in some cases, their information system infrastructure. Watchit Media charges a base monthly subscription fee for these services.

Clients also pay us on a time and materials basis for the production of video content. In the gaming and hospitality industry, our clients tend to require frequent changes to the content we produce for them. Video content pertaining to their entertainment, casino games, cross promotions, and activities are among the dynamic video content we produce.

In addition, Watchit Media provides the service of securing hardware, software and installation and training services from third parties. Clients re-imburse Watchit for hardware and software, and are charged an installation and training service fee in connection with these in installations.

Gross Profit

Gross profit increased $540, or 108%, to $1,038 in the twelve months ended December 31, 2005, from $498 in the twelve months ended December 31, 2004. Effective with the acquisition of OnSite Media, Inc. on March 2, 2004, the Company commenced reporting revenues under its narrowcasting segment. The increase in gross profit resulted from marketing efforts and a corresponding expansion of business, together with the full twelve months effect of including revenue resulting from the March 2, 2004 acquisition.

As a percentage of revenues, the gross margin decreased to 56% in the twelve months ended December 31, 2005, from 57% in the twelve months ended December 31, 2004. The decrease in gross margin was the result of increased revenues related to hardware and software expenses passed through to clients with a nominal mark-up.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $1,519, or 78%, to $3,472 in the twelve months ended December 31, 2005, from $1,953 in the twelve months ended December 31, 2004. The increase in selling, general and administrative expenses was the result of increased staff, marketing programs and development of new proprietary video programming not yet introduced to clients. In addition, corporate selling, general and administrative expense was allocated between the narrowcasting and IT services segment. Upon completion of the divestiture of the remaining component of the IT services segment on July 15, 2005, corporate selling, general and administrative expenses were allocated solely to the narrowcasting segment.

Other Income (Expense)

Other income (expense) consists of interest income, interest expense and other.

Interest expense, net of interest income, was $39 for the twelve months ended December 31, 2005 compared to interest income, net of interest expense of $82 for the twelve months ended December 31, 2004. The decrease in net interest income was the result of lower cash balances on hand coupled with interest expense on secured borrowings that commenced in October of 2004.

Other income of $290 was the result of $141 in gains on the sales of common stock of Bluebook International Holding Company, Inc., which had previously been written down to a zero book value plus a $149 gain on the abandonment of leasehold improvements when Watchit moved to it new location in Las Vegas in December 2005 ..

Income Tax Benefit

The Company recognized an income tax benefit of $72 for the twelve months ended December 31, 2005 representing federal tax refunds of $69 and state tax refunds of $3.

The Company recognized an income tax benefit of $28 for the twelve months ended December 31, 2004 which represented state tax refunds.

Discontinued Operations

Discontinued operations comprised the IT services segment and included the operating results of businesses placed into discontinued operations and the gain on the sale of the remaining component of discontinued operations.

The loss from discontinued operations of $469 for the twelve months ended December 31, 2005 compared to a loss from discontinued operations of $2,860 for the months ended December 31, 2004 and consisted of the operating results of the discontinued operations. The improvement in operating performance in 2005 was the result of recognizing previously deferred revenues of $600 on the sale of software licenses, coupled with the effect of only operating the remaining component of discontinued operations through July 15, 2005, the date upon which it was sold, compared to months in the prior year.

The gain on the sale of the discontinued operations of $1,520 for the period ended December 31, 2005 was the result of the gain on the sale of the remaining component of discontinued operations on July 15, 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The Company had two reportable segments: IT services and narrowcasting. Prior to December 31, 2004, the Company entered into a plan to divest its IT services segment. Accordingly, the financial information presented in this Annual Report has been prepared to present as discontinued operations the Company s IT services business. The Company s continuing operations consist of the narrowcasting segment. The Company commenced reporting revenues for its narrowcasting segment following the acquisition of On-Site Media, Inc. on March 2, 2004. As a result, on a continuing operations basis, the Company had no revenue, gross profit or selling, general and administrative expenses to report prior to March 2, 2004.

Revenues

Gross Profit

Selling, General and Administrative Expenses

Revenues from continuing operations during the year ended December 31, 2004 were $862. Our narrowcasting clients retain us to manage a part of their television system infrastructure, produce video content pertinent to their brand, marketing communications and hotel property amenities, and present this content on their Private Video Networks. We have annual renewable contracts with our clients for managing the computer hardware that interfaces with their television systems and, in some cases, their information system infrastructure. Watchit Media charges a base monthly subscription fee for these services. Currently, Watchit derives over 95% of its revenue from base monthly subscription fess under these recurring revenue contracts.

In addition, our clients pay us on a time and materials basis for the production of video content. In the gaming and hospitality industry, our clients tend to require frequent changes to the content we produce for them. Video content pertaining to their entertainment, casino games, cross promotions, and activities are among the dynamic video content we produce.

Gross profit from continuing operations during the year ended December 31, 2004 was $498 and selling, general and administrative expenses from continuing operations were $1,953 for the year ended December 31, 2004.

Restructuring Charge

In 2001 the Company took a restructuring charge to provide for remaining lease obligations on certain facilities it no longer operated from. The initial restructuring charge for this program has been classified as part of discontinued operations as the underlying operating facilities related to the IT services segment.

Other Income (Expense)

Other income (expense) primarily consists of interest income, interest expense, and equity method losses on an investment in an alliance partner and the change in market value associated with an investment in a marketable security.

Interest income, net of interest expense, was $82 for the year ended December 31, 2004 compared to $259 for the year ended December 31, 2003. The decrease in net interest income was the result of lower cash balances on hand during the year ended December 31, 2004.

There was no other expense for the year ended December 31, 2004 compared to $1,608 of other expense for the year ended December 31, 2003. The decrease was principally the result of the change in 2003 of the market value associated with an investment in a marketable security ($1,273) and equity method losses on an investment in an alliance partner ($335).

Income Tax Benefit

The Company realized an income tax benefit of $28 for the year ended December 31, 2004 which consisted of some state income tax deposit refunds.

Loss from Discontinued Operations

Discontinued operations comprised operations associated with the IT services segment. Loss from discontinued operations was $2,860 for the year ended December 31, 2004 compared to $11,001 for the year ended December 31, 2003. The reduction in loss was the result of improvements to the utilization of billable staff due to the elimination of a number of underutilized billable people and reductions in selling, general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

In recent years, the Company has financed its operations principally through its own cash. On October 8, 2004, the Company entered into a Contract of Sale Security Agreement, (as amended, the Agreement) with CAPCO Financial Company, a division of Greater Bay Bank N.A. (the Lender). Under the Agreement, the Company has agreed to sell to the Lender all of its accounts receivable existing as of the date of the Agreement or thereafter created during the term of the Agreement at a discount below face value. The Lender has reserved the sum of $1,000 for the purchase of the Company s accounts receivable and these funds are available daily at the Company s option, subject to the restriction that the maximum amount available to the Company may not exceed 80% of the accounts receivable that meet the Lender s eligibility requirements. Funds advanced by the Lender to the Company under the Agreement are subject to a daily fee equal to the Lender s prime rate plus 4%, 11.25% at December 31, 2005. The Company has granted the Lender a first priority security interest in all accounts, contract rights, chattel paper, documents, instruments and related general intangibles now owned or hereafter acquired and the proceeds thereof.

The Agreement had an initial term of 12 calendar months and was renewed until October, 2006. The Agreement includes customary covenants regarding events of default. Upon an event of default, the Lender may, among other things, declare any amounts outstanding under the Agreement immediately due and payable.

Cash used in operating activities was $2,474 for the twelve months ended December 31, 2005, compared to cash used in operating activities of $4,790 for the twelve months ended December 31, 2004. In the twelve months ended December 31, 2005, the primary uses of cash in operating activities was $1,060 net loss, gain on sale of discontinued operations of $1,520, gain on sale of investment in common stock of $141, gain from lease terminations of $149, and decrease in deferred revenue of 596, offset by $195 increase in accounts receivable, $160 increase in prepaid expenses and other current assets, $314 increase in accounts payable and accrued liabilities, and $258 of amortization of identifiable assets and depreciation of property and equipment. In 2004, the $4,205 net loss, $1,617 decrease in accounts payable, $129 decrease in deferred revenue and $100 adjustment to the valuation allowance for note receivable from a former officer, offset by $768 reduction in accounts receivable, $239 of depreciation and amortization and $143 reduction in prepaid expenses and other current assets were the primary net uses in operating activities.

Cash provided by investing activities was $1,695 for the twelve months ended December 31, 2005, compared to $563 used for the twelve months ended December 31, 2004. In the twelve months ended December 31, 2005, the primary use of investing activities was $66 for the acquisition of the assets of California Visitors Network and $97 used to acquire property and equipment. In the twelve months ended December 31 2005, the primary source of cost was $1,568 related to the sale of discontinued operations, $149 related to the proceeds form lease terminations, and $141 related to the proceeds from the sale of investment in common stock. In the twelve months ended December 31, 2004 the primary sources from investing activities were $200 of payments received on a note from the acquirer of a previously sold business offset by $605 used to purchase a business and $258 used to acquire property and equipment. In 2004, the Company used $605 for transaction costs associated with the purchase of On-Site Media, Inc, $258 for the purchase of property and equipment, offset by $200 of payments on a note from the acquirer of a previously sold business and $100 of payments on a note receivable from stockholder.

Cash provided by financing activities was $264 in the twelve months ended December 31, 2005, which consisted of $420 of cash provided by financing activities from the issuance of common stock and warrants, offset by $99 of net repayments of advances against secured borrowings and $57 of expenses incurred for the issuance of common stock and warrants. Cash provided by financing activities was $191 for the year ended December 31, 2004, which comprised $386 of secured borrowings offset by $195 of cost associated with the issuance of Common Stock, compared to $62 for the year ended December 31, 2003 which represented net proceeds on the issuance of common stock.

The primary sources of liquidity for the Company going forward are the collection of its accounts receivable and existing cash balances at December 31, 2005 along with an aggressive fund raising program through the additional sales of the Company s stock . Accounts receivables of the continuing operations were 32 and 36 days of annual revenues of the continuing operations at December 31, 2005 and December 31, 2004, respectively.

During the past and in 2005, management has taken action in response to the continued softness in IT services in order to preserve cash, including but not limited to significant reductions in headcount, outsourcing certain administrative functions, changing benefit plan insurance carriers, relocating the headquarters office resulting in lower lease obligations, acquiring a business in an industry with more near term growth prospects than IT services, securing a line of credit agreement against its accounts receivable and announcing the plan to divest its IT services segment. Between February 1, 2005 and April 27, 2005, the Company entered into Stock and Warrant Purchase Agreements with certain accredited investors pursuant to which the Company sold shares of Common Stock and warrants to purchase additional shares of Common Stock resulting in a cash infusion to the Company of approximately $355. In addition, on July 15, 2005 the Company sold its remaining IT services business to FastTech Integrated Solutions LLC, an affiliate of Beverly Hills, California-based private equity firm Skyview Capital, LLC, resulting in cash of approximately $2,300. Management has carefully forecasted its results of operations and financial position through December 31, 2006, and has determined that the remaining cash on hand, together with cash available from the line of credit, proceeds from the sales of Common Stock to accredited investors, proceeds from the sale of the IT services segment, will provide adequate cash to fund its anticipated working capital needs. In the event circumstances arise that are not factored into the forecast, management will take further action to streamline operations and seek financing alternatives.

The following table reflects our contractual cash obligations as of December 31, 2005, 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**	**After 5 Years**
Operating leases, net of sublet arrangements	$ 1,096	$ 908	$ 151	$	$

RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements - In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3, (SFAS 154). This statement carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a significant impact on the Company s results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (SFAS 151), to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on normal capacity of production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Accordingly, the Company will adopt SFAS 151 in the fiscal year beginning January 1, 2006. The adoption of SFAS 151 is not expected to have a significant impact on the Company s results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment (SFAS 123 (R)). This Statement revises SFAS 123 and supersedes APB 25. SFAS 123(R) focuses primarily on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. This Statement is effective and will be adopted in the first quarter of 2006. The Company plans to adopt SFAS 123(R) using the modified prospective method, whereby the Company will expense the remaining portion of the requisite service under previously granted unvested awards outstanding as of January 1, 2006 and new share-based payment awards granted or modified after January 1, 2006. The Company intends to use the Black-Scholes valuation method to estimate the fair value of its options. The Company expects that implementation of SFAS 123(R) will result in an immaterial amount of additional expense related to share-based compensation in 2006. However, the actual expense in 2006 depends on a number of factors, including fair value of awards at the time of grant and the number of share-based awards granted in 2006.

CRITICAL ACCOUNTING ESTIMATES

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 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. If management had taken another approach to developing its reserve, the allowance for doubtful accounts may have been different than that reported.

Revenue Recognition

The Company recognizes revenue when there is evidence of an agreement, a fixed or determinable fee, and 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,* as amended, which shares the basic criteria described above.

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. Management judgment is required in evaluating whether impairment has occurred. Furthermore, our estimated cash flow is 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 three fiscal years due to uncertainty of realizing these assets in future periods. In addition, the financial statements have provided for certain tax positions taken by the Company in certain tax periods.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

On October 8, 2004, the Company entered into a Contract of Sale Security Agreement, (as amended, the Agreement) with CAPCO Financial Company, a division of Greater Bay Bank N.A. (the Lender). Funds advanced by the Lender to the Company under the Agreement are subject to a daily fee equal to the Lender s prime rate plus 4%. Beginning October 8, 2004, the Company was exposed to market risk related to changes in interest rates on this agreement.

On August 19, 2002, the Company acquired Convertible Redeemable Preferred Stock in Bluebook International Holding Company (Bluebook), which was converted to common stock during 2004. The Company accounts for the common stock as a trading security with changes in fair value recorded in the consolidated statements of operations. Accordingly, subsequent to August 19, 2002, the Company was exposed to market risk related to changes in the market price of the common stock in Bluebook. The final shares of the Company s holdings of Bluebook stock were sold in the fourth quarter of 2005; realizing a gain of $141.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Watchit Media, Inc.:

We have audited the accompanying consolidated balance sheets of Watchit Media, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 Watchit Media, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with United States generally accepted accounting principles.

/s/ Rowbotham and Company LLP

San Francisco, California
April 14, 2006

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

		December 31, 2005		December 31, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	$	11	$	526
Refundable income taxes		13		16
Accounts receivable, including unbilled accounts of $ and $2, net of allowance for doubtful accounts of $54 and $60, and $394 and $590 pledged as collateral security, respectively		340		530
Prepaid expenses and other current assets		92		133
Current assets of discontinued operations held for sale				160
Total current assets		456		1,365
Property and equipment, net		177		259
Goodwill		2,728		2,592
Other intangibles, net		607		748
Other assets		182		239
Non current assets of the discontinued operations held for sale				170
Total assets	$	4,150	$	5,373
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Secured borrowings	$	287	$	386
Accounts payable		801		247
Accrued compensation and related payroll liabilities		269		264
Restructuring liabilities		595		425
Other accrued liabilities		243		198
Current liabilities of the discontinued operations held for sale				898
Total current liabilities		2,195		2,418
Restructuring liabilities, net of current portion				268
Lease deposits on sublet properties				13
Income taxes payable				69
Total liabilities		2,195		2,768
Commitments and contingencies				
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, 28,868,229 and 24,984,792 shares issued, respectively		289		250
Additional paid-in capital		82,785		82,801
Accumulated deficit		(81,006)		(79,946)
Treasury stock		(113)		(500)
Total stockholders equity		1,955		2,605
Total liabilities and stockholders equity	$	4,150	$	5,373

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	For the Year Ended December 31, 2005	2004	2003
Revenues	$ 1,844	$ 862	$
Cost of revenues	806	364	
Gross profit	1,038	498	
Selling, general and administrative expenses	3,472	1,953	
Operating loss	(2,434)	(1,455)	
Other income (expense):			
Interest expense	(41)	(9)	(35)
Interest income	2	91	294
Other	290		(1,608)
Total other income (expense)	251	82	(1,349)
Loss from continuing operations before income tax benefit	(2,183)	(1,373)	(1,349)
Income tax benefit	72	28	
Loss from continuing operations	(2,111)	(1,345)	(1,349)
Loss from discontinued operations, net of income tax-benefit of $-, $-, and $2,509	(469)	(2,860)	(11,001)
Gain on sale of discontinued operations, net of income tax benefit of $-, $-, and $-	1,520		
Net loss	$ (1,060)	$ (4,205)	$ (12,350)
Earnings per share:			
Basic and diluted			
Loss from continuing operations	$ (0.08)	$ (0.06)	$ (0.10)
Loss from discontinued operations	(0.02)	(0.13)	(0.83)
Gain on sale of discontinued operations	0.06		
Net loss	$ (0.04)	$ (0.19)	$ (0.93)
Basic and diluted weighted average number of shares outstanding	27,673,563	22,351,924	13,324,217

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders Equity
Balance, January 1, 2003	13,754,112	$ 138	$ 80,450	$ (63,391)	644,600	$ (500)	$ 16,697
Issuance of Common Stock, net of costs	322,501	3	59				62
Change in terms of stock options granted			74				74
Net loss				(12,350)			(12,350)
Balance, December 31, 2003	14,076,613	141	80,583	(75,741)	644,600	(500)	4,483
Issuance of Common Stock in connection with purchase of business	10,679,608	107	1,708				1,815
Issuance of Warrants in connection with purchase of business			676				676
Cost of registering and issuing securities in connection with purchase of business			(195)				(195)
Issuance of Common Stock in connection with director compensation	228,571	2	29				31
Net loss				(4,205)			(4,205)
Balance, December 31, 2004	24,984,792	250	82,801	(79,946)	644,600	(500)	2,605
Issuance of Common Stock in connection with private placement	3,550,000	35	168				203
Issuance of Warrants in connection with private placement			217				217
Cost of registering and issuing securities in connection with private placement			(57)				(57)
Issuance of Common Stock from treasury stock			(387)		(500,000)	387	
Issuance of Common Stock in connection with acquisition of business	202,667	3	27				30
Issuance of Common Stock in connection with director compensation	130,770	1	16				17
Net loss				(1,060)			(1,060)
Balance, December 31, 2005	28,868,229	$ 289	$ 82,785	$ (81,006)	144,600	$ (113)	$ 1,955

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share and per share data)

	For the Year Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net loss	$ (1,060)	$ (4,205)	$ (12,350)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of property and equipment	117	121	176
Impairment of long-lived assets			177
Gain on sale of discontinued operations	(1,520)		
Amortization of identifiable intangible assets	141	118	
Restricted shares issued in connection with director compensation	17	31	
Compensation expense resulting from change in terms of stock options			74
Gain on sale of investment in common stock	(141)		
Gain from lease termination	(149)		
Adjustment to valuation allowance for note receivable from stockholder		(100)	
Equity loss from investment in alliance partner			335
Unrealized loss on investment in marketable security			1,273
Provision for doubtful accounts	(6)	(2)	164
Loss on abandonment of leasehold improvements	62		
Loss on forgiveness of note receivable from acquirer of a previously sold business			303
Changes in current assets and liabilities:			
Accounts receivable	195	768	989
Prepaid expenses and other current assets	160	143	(82)
Accounts payable and accrued liabilities	314	(1,617)	(2,371)
Deferred revenue	(596)	(129)	464
Income taxes, net	(65)	69	(2,437)
Other assets	57	13	69
Net cash used in operating activities	(2,474)	(4,790)	(13,216)
Cash flows from investing activities:			
Payments received on note from acquirer of previously sold business		200	1,080
Repayment of note receivable from stockholder		100	
Purchases of property and equipment	(97)	(258)	
Proceeds on sale of discontinued operations, net of selling expenses of $732, $-, and $-	1,568		
Proceeds from lease termination	149		
Proceeds on sale of investment in common stock	141		
Investment in marketable security			
Cash paid for purchase of business	(66)	(605)	(191)
Dividend received from marketable security			270
Net cash provided by (used in) investing activities	1,695	(563)	1,159
Cash flows from financing activities:			
Secured borrowings	(99)	386	
Cost of issuing of common stock and warrants	(57)	(195)	
Net proceeds from issuance of common stock	420		62
Net cash provided by financing activities	264	191	62
Net decrease in cash and cash equivalents	(515)	(5,162)	(11,995)
Cash and cash equivalents at beginning of period	526	5,688	17,683

Cash and cash equivalents at end of period	$	11	$	526	$	5,688

See accompanying notes to the consolidated financial statements.

	For the Year Ended December 31, 2005	2004	2003
Supplemental disclosures of cash flow information:			
Interest paid	$ 41	$ 9	$ 36
Income taxes paid	$	$ 4	$ 2
Income taxes refunded	$ 3	$ 14	$ 53
Significant non-cash financing and investing activities:			
Repayment of officer notes receivable with severance and bonus compensation	$	$ 364	$ 1,080
Revaluation of note receivable from stockholder	$	$ 404	$
Deferred acquisition costs	$	$ 175	$
Issuance of common stock from treasury stock	$ 387	$	$
Detail of acquisition:			
Cash	$	$ (36)	$
Accounts receivable		(50)	
Prepaid expenses and other current assets		(2)	
Property and equipment		(3)	
Other assets		(5)	
Goodwill		(2,592)	
Other intangibles	(136)	(866)	
Accounts payable	10	106	
Accrued compensation		50	
Other accrued liabilities		91	
Common stock issued to sellers of an acquired business	30	1,815	
Future cash payment payable	30		
Warrants issued to sellers of an acquired business		676	
Cash paid in 2003		175	
Cash paid in current period	(66)	(641)	
Cash acquired in acquisition		36	
Cash used for purchase of business	$ (66)	$ (605)	$

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 1 Summary of Significant Accounting Policies and Practices

Description of Business

On December 8, 2005, Watchit Media, Inc. (OTCBB-WMDA) changed the company s ticker symbol to WMDA from CGZT. The change in the company s ticker symbol reflects its change in identity from Cotelligent, Inc to Watchit Media, Inc. The company is in the process of transitioning all aspects of its former brand, name and identity to Watchit Media, Inc.

Watchit Media, Inc. (Watchit Media or the Company), a Delaware corporation, provides narrowcasting services which include digital technologies and production services for video content, distribution, scripting and playback on digital display channels.

In 2004, the Company was organized into two reportable segments, IT services and narrowcasting (which became effective with the acquisition of OnSite Media, Inc. on March 2, 2004). Prior to December 31, 2004, the Company entered into a plan to divest its IT services segment. The divestiture was completed on July 15, 2005. Accordingly, the accompanying consolidated financial statements and related footnotes have been prepared to present as discontinued operations the Company s IT services segment for all periods presented.

These financial statements include the accounts of Watchit Media, Inc. and its subsidiaries. The results of OnSite Media, Inc. have been included in the Company s results from its acquisition date.

Liquidity

The Company has had operating losses and negative operating cash flows for the past several fiscal periods. This has been due to declining demand for IT services and solutions and investments the Company has made its new narrowcasting business. As a result, the Company is exposed to certain risks which 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. While the Company is now focused on executing a growth strategy in the narrowcasting market, there can be no assurance the Company will be profitable in the future.

During the past and in 2005, management has taken action in response to the continued softness in IT services in order to preserve cash, including but not limited to significant reductions in headcount, outsourcing certain administrative functions, changing benefit plan insurance carriers, relocating the headquarters resulting in lower lease obligations, acquiring a business in an industry with more near term growth prospects than IT services, securing a line of credit agreement against its accounts receivable and announcing the plan to divesting its IT services segment. On February 1, 2005, the Company entered into a Stock and Warrant Purchase Agreement with certain accredited investors pursuant to which the Company sold common stock and warrants resulting in a cash infusion to the Company. In addition, on April 1, 2005 the Company signed a definitive agreement with FastTrack, LLC, an affiliate of Beverly Hills, California private equity firm Skyview Capital, LLC for the sale of its remaining IT services business. Management has carefully forecasted its results of operations and financial position through December 31, 2006, and with has determined that the remaining cash on hand, together with cash available from the line of credit, proceeds from the sales of Common Stock to accredited investors, and proceeds from the sale of the IT services segment, will provide adequate cash to fund its anticipated working capital needs. In the event circumstances arise that are not factored into the forecast, management will take further action to streamline operations and to continue looking for financing alternatives.

Basis of Presentation

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts and results of Watchit Media, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management of the Company 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 consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant items subject to estimation include the allowance for doubtful accounts, revenue recognition, restructuring liabilities, impairment charges and income taxes.

Cash Equivalents

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

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable, cash and cash equivalents. The Company s cash and cash equivalent credit risk is managed by investing its cash in highly liquid debt instruments. 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 an allowance for potentially uncollectible accounts. In addition, the Company has a high concentration of its revenues and accounts receivable in a few clients.

At December 31, 2005, the first, second, third, and fourth largest customer receivable balances were 20%, 19%, 10% and 18%, respectively. These four receivable balances were the only accounts that exceeded 10% of total receivables. For the year ended December 31, 2005, the first, second, and third largest clients comprised 25%, 16%, and 13% of revenues. These three clients were the only clients that exceeded 10% of total revenues.

At December 31, 2004, accounts receivable comprise balances due from both discontinued and continuing operations as accounts receivable are collateralized against a line of credit obligation of the continuing operation. The first and second largest customer receivable balances were 45% and 26% of total receivables, respectively, both of which related to the discontinued operations. These two receivable balances were the only accounts that exceeded 10% of total receivables.

At December 31, 2004, the first, second and third receivable balances of the continuing operations accounts receivable were 16%, 12% and 11%, respectively and represented 39% of total continuing operations receivables. For the year ended December 31, 2004, no individual client comprised more than 7% of total revenues on a continuing operations basis.

Deferred Acquisition Costs

The Company defers costs associated with potential acquisitions which typically include outside service costs (such as legal and accounting) directly attributable to a target acquisition and classifies such amounts in other current assets. When a target acquisition is acquired, the associated deferred acquisition costs are included in the purchase price of the acquisition. At the time the Company determines a potential acquisition will not be acquired, the associated deferred transaction costs are charged to selling, general and administrative expenses.

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, 2005 and 2004.

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.

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.

Investments in other businesses that meet the definition of a debt security under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* are classified as trading securities and reported at fair value, with unrealized gains and losses recorded in other income (expense) in the consolidated statements of operations.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Prior to the adoption of SFAS No 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for the Long-Lived Assets to Be Disposed Of.* In accordance with SFAS No. 144, 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 and cash equivalents, marketable securities, refundable income taxes, short-term accounts receivable, accounts payable, accrued liabilities and income taxes payable for which current carrying amounts are equal to or approximate fair market value. The carrying value of secured borrowings approximates fair value, as interest is tied to or approximates market rates.

Revenue Recognition

The Company recognizes revenue for production services for video content, distribution, scripting and playback on digital display video channels and networks on a time and materials basis, when services are provided. Revenue 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. Revenue for maintenance, support and contract services on software products it licensed is recognized as the Company performs the services. Revenues earned for software license sales and service contracts are recorded based on the provisions of AICPA SOP 97-2, *Software Revenue Recognition*, as amended, which shares the basic criteria described above. For each element in a software arrangement (e.g. license, maintenance, and services), the amount of revenue recognized is based upon vendor specific objective evidence of fair value using the residual method. Revenues include reimbursable expenses charged to and collected from clients.

Cost of Revenues

Cost of revenues consists primarily of compensation and benefits of the Company s employees engaged in the delivery of narrowcasting 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 carry-forwards 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 records a valuation allowance to reduce deferred tax assets, when realization may not be likely.

Repurchase of Common Stock

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

Stock-Based Compensation

The Company has adopted the disclosure provisions of SFAS No. 123, **Accounting for Stock-Based Compensation as amended. As permitted by the provisions of SFAS No. 123, the Company continues to apply the provision of APB Opinion 25 and related interpretations in accounting for its employee stock option plans.**

Accordingly, the Company measures compensation expense for its employee stock-based compensation awards using the intrinsic value method and provides pro forma disclosures of net income (loss) and earnings (loss) per share as if the fair value method had been applied. Therefore, compensation cost for employee s stock awards is measured as the excess, if any, of the fair value of our common stock at the grant date or re-measurement date over the amount an employee must pay to acquire the stock and is amortized over the related service periods using the straight-line method. Compensation expense previously recorded for unvested employee stock-based compensation awards that are forfeited upon employee termination is reversed in the period of forfeiture.

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 years ended December 31, 2005, 2004 and 2003, respectively: (1) risk-free interest rates of 4.38%, 2.59% and 1.94%, (2) a dividend yield of 0%, (3) volatility factors of the expected market price of the Company s common stock of 155.0%, 143.5%, and 186%, and (4) a weighted average expected life of 0.75, 1.59 and 3.25 years. The weighted average fair values of options granted during the years ended December 31, 2005, 2004 and 2003 were $0.13, $0.17 and

$0.24 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 years ended December 31, 2005, 2004 and 2003, 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.

	For the Year Ended December 31,					
		2005		2004		2003
Net loss as reported	$	(1,060)	$	(4,205)	$	(12,350)
Add: Stock-based employee compensation expense included in net loss, net of tax						74
Deduct: total Stock-based employee compensation expense determined under fair value based method for all awards, net of tax		93		230		243
Pro forma net loss	$	(1,153)	$	(4,435)	$	(12,519)
Loss per share, as reported:						
Basic and diluted	$	(0.04)	$	(0.19)	$	(0.93)
Pro forma loss per share:						
Basic and diluted	$	(0.04)	$	(0.20)	$	(0.94)

Earnings (Loss) Per Share

Basic earnings (loss) per share are calculated by dividing net income by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share include the impact of Common Stock options outstanding, when dilutive.

Discontinued Operations

Discontinued operations consist of the Company s IT services business. The Company entered into a plan to divest of these operations prior to December 31, 2004 and the divestiture was completed in 2005. The operating results of these operations for all periods presented have been reflected in the accompanying consolidated financial statements as income (loss) from discontinued operations for all periods presented.

Restructuring Charges

In June 2002, FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued. Statement No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94 -3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. The provisions of Statement 146 were effective for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged.

Comprehensive Loss

The Company has adopted the provisions of SFAS No. 130, *Comprehensive Income*. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components for general purpose financial statements. For all periods presented, there were no differences between net loss and comprehensive loss.

Reclassifications

Certain balances in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 2 Acquisition

Purchase of OnSite Media, Inc.

Cotelligent acquired OnSite Media, Inc, a Nevada corporation, on March 2, 2004. In the acquisition, OnSite was merged with and into Watchit Media USA, Inc. then a wholly owned subsidiary of the Company. OnSite was a ten year old company that developed enabling digital technologies and production services aimed at providing complete solutions for video content creation, distribution, scripting and playback for companies with digital display channels and networks. OnSite historically provided this software and service offerings to the hospitality and gambling industries. This is called narrowcasting.

Narrowcasting technology presents dynamic, compelling motion media that influences the actions of captive audiences. Promotional messages for hotel in-room channels, presenting commercial messages to casino entertainment facilities and outdoor signage had been the primary business of OnSite. In addition, OnSite developed a unique Internet media creation software application which we believe will give the newly formed Watchit a competitive advantage. the Company intends to leverage its marketing expertise, resources and infrastructure to enhance Watchit s current services, launch new proprietary television programs, add greater value to current client relationships, add clients in the hospitality market, and expand to new markets.

The Company believes the convergence of Internet, wireless and video media will soon become a major part of the technology landscape. We believe the Watchit Media s infrastructure, experience in developing wireless and Internet business applications and its system integration expertise are an excellent fit with the rapidly evolving narrowcasting market.

The aggregate consideration paid for the acquisition was $3,307 (10,679,608 shares of the Company s Common Stock issued at fair value of $1,815 and based on the average closing price of the Company s common stock for a few days prior to and after the signing of the definitive agreement and related public announcement to purchase the business on November 25, 2003, warrants to purchase 5,339,803 shares of the Company s common stock value using the Black-Sholes with the following assumptions: (1) risk-free interest rate of 1.95%, (2) a dividend yield of 0%, (3) volatility factor of the expected market price of the Company s Common Stock of 175%, and (4) a weighted average expected life of 2 years, that resulted in a valuation of $676, cash consideration of $510 and transaction costs of $501). Transaction costs of $501 include $195 paid for registration of securities in connection with the acquisition which were netted against the issuance of the shares. Liabilities assumed were approximately $247, and tangible assets acquired were approximately $96. The Company recognized total intangible assets of $3,458 resulting from the acquisition.

The Company has obtained an independent valuation for the aggregate consideration paid for the acquisition as follows:

Total liabilities assumed	$	(247)
Total tangible assets acquired		96
Identifiable intangible assets:		
Software		73
Customer contracts		98
Archived content video library		695
Goodwill		2,592
Total aggregate consideration paid	$	3,307

Immediately following the close of the transaction, with the issuance of 10,679,608 shares of the Company s common stock, the former OnSite stockholders owned 43% of the total shares of the Company s common stock then outstanding.

The results of the acquired business were included in the Company s results of operations from its acquisition date, March 2, 2004.

In accordance with SFAS No. 141, *Business Combinations,* the following unaudited pro forma information for the years ended December 31, 2004 and 2003, gives effect to the acquisition of OnSite Media, Inc., as if the acquisition was completed as of the beginning of the periods reported below. During 2005 the operation of Onsite Media, Inc. represented the entire revenue of Watchit Media, Inc.

	(Unaudited) Year Ended December 31,			
	2004		2003	
Pro forma revenues	$	1,101	$	1,110
Pro forma loss from continuing operations before income tax benefit	$	(1,244)	$	(1,531)
Pro forma loss from continuing operations	$	(1,219)	$	(1,531)
Pro forma loss per share:				
Basic and diluted	$	(0.04)	$	(0.06)

California Visitors Network

Pursuant to an Asset Purchase Agreement dated September 15, 2005, between the Company and California Visitors Network, the aggregate consideration paid to California Visitors Network was $126 (202,667 shares of the Company s Common Stock issued at fair value of $30, based on the average closing price of the Company s common stock on a few days prior to and after the signing of the Asset Purchase Agreement and cash considerations of $66 and future cash payments payable of $30). Liabilities assumed were $10.

The Company has accounted for the aggregate consideration paid for the acquisition as follows:

Liabilities assumed	$	(10)
Goodwill		136
Total aggregate consideration paid	$	126

The changes in carrying amounts of goodwill and other intangibles for the year ended December 31, 2005 and 2004 were as follows.

		Goodwill		Other Intangibles
Balance, January 1, 2004	$		$	
Acquired in 2004		2,592		866
Amortization expense				(118)
Balance, December 31, 2004		2,592		748
Acquired in 2005		136		
Amortization expense				(141)
Balance, December 31, 2005	$	2,728		607

The Company has ascribed useful lives to the identifiable intangible assets that range from 2 to 20 years. In the year ended December 31, 2005 and 2004 the Company recorded amortization on the identifiable intangible assets of $141 and $118, respectively.

Note 3   Allowance for Doubtful Accounts

On a continuing operations basis, the Company commenced recognition of revenue subsequent to the acquisition of OnSite Media, Inc., March 2, 2004. In addition, during the fourth quarter of 2004, the Company entered into a line of credit secured against the accounts receivable of both the discontinued and continuing operations, effectively restoring the allowance for doubtful accounts related to the discontinued operation.

Balance, January 1, 2003	$	
Provision for doubtful accounts		
Recoveries		
Write-offs		
Balance, December 31, 2003		
Provision for doubtful accounts		(7)

Reclassification of allowance from discontinued operations		67
Recoveries		
Write-offs		
Balance, December 31, 2004		60
Provision for doubtful accounts		
Recoveries		
Write-offs		(6)
Balance, December 31, 2005	$	54

Note 4 Property and Equipment

Property and equipment was comprised of the following.

	Useful Lives (In Years)	December 31, 2005	December 31, 2004
Computer software and office equipment	3 to 5	$ 217	$ 137
Furniture and fixtures	5	53	50
Leasehold improvements	2	14	111
Property and equipment		284	298
Less accumulated depreciation and amortization		(107)	(39)
Property and equipment, net of accumulated depreciation and amortization		$ 177	$ 259

Depreciation and amortization expense included in selling, general and administrative expense, for the years ends December 31, 2005, 2004 and 2003, was $117, $39 and $-, respectively.

Note 5 Investments

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 of $-, $-, and $335 for the years ended December 31, 2005, 2004 and 2003, respectively.

During 2004, White Horse Interactive defaulted on a note payable to the predecessor owners of the business. The predecessor owners exercised their right to a return of the stock in the sole operating subsidiary of White Horse Interactive, which left the Company with an investment in a non-operating business. At December 31, 2004, the net book value of the investment was zero.

Bluebook International Holding Company, Inc.

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 the Company to Bluebook, advanced earlier in the third quarter of 2002. In accordance with the purchase and development agreement, management of the Company expected the Company to be a preferred provider of implementation services for Bluebook s future software products.

Under the Series C purchase and development agreement, the Company contributed additional services and funded an additional $1,500 in cash, due upon Bluebook s first sale of certain software associated with the purchase and development agreement in the fourth quarter of 2002. Upon payment of the additional $1,500 and delivery of the remaining services, the Company received an additional 2,261,164 shares of Series C, which increased 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).

The value of the Series C was initially recorded at $3,000, the amount of cash paid to Bluebook. The cost of the contributed services was recorded as research and development costs in the accompanying consolidated statements of operations.

Under the certificate of designation of the Series C stock, Bluebook is required, at the Company s option, to either convert the Series C shares to common stock at any time or 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 investment was reduced by $1,457 during the year ended December 31, 2002 and $1,273 during the year ended December 31, 2003 due to the decrease in fair value since the acquisition date.

During the year ended December 31, 2003, the Company provided software development services to Bluebook for which no revenue was recognized. Payments of $270 were received from Bluebook for the delivery of such services during the year ended December 31, 2003 which were applied against and further reduced the carrying value of the investment. Costs of $230 associated with software development services during the year ended December 31, 2003 were recognized as research and development expense. At December 31, 2003, the book value of the investment in Bluebook was zero as a result of recognizing the decrease in fair value of the investment and the partial return of the investment.

During the year ended December 31, 2004, the Company converted the Series C stock to common stock, which included trading restrictions in line with the Series C purchase agreement. In 2004, Bluebook reverse split its common stock on a twenty to one basis, resulting in the Company owning 265,835 shares of Bluebook common stock. At December 31, 2004, the book value of the investment in Bluebook was zero. Subsequent to December 31, 2004, the trading restriction on the Bluebook common stock was removed.

The shares in Bluebook International Holding Company, Inc. were sold during the year ended December 31, 2005 and the company recognized a gain on sale of $141.

Note 6 Secured Borrowings

On October 8, 2004, the Company entered into a Contract of Sale Security Agreement, (as amended, the Agreement) with CAPCO Financial Company, a division of Greater Bay Bank N.A. (the Lender). Under the Agreement, the Company has agreed to sell to the Lender all of its accounts receivable existing as of the date of the Agreement or thereafter created during the term of the Agreement at a discount below face value. The Lender has reserved the sum of $1,000 for the purchase of the Company s accounts receivable and these funds are available daily at the Company s option, subject to the restriction that the maximum amount available to the Company may not exceed 80% of the accounts receivable that meet the Lender s eligibility requirements. In addition, the Lender has full recourse against the Company. Funds advanced by the Lender to the Company under the Agreement are subject to a daily fee equal to the Lender s prime rate plus 4%, 11.25% at December 31, 2005. The Company has granted the Lender a first priority security interest in all accounts, contract rights, chattel paper, documents, instruments and related general intangibles now owned or hereafter acquired and the proceeds thereof. Transactions under the Agreement are being accounted for as secured borrowings rather than a sale of assets pursuant to SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities . At December 31, 2005, the Company had $287 outstanding out of a total of $414 available for borrowing based on eligible accounts receivable at that time.

The Agreement has an initial term of one year and was renewed until October, 2006. The Agreement includes customary covenants regarding events of default. Upon an event of default, the Lender may, among other things, declare any amounts outstanding under the Agreement immediately due and payable. At December 31, 2005, the Company was in compliance with the customary covenants.

Interest expense for the years ended December 31, 2005 and 2004 was $41 and $8, respectively

Note 7 Other Accrued Liabilities

	December 31, 2005	December 31, 2004
Future cash payments payable	$ 30	$
Legal accrual	18	
Audit fee accrual	88	75
Other accrued liabilities	107	123
Total other current liabilities	$ 243	$ 198

Note 8 Restructuring Expense

September 2001

In 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 an exit plan which resulted in a restructuring charge of $2,436 during the year ended December 31, 2001. 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 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 , 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.

October 2002

In the fourth quarter of 2002, the Company developed a new approach to marketing and delivering its service offerings and consequently, created a plan to reorganize and streamline the organization responsible for the delivery of the client services. This reorganization resulted in a headcount reduction of 27 people. Accordingly, the Company recognized $691 of termination benefits paid during the fourth quarter as a restructuring charge. At December 31, 2002, there was no remaining liability related to this restructuring program.

August 2003

In August 2003, 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. The Company terminated approximately 33 management and operating staff between August 2003 and December 2003 and recorded a restructuring charge related to the severance and extended medical coverage (COBRA) benefits provided to the terminated employees of $2,531. The Company paid all severance benefits prior to December 31, 2003. A former officer of the Company terminated as part of the restructuring plan, used severance benefits to re-pay $618 of notes receivable and accrued interest due the Company.

October 2004

In October of 2004, 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 and decided to close its software development operation in southern

California. Accordingly, the Company adopted an exit plan which resulted in a reduction of approximately 14 management and operating staff ($93) as well as closure costs associated with a plan to dispose of the southern California location ($24). The Company accounted for the plan in line with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ,

The following table provides a reconciliation of the beginning and ending liability balances for each of the years in the three-year period ended December 31, 2005.

	September 2001 Facility Closure	August 2003 Severance & Benefits	October 2004 Severance	October 2004 Facilities Closure	Total
Balance, January 1, 2003	$ 922	$	$	$	$ 922
Restructuring charge		2,531			2,531
Severance payment withheld and applied to note receivable from officer		(618)			(618)
Spending	(123)	(1,864)			(1,987)
Adjustments	(39)				(39)
Balance, December 31, 2003	760	49			809
Restructuring charge			93	24	117
Spending	(85)	(32)	(49)		(166)
Adjustments	(59)	(8)			(67)
Balance at December 31, 2004	616	9	44	24	693
Spending	(21)	(9)	(44)	(24)	(98)
Balance, December 31, 2005	$ 595	$	$	$	$ 595

In June 2005, Advance at Branchburg, LLC (Advance) filed a lawsuit against the Company in the Superior Court of New Jersey, Law Division, Somerset County. The lawsuit arises out of a commercial lease agreement between Advance as landlord and Cotelligent as tenant. Specifically, Advance alleges that Cotelligent breached the lease agreement by failing to make base and additional rent payments for the months of March 2005 to the present. Advance seeks payment of all amounts allegedly due under the lease, including base rent, late charges, interest and attorneys fees and costs. Advance also seeks loss of bargain damages, consisting of all rent due through the end of the lease term, reduced to present value using an interest rate of 6% per annum. The lawsuit does not specify that specific amount of damages sought. Advance initially obtained an entry of default against the Company but the default was vacated in September 2005 by Advance s consent. The Company then filed an answer to Advance s complaint, along with a counterclaim for the return of its security deposit. At December 31, 2005, the Company has accrued $595 related to the lease obligation, which is classified as part of restructuring liabilities. The accrual covers obligations for base and additional rent and late charges, offset by estimated potential rent from the sublet of the facility. In addition, the Company maintains a $180 security deposit with Advance in connection with the lease, classified as part of other long term assets. At this time, we do not believe this matter will have a material impact on our consolidated financial position, results of operations or cash flows other than the amounts already recorded on our financial statements.

Note 9 Income Taxes

All of the Company s pre-tax losses are derived from operations in the United States. The income tax provision (benefit) from continuing operations consists of the following.

	2005	2004	2003
Current:			
Federal	$ (69)	$	$
State	(3)	(28)	
Total current	(72)	(28)	
Deferred:			
Federal			
State			
Total deferred			
Total income tax benefit	$ (72)	$ (28)	$

Significant components of deferred tax assets and liabilities of the Company were as follows.

	December 31, 2005	December 31, 2004
Deferred tax assets:		
Allowance for doubtful accounts	$ 20	$ 21
Capital loss carry-forward	2,924	
Restructuring liabilities	220	250
Accrued vacation	57	86
Accrued liabilities	2	216
Net operating loss carry-forwards	16,806	14,953
Investments		2,565
Depreciation and amortization	175	521
Other	9	992
Valuation allowance	(20,213)	(19,604)
Net deferred taxes	$	$

The net change in the valuation allowance for the years ended December 31, 2005, 2004, and 2003 was an increase of $609, $970 and $5512, respectively.

The Company has fully reserved for all net deferred tax assets, 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.

At December 31, 2005, the Company had available federal and state net operating loss (NOL) carry-forwards of approximately $45,111 which expire in the 2019 through 2025 tax years. Under Section 382 of the Internal Revenue Code of 1986, as amended, the use of prior losses, including NOLs, is limited if a corporation undergoes an ownership change. The acquisition of OnSite Media, Inc., together with future issuances of equity interests by the Company or the exercise of outstanding warrants or options to purchase the Company s common stock, may result in an ownership change that is large enough for this limitation to apply. If the limitation applies, the Company may be unable to use a material portion of its available NOL carry-forwards to reduce future taxable income.

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 was reflected in the December 31, 2002 financial statements as changes in tax law are reflected in the period of enactment.

The income tax benefit of $2,509 for the year ended December 31, 2003 resulted from the reversal of an accrual for income tax contingencies of $2,549, offset by state tax payments of $40. During the annual assessment of the tax provision in the fourth quarter of 2003, the Company identified additional net operating losses, available for carryback to the tax years that gave rise to the contingencies, which became available in 2003 to mitigate the exposure.

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

	For the Year Ended December 31,		
	2005	**2004**	**2003**
U.S. federal statutory rate	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(2.7)	(4.2)	(3.1)
Non-deductible items	2.9	1.9	
Change in valuation allowance	25.1	48.8	37.1
Other	2.8	(14.6)	
Effective tax rate	(3.3)%	(2.1)%	0.0%

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Note 10 Discontinued Operations

Prior to December 31, 2004, the Company entered into a plan to divest its IT services segment. The following financial data reflects the total assets and total liabilities of the discontinued operations and summary of operating results for the years ended December 31, 2004, 2003 and 2002.

Assets and Liabilities of Discontinued Operations:

	December 31, 2005		December 31, 2004	
Assets				
Prepaid expenses and other current assets	$		$	160
Total current assets of discontinued operations held for sale				160
Property and equipment, net of accumulated depreciation of $____and $156				170
Total assets of discontinued operations held for sale	$		$	330
Liabilities				
Accounts payable	$		$	36
Accrued compensation				262
Deferred revenue				600
Total current liabilities of discontinued operations				898
Net liabilities of discontinued operations held for sale	$		$	568

Summary of Operating Loss from Discontinued Operations:

	For the Year Ended December 31,					
	2005		2004		2003	
Revenues	$	2,662	$	6,684	$	9,936
Cost of revenues		1,056		3,582		6,543
Gross profit		1,606		3,102		3,393
Research and development costs						619
Selling, general and administrative expenses		2,075		5,912		13,682
Impairment of long-lived assets						177
Restructuring charge				117		2,531
Operating loss		(469)		(2,927)		(13,616)
Total other income				67		106
Loss from discontinued operations before income tax benefit		(469)		(2,860)		(13,510)
Income tax benefit						2,509
Net loss from discontinued operations		(469)		(2,860)		(11,001)
Gain on sale of discontinuing operations		1,520				
Income (loss) from discontinuing operations	$	1,051	$	(2,860)	$	(11,001)

Summary of Gain on Sale of Discontinued Operations:

		Year Ended December 31, 2005
Prepaid expenses and other	$	41
Property and equipment, net		170
Accrued compensation		(163)
Net book value of assets and liabilities sold		48
Proceeds on sale of discontinued operations, net of selling expenses of $732		1,568
Gain on sale of discontinued operations	$	1,520

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Note 11 Lease Commitments

The Company leases various office spaces and certain equipment under noncancellable lease agreements which expire at various dates. Future minimum rental payments under such leases at December 31, 2005 for the Company s continuing operations are as follows.

		Operating Leases
2006	$	945
2007		151
Total minimum lease payments		1,096
Less: Sublease payments		(37)
Net minimum lease payments	$	1,059

Rental expense under these leases for the years ended December 31, 2005, 2004 and 2003, was $211, $175 and $ -, respectively. The net minimum lease payments at December 31, 2005 include lease obligations, net of projected sublease income, that were previously accrued in restructuring liabilities.

During the year ended December 31, 2005, the landlord paid the Company $149 and in exchange for the Company cancelling their existing lease and moving out of the office space. This amount is recorded as other income in the consolidated statement of operations.

Note 12 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 Compensation Committee of the Board of Directors as defined in each plan, except for grants of 10,000 stock options or less, which are administered by the Chief Executive Officer of the Company.

A summary of option transactions is described in the table below. All options granted in the periods 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.

	Number of Shares		**Weighted Average Exercise Price**
Outstanding at January 31, 2003	4,355,925	$	0.33
Granted	256,050	$	0.27
Exercised	(322,501)	$	0.19
Cancelled	(1,781,160)	$	0.35
Outstanding at December 31, 2003	2,508,314	$	0.32
Granted	1,859,166	$	0.17
Cancelled	(967,801)	$	0.25
Outstanding at December 31, 2004	3,399,679	$	0.26
Granted	2,964,500	$	0.13
Cancelled	(944,369)	$	0.36
Outstanding at December 31, 2005	5,419,810	$	0.19

The following table summarizes information concerning outstanding and exercisable options at December 31, 2005.

Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number of Options Exercisable		Weighted Average Exercise Price
$0.10-$0.25	5,348,710	8.13	$	0.15	4,791,994	$	0.15
$0.26-$4.94	69,600	5.20	$	2.24	69,600	$	2.24
$4.95-$17.81	1,500	2.46	$	17.81	1,500	$	17.81
$0.10-$17.81	5,419,810	8.09	$	0.18	4,863,094	$	0.19

Exercisable options at December 31, 2005, 2004 and 2003 were 4,863,094, 2,304,046 and 1,993,078 and weighted average exercise prices of these options were $0.19, $0.29 and $0.33 respectively.

Employee Stock Purchase Plan

The Company s Employee Stock Purchase Plan (the ESPP) allowed 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 years ended December 31, 2005, 2004, and 2003, employees did not purchase any shares of Common Stock.

On February 1, 2002, the Company terminated the Employee Stock Purchase Plan (ESPP) as the number of employees in the Company had decreased significantly over the prior two fiscal years, and the administrative costs of the plan were out of line with the remaining number of active participants.

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. During the years ended December 31, 2003 and 2002, the Company used forfeited matching funds available in the 401(k) trust account to fund current year matching obligations. The Company ceased the matching program on September 30, 2003, when forfeited matching funds were no longer available in the 401(k) trust account in order to streamline operating expenses going forward.

Leveraged Stock Purchase Plan

In 1999, the stockholders approved the Cotelligent, Inc. 1999 Leveraged Stock Purchase Plan (the LSPP) which authorized 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.

On March 29, 2005, the Company s Board of Directors decided to unwind the sale of shares of the Company s Common Stock that were issued pursuant to a Stock Purchase Agreement entered into in connection with the LSPP, and which shares of Common Stock remained outstanding in 2004, on the basis that the receipt by the Company of a promissory note as the sole consideration for the shares of Common Stock acquired did not constitute the consideration required by Section 152 of the Delaware General Corporation Law for the shares of Common Stock to be validly issued, fully paid and nonassessable shares of Common Stock of the Company. Accordingly, the Company gave retroactive accounting treatment for the return of all Common Stock issued under the LSPP and cancellation of associated notes receivable to December 31, 2001. The net effect of this adjustment on total stockholders equity, which included an adjustment to the par value of common stock ($17), additional paid-in-capital ($6,176) and notes receivable from stockholders ($6,193), was zero.

Historically, the Company had treated awards under the Company s LSPP for accounting purposes as variable awards because the Company could not determine the ultimate purchase price of the shares at the issuance date. For variable awards, the Company estimated total compensation cost for each period from the issuance date to the final measurement date based on the quoted market price of the Company s stock at the end of each period. No compensation expense has been reported during the periods presented for the LSPP awards. Consequently, these shares were equivalent to stock options for purposes of calculating earnings (loss) per share.

Note 13 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, 2005 or 2004. The Company has no current plans to issue any shares of Preferred Stock.

Common Stock

The par value of Common Stock, balance at December 31, 2001, in the accompanying consolidated statements of stockholders equity was reduced by $17 to reflect retroactive accounting treatment for the return of all Common Stock issued under the LSPP and cancellation of associated notes receivable to December 31, 2001 (note 12).

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, 2005 and 2004, there were 28,723,629 and 24,340,912 shares of Common Stock issued, respectively, after giving retroactive treatment for the return of 750,000 shares of Common Stock issued under the LSPP (notes 12 and 19). The Company repurchased 644,600 shares of its Common Stock during the year ended December 31, 2001 and reissued 500,000 of these shares during the year ended December 31, 2005; accordingly, at December 31, 2005 and 2004, there were 28,868,229 and 24,984,792 shares of common stock outstanding, respectively.

Warrants

During 2004, the Company issued warrants in connection with an acquisition. The following summarizes information concerning outstanding warrants at December 31, 2005.

Range of Exercise Price	**Number of Warrants Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Warrants Exercisable**	**Weighted Average Exercise Price**
$0.25	5,339,803	0.67	$0.25	5,339,803	$0.25
$0.30	3,550,000	2.19	$0.30	3,550,000	$0.30
$0.25-$0.30	8,889,803	1.28	$0.27	8,889,803	$0.27

Additional Paid-In-Capital

The additional paid-in-capital, balance at December 31, 2001, in the accompanying consolidated statements of stockholders equity was reduced by $6,176 to reflect retroactive accounting treatment for the return of all Common Stock issued under the LSPP and cancellation of associated notes receivable to December 31, 2001 (note 12).

Notes Receivable From Stockholders

Beginning in 1999, the Company reported notes receivable from stockholders that resulted from the sale of shares of Common Stock under the LSPP. The balance of these notes receivable, at December 31, 2001, was reduced by $6,176 to zero to reflect retroactive accounting treatment for the return of all Common Stock issued under the LSPP and cancellation of associated notes receivable (note 12).

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 14 Earnings (Loss) Per Share

There were no reconciling items between the numerator and denominator used to compute basic and diluted loss per share for the periods presented in the consolidated statements of operations. Potentially dilutive stock options, after applying the treasury stock method, to purchase none, 40,085 and 689,026 shares of common stock were outstanding for the years ended December 31, 2005, 2004 and 2003, respectively, but were not included in EPS for those relevant periods because the Company reported a loss from continuing operations resulting in an antidilutive effect.

Note 15 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 and the Company s performance against targets.

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 consolidated financial position or results of operations or cash flows of the Company.

Note 16 Segment Information

Prior to March 2, 2004, the Company was organized into one reportable segment, IT services. Effective with the acquisition of OnSite Media, Inc. on March 2, 2004, the Company became organized into the following two reportable segments, to align internal management with current service offerings:

IT services. IT software and consulting services to businesses with complex IT operations in addition to maintenance, support and hosting on software products it has licensed.

Narrowcasting. Creative media development, private venue video programming, installation and integration of Internet protocol (IP) digital technology presenting video content, distribution, scripting and playback via Broadband to private video networks.

Prior to December 31, 2004, the Company committed to a plan to discontinue its IT services segment. Accordingly, these accompanying consolidated financial statements have been prepared on a discontinued operations basis effectively reporting the Narrowcasting segment as continuing operations (see accompanying consolidated statements of operations), and the IT services segment as discontinued operations (see Note 10).

Note 17 Quarterly Financial Data (Unaudited)

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

	For the Year Ended December 31, 2005			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenues	$ 255	$ 609	$ 379	$ 601
Gross profit	$ 142	$ 377	$ 154	$ 365
Loss from continuing operations	$ (303)	$ (348)	$ (774)	$ (686)
Income (loss) from discontinued operations	$ (672)	$ (279)	$ 485	$ (3)
Gain on sale of discontinued operations	$	$	$ 1,520	$
Net income(loss)	$ (975)	$ (627)	$ 1,231	$ (689)
Earnings per share:				
Basic and diluted				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)
	(0.03)	(0.01)	0.07	

Income (loss) from discontinued operations								
Net loss	$	(0.04)	$	(0.02)	$	(0.04)	$	(0.02)
Weighted average shares:								
Basic and diluted		25,357,756		28,011,739		28,556,208		28,723,629

	For the Year Ended December 31, 2004							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Revenues	$	77	$	233	$	255	$	297
Gross profit	$	48	$	124	$	140	$	186
Loss from continuing operations	$	(153)	$	(314)	$	(496)	$	(315)
Income (loss) from discontinued operations	$	(1,387)	$	(587)	$	(543)	$	(410)
Gain on sale of discontinued operations								
Net loss	$	(1,540)	$	(901)	$	(1,039)	$	(725)
Earnings per share:								
Basic and diluted								
Loss from continuing operations	$	(0.01)	$	(0.01)	$	(0.02)	$	(0.01)
Income (loss) from discontinued operations		(0.08)		(0.03)		(0.02)		(0.02)
Net loss	$	(0.09)	$	(0.04)	$	(0.04)	$	(0.03)
Weighted average shares:								
Basic and diluted		16,952,763		24,111,621		24,111,621		24,192,133

Note 18 Related Party Transactions

Notes Receivable from Officers and Stockholder

The Company had notes receivable due from certain Officers of the Company. At December 31, 2001, the notes included $683 due from the Chief Executive Officer to cover margin calls, $516 due from a former Chief Operating Officer for relocation assistance ($83) and to cover margin calls ($433), and $504 due from another former Chief Operating Officer to cover margin calls. The notes are unsecured except for the $504 in notes due from one 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 $516 of notes due from the former 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 were also acceleration payment terms on the unsecured notes should the Company s stock reach certain sustained target values.

In 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.

During the year ended December 31, 2003, the Chief Operating Officer was terminated from the Company. The Company recorded severance and other terminations benefits of $1,632 which were classified as part of the 2003 restructuring charge, and offset the repayment of notes receivable due the Company against the severance and other termination benefits. Repayment of the entire balance of the notes receivable of $618 included accrued interest of $102, which was recognized as interest income. Accordingly, the Company reduced the valuation allowance of $516 against these notes receivable upon repayment. This reduction in the valuation allowance was classified as selling, general and administrative expenses.

During the year ended December 31, 2003, the Chief Executive Officer repaid a portion of notes receivable due the Company. In prior years the Chief Executive Officer had voluntarily reduced his base compensation from its authorized level. Upon restoration of base compensation to its authorized level in 2003, the Chief Executive Officer used the increase in compensation of $106 to offset against the notes receivable due the Company. In addition, prior to December 31, 2003, the Compensation Committee of the Board of Directors authorized a bonus to the Chief Executive Officer of $599 which was classified as part of selling general and administrative expenses. The amount of bonus remaining, after tax was withheld by the Company, was used to repay $355 of the notes receivable and accrued interest. The Company recognized $70 of the repayment as interest income. Accordingly, the Company reduced the valuation allowance against these notes receivable by $391 upon repayment. This reduction in the valuation allowance was classified as selling, general, and administrative expenses.

During the year ended December 31, 2004, the Compensation Committee provided the Chief Executive Officer a bonus upon the completion of the acquisition of OnSite Media, Inc. The $640 bonus was classified as part of selling, general and administrative expenses. The amount of the bonus remaining after tax was withheld by the Company was used to repay $364 of the notes receivable and accrued interest outstanding from the Chief Executive Officer. The Company recognized $71 of the repayment as interest income. Accordingly, the Company reduced the valuation allowance against these notes receivable by $293 upon repayment. This reduction in the valuation allowance was classified as selling, general and administrative expenses.

In addition, during 2004, the Company s Board of Directors approved a $404 reduction in the balance of notes receivable due from a former officer of the Company. Upon the reduction in the notes value, the former officer paid the remaining balance of the notes, $100. Accordingly, the Company reduced the valuation allowance against these notes receivable by $100 upon repayment. This reduction in the valuation allowance was classified as selling, general and administrative expenses.

Investment in Alliance Partner

During the year ended December 31, 2003, the Company engaged White Horse Interactive, to provide design services in connection with the Company s website and paid White Horse Interactive $66.

Note 19 Subsequent Events

The exercise period for the Onsite Warrants that were set to expire on March 1, 2006 was extended for 6 months by the Board of Directors in a meeting held on January 31, 2006.

Effective February 8, 2006, Harlan Kleiman resigned as director from our board of directors. Effective March 24, 2006, Terry Leiweke was elected to be a director on our board of directors.

Effective January 30, 2006, the board of directors, pursuant to the by-laws, increased the size of the board from 5 to 7 persons. The board has not yet filled the additional two seats.

On March 2, 2006, the Company obtained $100,000 from a private investor, who is a related party (the Company s Public Relations Manager), in a first round of short term financing (the Bridge) in the form of a short term note bearing an interest rate of 1.5% per annum, plus 500,000 shares of the company s unregistered common shares.

On March 16, 2005, the Company obtained $200,000 from a private equity fund, who is not a related party, in a first round of a private placement of the Company s unregistered stock. 3,333,334 shares of the company s unregistered common shares and warrants were issued for this transaction. The same investor has committed to invest another $100,000 in the next round of funding scheduled to occur in the second quarter of 2006.

The Compensation Committee of the Board of Directors of Watchit Media Inc, on April 11, 2006, awarded to James Lavelle, Watchit Media s CEO, for his continuing progress in transforming the company, fully vested options on 1 million of the company s shares immediately on completion of the audit for the year ended December 31, 2005, at the closing price on the date that the audit is completed, on or near April 15, 2006.

On February 20, 2006, the Company issued a 15% Convertible Promissory Note (The Note) to James Lavelle, it s Chairman and CEO, in exchange for a $65,000 infusion by Mr. Lavelle to the Company. The Note has a conversion price of $.07 per share, for each Common share issued upon conversion the Note. In addition to the conversion shares, Mr. Lavelle received warrants. One warrant will be issued for each common share converted. Each warrant, represents the right to purchase two additional unregistered shares of Common Stock at a price of $.15 per share. The warrant shall be immediately exercisable upon issuance and shall expire three years from the date of issuance.

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures as of the end of the period covered by this report were designed and were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The Company believes that a system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Change in Internal Control over Financial Reporting

No change in the Company s internal control over financial reporting occurred during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10 Directors and Executive Officers of the Registrant

The information called for by Item 10 with respect to identification of directors and executive officers of the Company is incorporated herein by reference to the material under the captions Election of Directors and Other Executive Officers of the Company in the Company s Proxy Statement for its 2005 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission within 120 days after the end of the Company s fiscal year (the Proxy Statement).

We also make available on our Internet website our Code of Business Conduct and Ethics for our Directors and employees. Such information is also available in print free of charge to our stockholders upon request.

Item 11 Executive Compensation

The information called for by Item 11 with respect to executive compensation is incorporated herein by reference to the material under the caption Executive Compensation in the Proxy Statement.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12 is incorporated herein by reference to the material under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation in the Proxy Statement.

Item 13 Certain Relationships and Related Transactions

The information called for by Item 13 with respect to certain relationships and related transactions is incorporated herein by reference to the material under the caption Certain Relationships and Related Transactions in the Proxy Statement.

Item 14 Principal Accountant Fees and Services

The information called for by Item 14 with respect to principal accounting fees and services is incorporated herein by reference to the material under the caption Principal Accountant Fees and Services in the Proxy Statement.

PART IV

Item 15. 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 Registered Public Accounting Firm

   Consolidated Balance Sheets as of December 31, 2005 and 2004

   Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003

   Consolidated Statements of Stockholders Equity for the years ended December 31, 2005, 2004 and 2003

   Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

   Notes to the consolidated financial statements

2. Financial Statement Schedules

   All financial statement schedules are omitted as the required information is not applicable or as the information required is included in the consolidated financial statements and related notes.

3. 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 41.

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of Cotelligent, Inc. (Exhibit 3.1 of the Company s Registration Statement on Form S-1 (File No. 33-80267), effective February 9, 1996, is hereby incorporated by reference)
3.2	Certificate of Amendment of Certificate of Incorporation of Cotelligent, Inc. (Exhibit 3.3 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)
3.3	Amended and Restated By-Laws of Cotelligent, Inc. (Exhibit 3 of the Company s Current Report on Form 8-K (File No. 0-27412), filed with the SEC on May 9, 2002, is hereby incorporated by reference)
4.1	Form of certificate evidencing ownership of Common Stock of Cotelligent, Inc. (Exhibit 4.1 of the Company s Registration Statement on Form S-1 (File No. 33-80267), effective February 9, 1996, is hereby incorporated by reference)
4.2	Rights Agreement dated as of September 24, 1997, between Cotelligent, Inc. and BankBoston, N.A. (Exhibit 4.2 of the Company s Annual report on Form 10-K (File No. 0-27415), filed with the SEC on April 14, 2004, is hereby incorporated by reference)
4.3	Amendment No. 1 to Rights Agreement, dated June 13, 2002, amending Rights Agreement, dated as of September 24, 1997, between Cotelligent, Inc. and BankBoston, N.A. (Exhibit 4 of the Company s Current Report on Form 8-K (File No. 0-27412), filed with the SEC on June 13, 2002, is hereby incorporated by reference)

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10.1	Amended and Restated Employment Agreement, dated as of January 5, 2000, between Cotelligent, Inc. and James R. Lavelle (Exhibit 10.1 of the Company s Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on July 14, 2000, is hereby incorporated by reference)*
10.2	Employment Agreement, dated as of December 19, 2000, between Cotelligent, Inc. and Curtis J. Parker (Exhibit 10.3 of the Company s Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on March 29, 2002, is hereby incorporated by reference)*
10.3	Long-Range Bonus Incentive Plan, effective as of November 18, 1999, among Cotelligent, Inc., James R. Lavelle and Daniel E. Jackson (Exhibit 10.6 of the Company s Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on July 14, 2000, is hereby incorporated by reference)*
10.4	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)*
10.5	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)*
10.6	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)*
10.7	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)*
10.8	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. (Exhibit A of the Company s Schedule 13D (File No. 005-61801), filed with the SEC on January 17, 2003, is hereby incorporated by reference)
10.9	Agreement of Compromise and Settlement, dated as of August 29, 2003, among Cotelligent, Inc., on the one hand, and Skiritai Capital LLC, Russell Silvestri, James Glockner and Lyron Bentovim, on the other hand (Exhibit 99.2 of the Company s Current Report on Form 8-K (File No. 0-27412), filed with the SEC on September 4, 2003, is hereby incorporated by reference)
10.10	Termination of Employment Agreement, dated as of November 25, 2003, by and between Cotelligent, Inc. and Daniel E. Jackson (Exhibit 10.10 of the Company s Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on April 14, 2004, is hereby incorporated by reference)
10.11	Agreement and Plan of Merger, dated November 24, 2003, by and among Recency Media USA, Inc., Cotelligent, Inc., OnSite Media, Inc., and Certain Stockholders of OnSite (Exhibit 2.1 of the Company s Current Report on Form 8-K (File No. 0-27412), filed with the SEC on December 3, 2003, is hereby incorporated by reference)
10.12	Business Development Agreement, dated as of November 24, 2003, by and between Recency Media USA, Inc. and OnSite Media, Inc. (Exhibit 2.8 of the Company s Registration Statement on Form S-4 (File No. 333-111550), filed with the SEC on December 24, 2003, is hereby incorporated by reference)

10.13	Special Bonus Letter Agreement, dated December 31, 2003, by and between Cotelligent, Inc. and James R. Lavelle* (Exhibit No. 10.13 of the Company s Annual Report on Form 10-K (File No. 0-27412), filed with the SEC on April 14, 2004, is hereby incorporated by reference)
10.14	Contract of Sale Security Agreement, dated as of October 8, 2004, between Cotelligent, Inc. and its subsidiaries, and CAPCO Financial Company, a division of Greater Bay Bank N.A., as amended (Exhibit 10.1 of the Company s Current Report on Form 8-K (File No. 0-27412), filed with the SEC on October 14, 2004, is hereby incorporated by reference)
10.15	Asset Purchase Agreement, dated as of April 1, 2005, by and among Fastech Integrated Solutions, LLC, Cotelligent, Inc., Cotelligent USA, Inc., CZG Mobile Ventures, Inc., bSmart.to, LLC, and JAS Concepts, Inc. (Exhibit 10.1 of the Company s Current Report on Form 8-K, filed with the SEC on June 3, 2005, is hereby incorporated by reference)
10.16	First Amendment to Asset Purchase Agreement, dated June 27, 2005, by and among Fast Track, LLC, Cotelligent, Inc., Cotelligent USA, Inc., CZG Mobile Ventures, Inc., bSmart.to, LLC, and JAS Concepts, Inc. (Annex A to the Company s Proxy Statement Supplement filed on June 28, 2005, is hereby incorporated for reference)
10.17	Asset Purchase Agreement, dated as of September 15, 2005, by and between Watchit Media, Inc. and Charles Lain (Exhibit 10.1 of the Company s Current Report on Form 8-K, filed with the SEC on September 21, 2005, is hereby incorporated by reference)
21.1	Subsidiaries of the registrant **
23.1	Independent Registered Public Accounting Firms Consent **
24.1	Power of attorney as reflected on signatures page included herewith **
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act**
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act**
32.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
99.1	Certificate of ownership and Merger, merging Watchit Media, Inc. with and into Cotelligent, Inc. (Exhibit 99.1 of the Company s Current Report on Form 8-K, filed with the SEC on December 4, 2005. is hereby incorporated by reference.)

(b) Reports on Form 8-K

Current Report on Form 8-K filed with the SEC on February 7, 2005

Current Report on Form 8-K filed with the SEC on Apil 17, 2005

Current Report on Form 8-K filed with the SEC on April 15, 2005

Current Report on Form 8-K filed with the SEC on April 28, 2005

Current Report on Form 8-K filed with the SEC on April 29, 2005

Current Report on Form 8-K filed with the SEC on May 27, 2005

Current Report on Form 8-K filed with the SEC on June 3, 2005

Current Report on Form 8-K filed with the SEC on July 21, 2005

Current Report on Form 8-K filed with the SEC on September 21, 2005

Current Report on Form 8-K filed with the SEC on December 16, 2005

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

** Filed herewith.

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 San Francisco, State of California on the 17th day of April, 2006.

WATCHIT MEDIA, 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 and John Dong, 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 Watchit Media, 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	Date
/s/ James R. Lavelle **James R. Lavelle**	**Chairman of the Board of Directors, Director and Chief Executive Officer (Principal Executive Officer)**	**April 17, 2006**

/s/ John Dong **John Dong**	**Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)**	**April 17, 2006**

/s/ Paul Frankel		
Paul Frankel	**Director**	**April 17, 2006**

/s/ Debra J. Richardson

Debra J. Richardson	**Director**	**April 17, 2006**

/s/ Tony C. Vickers

Tony C. Vickers	**Director**	**April 17, 2006**