IMMEDIATEK INC
Form 10KSB/A
November 13, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB/A
(Amendment No. 1)

(Mark One)

þ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from:__________ to __________

Commission file number: 000-26073

IMMEDIATEK, INC.

(Name of small business issuer in its charter)

Nevada	**86-0881193**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
320 South Walton, Dallas, Texas	**75226**
(Address of principal executive offices)	(Zip Code)

Issuer s telephone number: **(214) 744-8801**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	**None**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $0.001

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 þ No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Issuer s revenues for its most recent fiscal year: $50,095

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant, computed by reference to the average bid and asked price of such common stock on February 28, 2007, was approximately $807,325. For purposes of this computation, all officers, directors and 10% stockholders were deemed to be affiliates. This determination should not be construed as an admission that such officers, directors and 10% stockholders are affiliates.

As of December 31, 2006 and March 2, 2007, the issuer had 474,807 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III of this form is incorporated by reference to the definitive Information Statement for the registrant to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2006.

Transitional Small Business Disclosure Format (Check one): Yes o; No þ

TABLE OF CONTENTS

Table of Contents

Explanatory Note

This Annual Report on Form 10-KSB/A (Amendment No. 1) amends and restates only Items 7 and 8A of Part II and Item 13 of Part III of the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006, as originally filed with the Securities and Exchange Commission, or SEC, on March 8, 2007 (the Original Filing), in each case, solely as a result of, and to reflect, amended disclosures regarding the controls and procedures of the Company and a revised audit opinion issued by Beckstead and Watts, LLP. Other than with respect to referencing to this document as a Form 10-KSB/A or as Amendment No. 1, no other information in the Original Filing is being amended hereby. The foregoing Items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. This Form 10-KSB/A continues to speak as of the filing date of the Original Filing. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been, or will be, addressed in the Company s Quarterly Reports on Form 10-QSB for the fiscal year ended December 31, 2007, which have been filed with the SEC or will be filed with the SEC subsequent to the date of this filing. In addition, pursuant to the rules promulgated by the SEC, Item 13 of Part III of the Original Filing has been amended to contain currently dated certifications from the Company s Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company s Principal Executive Officer and Principal Financial Officer are attached to this Form 10-KSB/A as Exhibits 31.1, 31.2, and 32.1.

Table of Contents

PART II

Item 7. Financial Statements.

Our audited consolidated financial statements and accompanying footnotes can be found beginning with the Index to Consolidated Financial Statements on page F-1, which follows the signature page of this Annual Report on Form 10-KSB.

Item 8A. Controls and Procedures.

Controls and Procedures

Our chief executive officer and president are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) for us. Accordingly, our chief executive officer and president designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under their supervision, to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and president by others within those entities. We regularly evaluate the effectiveness of disclosure controls and procedures and report our conclusions about the effectiveness of the disclosure controls quarterly on our Quarterly Reports on Forms 10-QSB and annually on our Annual Reports on Forms 10-KSB. Factors that our chief executive officer and president reviewed and analyzed are follows:

- the timeliness of the disclosures made by us since the change in control of us and retention of new management personnel;
- the effectiveness of our disclosure policy, which encourages open and timely disclosure of material events, and the procedures established to implement that policy;
- the limited number of people within our organization, which provides for detail knowledge of our activities and issues, and the amount and pattern of communications among them;
- the tone established for compliance with all disclosure requirements within our organization;
- all constructive comments received from, or suggested by, legal counsel, investors and independent auditors concerning our disclosures and activities have been timely and adequately addressed;
- management has addressed all disclosure issues encountered during the most recent year; and
- our Code of Business Conduct and Ethics provides methods to report violations of our disclosure policies.

Based upon the evaluation for the period ended December 31, 2006, our chief executive officer and president concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this Annual Report on Form 10-KSB (December 31, 2006), in ensuring that material information relating to us required to be disclosed by us in reports that we file or submit 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 and that such information is accumulated and communicated to management, including the chief executive officer and the president, as appropriate, to allow timely decisions regarding required disclosure.

Based on the definition of material weakness in the Public Company Accounting Oversight Board s Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, restatement of financial statements in prior filings with the SEC is a strong indicator of the existence of a material weakness in the design or operation of internal control over financial reporting. We have concluded that we did not maintain effective internal controls. We determined that because effective controls were not in place, the recognition of certain items was inconsistent with accounting principles and that a material weakness existed in our internal control over financial reporting, and disclosed this to our Board of Directors and to our independent registered public accounting firm. In addition, we have determined that a material weakness exists in our internal controls over financial reporting due to the limited number of personnel we have. We disclosed this to our Board of Directors and to our independent registered public accounting firm. Nevertheless, based upon a number of factors, including the revisions to our previously issued financial statements, the retention of a new independent registered public accounting firm and other procedures designed to assist us in ensuring the reliability of our financial statement, our management believes that the consolidated financial statements included in this Annual Report on Form 10-KSB fairly state, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles in the United States of America.

Plan for Remediation of Material Weaknesses

We are in the process of designing and instituting new policies that substantially improve these controls. Also, we have retained qualified personnel and consultants for our accounting and reporting functions.

Changes in Internal Controls

Changes in our internal controls are currently being designed and will be implemented on an ongoing basis as designed.

Limitations on the Effectiveness of Controls

Our management, including our chief executive officer and president, does not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events occurring. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART III

Item 13. Exhibits.

The following exhibits are provided pursuant to provisions of Item 601 of Regulation S-B:

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of the Registrant, dated as of June 2, 2006 and filed with the Secretary of State of the State of Nevada on June 5, 2006 (filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
3.2	Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).

Table of Contents

Exhibit Number	Description of Exhibit
4.1	Form of common stock certificate of the Registrant (filed as Exhibit 4.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.2	Warrant to Purchase Common Stock of the Registrant, dated as of March 22, 2004, issued by the Registrant to Jess S. Morgan & Co. (filed as Exhibit 10.2 to the Registrant s Registration Statement on Form SB-2 (File No. 333-115989) and incorporated herein by reference).
4.3	Warrant to Purchase Common Stock of the Registrant, dated as of April 23, 2004, issued by the Registrant to Phil McMorrow (filed as Exhibit 4.3 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.4	Warrant to Purchase Common Stock of the Registrant, dated as of June 22, 2004, issued by the Registrant to Broad Street Ventures, LLC (filed as Exhibit 4.4 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.5	Warrant to Purchase Common Stock of the Registrant, dated as of June 22, 2004, issued by the Registrant to Doman Technology Capital, Inc (filed as Exhibit 4.5 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.6	Warrant to Purchase Common Stock of the Registrant, dated as of December 9, 2004, issued by the Registrant to Doman Technology Capital, Inc (filed as Exhibit 4.6 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.7	Certificate of Designation, Rights and Preferences of Series A Convertible Preferred Stock of the Registrant, dated as of June 2, 2006 and filed with the Secretary of State of the State of Nevada on June 5, 2006 (filed as Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
4.8	Form of stock certificate for Series A Convertible Preferred Stock (filed as Exhibit 4.8 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.1.1	Secured Promissory Note, dated as of April 8, 2005, made by the Registrant in favor of Osias Blum in the aggregate principal amount of $425,000 (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on April 14, 2005 and incorporated herein by reference).
10.1.2	Collateral Assignment and General Security Agreement, dated as of April 8, 2005, by and between Osias Blum and the Registrant (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on April 14, 2005 and incorporated herein by reference).
10.2.1	Asset Purchase Agreement, dated as of February 28, 2005, by and between the Registrant and Moving Records, LLC (filed as Exhibit 10.4.1 to the Registrant s Annual Report on Form 10-KSB for year ended

December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).

10.2.2	First Amendment to Asset Purchase Agreement, executed as of February 28, 2006, but effective as of February 28, 2005, by and between the Registrant and Moving Records, LLC (filed as Exhibit 10.4.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.3	Non-Qualified Stock Option Agreement, made as of January 31, 2006, but effective as of May 6, 2005, by and between the Registrant and Charles Humphreyson (filed as Exhibit 10.5 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.4.1	Securities Purchase Agreement, dated as of January 24, 2006, by and among the Registrant, Radical Holdings LP and the other parties thereto (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on January 27, 2006 and incorporated herein by reference).
10.4.2	First Amendment to Securities Purchase Agreement, dated as of March 3, 2006, by and among the Registrant, Radical Holdings LP and the other parties thereto (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.5	Employment Agreement, executed as of March 7, 2006, but effective as of March 1, 2006, by and between Zach Bair and DiscLive, Inc., a wholly-owned subsidiary of the Registrant (filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.6	Employment Agreement, executed as of March 7, 2006, but effective as of March 1, 2006, by and between Paul Marin and DiscLive, Inc., a wholly-owned subsidiary of the Registrant (filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.7.1	Agreement, Settlement and Release, dated as of January 23, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.7.2	First Amendment to Agreement, Settlement and Release, dated as of March 15, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.7.3	Second Amendment to Agreement, Settlement and Release, dated as of May 15, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.8.1	Agreement, Settlement and Release, dated as of January 23, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.10.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.8.2	First Amendment to Agreement, Settlement and Release, dated as of March 15, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.10.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).

10.8.3	Second Amendment to Agreement, Settlement and Release, dated as of May 15, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.9.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).

4

Exhibit Number	Description of Exhibit
10.9.1	Form of Note Conversion Agreement, Release and Waiver, each dated as of January 9, 2006, by and between the Registrant and each of Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc., Steven Lenzen and Osias Blum (filed as Exhibit 10.11.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.9.2	Form of First Amendment to Note Conversion Agreement, Release and Waiver, each dated as of March 15, 2006, by and between the Registrant and each of the Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc. and Osias Blum (filed as Exhibit 10.11.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.9.3	Form of Second Amendment to Note Conversion Agreement, Release and Waiver, each dated as of May 15, 2006, by and between the Registrant and each of the Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc. and Osias Blum (filed as Exhibit 10.11.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.10	Amended and Restated Consolidated Secured Convertible Promissory Note, effective as of January 31, 2006, made by the Registrant in favor of Gary Blum in the aggregate principal amount of $330,629 (filed as Exhibit 10.12 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.11.1	Waiver and Release, dated as of February 1, 2006, by and between the Registrant and Gary Blum (filed as Exhibit 10.13 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.11.2	First Amendment to Waiver and Release, dated March 17, 2006, by and between the Registrant and Gary Blum (filed as Exhibit 10.13.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.12	Form of Agreement of Waiver by and between the Registrant and stockholders of the Registrant (filed as Exhibit 10.14 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.13	Agreement of Waiver, dated as of May 1, 2006, but effective as of January 24, 2006, by and between the Registrant and Zach Bair (filed as Exhibit 10.15 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.14	Agreement of Waiver, dated as of May 1, 2006, but effective as of January 24, 2006, by and between the Registrant and Paul Marin (filed as Exhibit 10.16 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.15	Investor s Rights Agreement, dated as of June 8, 2006, by and among the Registrant, Radical Holdings LP, Zach Bair and Paul Marin (filed as Exhibit 10.17 to the Registrant s Quarterly Report on

Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).

Table of Contents

Exhibit Number	Description of Exhibit
10.16	Employment, Confidential Information and Invention Assignment Agreement, dated as of April 3, 2006, by and between DiscLive, Inc. and Travis Hill (filed as Exhibit 10.18 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended June 30, 2006 (filed on August 14, 2006) and incorporated herein by reference).
10.17	Stock Purchase Agreement, dated October 13, 2006, by and among the Registrant, Radical Holdings LP and Zach Bair (filed as Exhibit 10.19 to the Registrant s Current Report on Form 8-K filed on October 18, 2006 and incorporated herein by reference).
10.18	Sublease, dated as of February 21, 2007, by and between DiscLive, Inc. and HDNet LLC (filed as Exhibit 10.20 to the Registrant s Current Report on Form 8-K filed on February 26, 2007 and incorporated herein by reference).
10.19	Management Services Agreement, dated as of February 23, 2007, but effective as January 1, 2007, by and among the Registrant, DiscLive, Inc. and Radical Incubation LP (filed as Exhibit 10.21 to the Registrant s Current Report on Form 8-K filed on February 26, 2007 and incorporated herein by reference).
14.1	Immediatek, Inc. Code of Business Conduct and Ethics (filed as Exhibit 14.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended June 30, 2006 (filed on August 14, 2006) and incorporated herein by reference).
21.1*	Subsidiaries of the Registrant.
31.1**	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2**	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1**	Certification Required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

* Previously filed.

** Indicates document filed herewith.

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Annual Report on Form 10-KSB/A (Amendment No. 1) to be signed on its behalf by the undersigned, thereunto duly authorized.

Immediatek, Inc.¸
a Nevada corporation

Date: November 8, 2007	By:	/s/ DARIN DIVINIA
	Name:	Darin Divinia
	Title:	President and Chief Executive Officer (On behalf of the Registrant and as Principal Executive and Financial Officer)

In accordance with the Exchange Act, this Annual Report on Form 10-KSB/A (Amendment No. 1) has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ DARIN DIVINIA Darin Divinia	Director, President, Chief Executive Officer (principal executive, financial and accounting officer)	November 8, 2007
/s/ COREY PRESTIDGE Corey Prestidge	Director	November 8, 2007

S-1

Table of Contents

IMMEDIATEK, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Immediatek, Inc.

We have audited the accompanying consolidated balance sheet of Immediatek, Inc. and subsidiary (the Company) as of December 31, 2006, and the related consolidated statements of operations, stockholders deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Immediatek, Inc. and subsidiary as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 5 to the consolidated financial statements, the Company has suffered recurring losses from operations during each of the last two fiscal years and has an accumulated deficit. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans as they relate to these issues are also explained in Note 5. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

/s/ KBA GROUP LLP

KBA GROUP LLP

Dallas, Texas
March 7, 2007

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Immediatek, Inc.

We have audited the accompanying balance sheet of Immediatek, Inc. and subsidiary (the Company) as of December 31, 2005, and the related statements of income, stockholders deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Immediatek, Inc. and subsidiary as of December 31, 2005, and the results of their operations, equity and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements referred to above have been prepared assuming that the Company will continue as a going concern. As discussed in Note 5 to the consolidated financial statements, the Company suffered recurring losses from operations during the fiscal year ended December 31, 2005 and had an accumulated deficit. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans as they relate to these issues are also explained in Note 5. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 6 to the consolidated financial statements, the Company restated its fiscal 2005 consolidated financial statements.

/s/ BECKSTEAD AND WATTS, LLP
Beckstead and Watts, LLP
Henderson, Nevada
May 10, 2006, except for Notes 5 and 6, as to which the date is July 14, 2006

Table of Contents

Immediatek, Inc.
Consolidated Balance Sheets

	Successor December 31, 2006	Predecessor December 31, 2005
Assets		
Current assets:		
Cash	$ 1,052,559	$
Accounts receivable	6,678	4,000
Prepaid expenses and other current assets	2,914	3,668
Total current assets	1,062,151	7,668
Fixed assets, net	115,519	18,599
Assets held for sale	6,728	
Intangible assets, net	32,198	
Goodwill	1,765,493	162,071
Total Assets	$ 2,982,089	$ 188,338
Liabilities and Stockholders Deficit		
Current liabilities:		
Cash overdraft	$	$ 2,951
Accounts payable	21,552	488,512
Accrued liabilities	194,671	508,075
Accrued interest		90,617
Notes payable		123,606
Notes payable, related party		43,000
Convertible notes payable		1,005,249
Total current liabilities	216,223	2,262,010
Total Liabilities	216,223	2,262,010
Series A convertible preferred stock (conditionally redeemable), $0.001 par value, 4,392,286 shares authorized, issued and outstanding at December 31, 2006 with a liquidation preference of $0.68 per share; no shares issued or outstanding at December 31, 2005	3,000,000	
Stockholders deficit:		

Common stock, $0.001 par value, 500,000,000 shares authorized, 474,807 and 324,105 shares issued and outstanding at December 31, 2006 and 2005, respectively		475		324
Additional paid-in (deficit) capital		(65,614)		7,013,205
Accumulated deficit		(168,995)		(9,087,201)
Total stockholders deficit		(234,134)		(2,073,672)
Total Liabilities, Preferred Stock and Stockholders Deficit	$	2,982,089	$	188,338

See accompanying notes to consolidated financial statements.

Table of Contents

Immediatek, Inc.
Consolidated Statements of Operations

	For the Year Ended December 31, 2006		2005
		(see Note 4)	
	Successor	Predecessor	
	June 8 - December 31	January 1 - June 7	Predecessor
Revenues	$ 30,644	$ 19,451	$ 140,912
Cost of sales	23,154	43,584	166,960
Gross margin	7,490	(24,133)	(26,048)
Expenses:			
General and administrative expenses	41,902	34,903	329,539
Consulting services	9,251		26,847
Professional fees	79,189	328,347	89,264
Salaries and benefits	160,779	89,130	184,585
Non-cash stock compensation		3,410	45,496
Non-cash consulting expense	29,000		68,371
Impairment of intangible assets	4,177		701,503
Depreciation and amortization	27,925	2,755	257,595
(Gain) loss on extinguishment of debt/liabilities	(80,021)	43,056	46,000
Gain on settlement of payroll tax and sales tax liabilities	(90,480)		
Gain on settlement of accounts payable		(140,525)	
Loss on sale and disposal of assets held for sale	6,113		
Total expenses	187,835	361,076	1,749,200
Net operating loss	(180,345)	(385,209)	(1,775,248)
Other income (expense):			
Interest expense	(1,509)	(73,370)	(167,820)
Interest income	12,859	94	
Net loss	$ (168,995)	$ (458,485)	$ (1,943,068)
Deemed dividend related to beneficial conversion feature on Series A convertible preferred stock	(3,000,000)		
Net loss attributable to common stockholders	$ (3,168,995)	$ (458,485)	$ (1,943,068)

Weighted average number of common shares outstanding basic and fully diluted		474,807		324,105		319,605
Basic and diluted loss per common share attributable to common stockholders	$	(6.67)	$	(1.41)	$	(6.08)

See accompanying notes to consolidated financial statements.

F-5

Table of Contents

Immediatek, Inc.
Consolidated Statements of Changes in Stockholders Deficit

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital (Deficit)	Accumulated Deficit	Total Stockholders Deficit
PREDECESSOR PERIOD:					
Balance, December 31, 2004	297,965	$298	$ 6,551,207	$(7,144,133)	$ (592,628)
Shares issued for non-employee consulting	2,640	3	37,677		37,680
Shares issued for employee services	500		2,500		2,500
Issuance of stock options			69,188		69,188
Imputed interest on notes payable from stockholders			2,701		2,701
Shares issued for acquisition of Moving Records, LLC	16,000	16	287,984		288,000
Shares issued for settlement of notes payable	7,000	7	125,993		126,000
Legal fees for equity issuance			(64,045)		(64,045)
Net loss				(1,943,068)	(1,943,068)
Balance, December 31, 2005	324,105	324	7,013,205	(9,087,201)	(2,073,672)
Issuance of stock options			3,410		3,410
Imputed interest on notes payable from stockholders			9,370		9,370
Settlements	108,662	109	(109)		
Shares issued for conversion of notes payable	42,040	42	636,598		636,640
Net loss				(458,485)	(458,485)
Balance, June 7, 2006	474,807	475	7,662,474	(9,545,686)	(1,882,737)
SUCCESSOR PERIOD:					
Equity adjustments related to push-down accounting			(7,757,088)	9,545,686	1,788,598
Contribution of stockholder services			29,000		29,000
Net loss				(168,995)	(168,995)

Balance, December 31, 2006	474,807	$475	$	(65,614)	$	(168,995)	$	(234,134)

See accompanying notes to consolidated financial statements.

F-6

Table of Contents

Immediatek, Inc.
Consolidated Statements of Cash Flow

	For the Year Ended December 31, 2006		2005
			(see Note 4)
	Successor June 8 - December 31	Predecessor January 1 - June 7	Predecessor
Cash flows from operating activities:			
Net loss	$ (168,995)	$ (458,485)	$ (1,943,068)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	27,925	2,755	257,595
Non-cash interest expense		12,353	37,902
Non-cash consulting fees	29,000		68,371
Non-cash stock compensation		3,410	45,496
Loss on sale and disposal of assets held for sale	6,113		
Gain on change in estimates and partial settlement of payroll and sales tax liabilities	90,480		
(Gain) loss on extinguishment of debt/liabilities	(80,021)	43,056	46,000
Impairment of intangible assets	4,177		701,503
Changes in assets and liabilities:			
Accounts receivable	(2,678)	(4,000)	69,281
Prepaid expenses and other current assets	31,988	(26,000)	32,491
Accounts payable	(528,193)	61,233	141,644
Accrued liabilities	(421,153)	17,267	176,006
Accrued interest	(124)	47,895	77,824
Net cash used in operating activities	(1,011,481)	(300,516)	(288,955)
Cash flows from investing activities:			
Purchase of fixed assets	(26,255)	(2,476)	(13,646)
Proceeds from the sale of fixed assets	37,091		
Net cash provided by (used in) investing activities	10,836	(2,476)	(13,646)
Cash flows from financing activities:			
Cash overdraft		2,951	2,951
Legal fees paid for equity issuance			(64,045)
Payments on notes payable	(628,149)	(18,606)	(248,600)
Proceeds from notes payable		347,000	590,745
Proceeds from issuance of Series A convertible preferred stock	2,653,000		
Net cash provided by financing activities	2,024,851	331,345	281,051
Net increase (decrease) in cash	1,024,206	28,353	(21,550)

Cash beginning	28,353		21,550
Cash ending	$ 1,052,559	$ 28,353	$
Supplemental disclosures of cash flow information:			
Interest paid	$	$	$
Income taxes paid	$	$	$
Supplemental non-cash financing and investing activities:			
Number of shares issued for consulting services			2,640
Value of shares issued for consulting services	$	$	$ 37,680
Number of shares issued for employee services			500
Value of shares issued for employee services	$	$	$ 2,500
Number of shares issued for settlement/termination of agreements		108,662	
Value of shares issued for settlement/termination of agreements	$	$ 1,521,268	$
Number of Series A shares issued for conversion of notes payable	508,040		
Value of Series A shares issued for conversion of notes payable	$ 347,000	$	$
Number of shares issued for conversion of notes payable		42,040	7,000
Value of shares issued for conversion of notes payable	$	$ 636,640	$ 126,000
Number of shares issued for acquisition of assets			16,000
Value of shares issued for acquisition of assets	$	$	$ 288,000

See accompanying notes to consolidated financial statements.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 HISTORY, ORGANIZATION AND DESCRIPTION OF THE BUSINESS OF THE COMPANY

Immediatek was originally organized August 6, 1998, under the laws of the State of Nevada, as Barrington Laboratories, Inc. On December 18, 2000, Barrington Laboratories, Inc. amended its Articles of Incorporation to rename the company, ModernGroove Entertainment, Inc. ModernGroove Entertainment, Inc. then operated as a developer of software for the home television-based entertainment industry.

On September 18, 2002, ModernGroove Entertainment, Inc. combined by reverse-merger with Immediatek, Inc., a Texas corporation. On November 5, 2002, ModernGroove Entertainment, Inc. amended its Articles of Incorporation to rename the company, Immediatek, Inc.

Immediatek, Inc. (Texas corporation) was organized March 1, 2002 (Date of Inception) under the laws of the State of Texas, as Immediatek, Inc. Upon completion of the reverse merger, the Texas corporation was dissolved.

On June 8, 2006, Immediatek issued and sold, and Radical Holdings LP purchased, 4,392,286 shares of Series A Convertible Preferred Stock of Immediatek for an aggregate purchase price of $3.0 million, or $0.68 per share of Series A Convertible Preferred Stock, pursuant to the Securities Purchase Agreement, as amended, by and among Immediatek, Radical Holdings LP and the other parties thereto. As a result, a change in control of Immediatek occurred because Radical Holdings LP beneficially owned 95% of the outstanding securities entitled to vote on matters required or permitted to be submitted to the stockholders of Immediatek (*See* Note 3 Change in Control and Series A Convertible Preferred Stock).

Immediatek, through its wholly-owned, operating subsidiary, DiscLive, Inc., records live content, such as concerts and conferences, and makes the recorded content available for delivery to attendees within fifteen minutes after the conclusion of the live event. The recorded content is made available for pre-sale and sale at the venue and on our website, www.disclive.com. The content is delivered primarily via compact disc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Push Down Accounting: *See* Note 4 New Basis of Accounting.

Going Concern: The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of the assets of the Company and the satisfaction of its liabilities and commitments in the normal course of business. Management of the Company believes that, as a result of $3,000,000 in funding received on June 8, 2006 (*See* Note 3 Change in Control and Series A Convertible Preferred Stock and Note 5 Going Concern), the Company has adequate resources to fund its operations until the conclusion of the second quarter of 2008 based on its current business plan. There can be no assurances, however, that there will not be delays or other unforeseen events that prevent the Company from achieving its current business plan.

See Note 5 for a discussion of the Company s ability to continue as a going concern and its plans for addressing those issues. The inability to obtain additional financing in the future, if and when required, could have a material adverse effect on the operations and financial condition of the Company.

Basis of Presentation: The accompanying consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements include the accounts of the Company s wholly-owned subsidiary, DiscLive, Inc., which primarily conducts all of the Company s operating activity. All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. Certain accounts have been reclassified to conform to the current period s presentation.

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

Management Estimates and Significant Risks and Uncertainties: The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during such reporting periods. Actual results could differ from these estimates.

The Company is subject to a number of risks and can be affected by a variety of factors. For example, management of the Company believes that the following factors, as well as others, could have a significant negative effect on the Company s future financial position, results of operations or cash flows:

- inability to continue as a going concern;
- history of losses, which are likely to continue;
- inability to utilize the funds received in a manner that is accretive;
- inability to generate sufficient funds from operating activities to fund operations;
- inability to obtain a sufficient number of contracts to record live content;
- changes in the anticipated number of events to be recorded and resulting levels of product sales;
- dependence on third-party manufacturers and contractors;
- changes in technology that may make its products less attractive or obsolete;
- difficulties in developing and marketing new products; and
- changes in conditions affecting the economy generally.

Business Segments: The Company has determined that it currently operates in one segment, the production and sale of live recordings of events. The Company follows Statement of Financial Accounting Standards No. 130, Disclosures About Segments of an Enterprise and Related Information.

Cash and Cash Equivalents: Cash and cash equivalents consist principally of amounts held in demand deposit accounts and amounts invested in financial instruments with initial maturities of three months or less at the time of purchase. The Company places its temporary cash investments with quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Company does not believe that it is exposed to any significant credit risk on cash.

Fair Value of Financial Instruments: Unless otherwise disclosed, the fair values of financial instruments approximate their carrying amount due primarily to their short-term nature.

Fixed Assets: At December 31, 2006, fixed assets are stated at their estimated fair market value (determined June 8, 2006) based upon a valuation performed by an independent third-party, less depreciation and additions (valued at cost) from June 8, 2006 to December 31, 2006. This valuation was completed in connection with the push down accounting performed as a result of the change in control of the Company. *See* Note 4 -New Basis of Accounting below for a more detailed discussion. Property, plant and equipment is depreciated using the straight-line method based upon the following life expectancy:

Computer equipment

	1.5 years
Recording equipment	5 years
Office furniture and equipment	3 years

Repair and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which extend the useful life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. When assets are retired or sold, the costs and related accumulated depreciation and amortization are eliminated and any resulting gain or loss is reflected in operations.

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

Intangible Assets: At December 31, 2006, intangible assets are stated at their estimated fair market value (determined June 8, 2006) based upon a valuation performed by an independent third-party, less amortization from June 8, 2006 to December 31, 2006. This valuation was obtained in connection with the push down accounting performed as a result of the change in control of the Company. *See* Note 4 -New Basis of Accounting below for a more detailed discussion. The following table summarizes the intangible assets of the Company.

	Gross Carrying Amount	Weighted Average Lives	Accumulated Amortization	Net Book Value at December 31, 2006
Trade name and tradmarks	$ 29,100	4.5 years	$ 3,266	$ 25,834
Covenants not-to-compete	8,845	1.5 years	2,481	6,364
Total intangible assets	$ 37,945		$ 5,747	$ 32,198

These assets are being amortized over their respective remaining useful lives described above, and the carrying amounts are evaluated each reporting period for impairment in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The estimated amortization of intangibles for each of the next five years is $11,700 for 2007, $8,765 for 2008, $5,820 for both 2009 and 2010 and $2,910 for 2011. The weighted average remaining life of intangibles is 3.8 years.

On October 13, 2006, the Company released Zach Bair, the former Chief Executive Officer and President of the Company, from his covenant not-to-compete pursuant to that certain Stock Purchase Agreement, dated as of October 13, 2006, by and among the Company, Radical Holdings LP and Mr. Bair. As a result, the Company recorded a charge of $4,177 for the impairment of that portion of the covenants not-to-compete allocated to Mr. Bair.

Impairment of long-lived assets: The Company reviews its long-lived assets periodically to determine whether events or changes in circumstances have occurred that indicate the remaining asset balances may not be recoverable and an impairment loss should be recognized. These evaluations include comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets. The Company recognized an impairment loss of $4,177 relating to its intangible assets during the period from June 8, 2006 through December 31, 2006. The Company recognized impairment losses in the amount of $539,432 during the year ended December 31, 2005, which wrote-off all existing intangible assets as of December 31, 2005.

Revenue Recognition: DiscLive primarily delivers products sold by shipment to the customer. Revenue is recognized upon shipment of the product to the customer. A smaller percentage of revenues are recognized at the point of sale at the event being recorded. Certain customers purchase and accept hand delivery of the product on-site at the event. Pursuant to Emerging Issues Task Force Issue No. 00-10, Accounting for Shipping and Handling Fees and Costs, (EITF 00-10), the Company includes all shipping and handling fees charged to its customers in gross revenue. All shipping and handling costs incurred by the Company are included as direct costs of revenue.

Goodwill: Due to the application of push down accounting, goodwill of the predecessor has been eliminated and goodwill of the successor is the difference between the aggregate purchase price of the Series A Convertible Preferred Stock issued and sold by the Company and the fair market value of the assets and liabilities of the Company at the date of the issuance and sale of the Series A Convertible Preferred Stock. *See* Note 4 New Basis of Accounting. In the second quarter of 2007, or earlier if indicators of potential impairment exist, the Company will perform an impairment test to determine if the carrying value of the recorded goodwill is impaired. The first step of this process is to identify potential goodwill impairment by comparing fair value of the single reporting unit to its carrying value. The Company estimates fair value using the discounted cash flows method. If the carrying value is less than fair value, the Company would complete step two in the impairment review process, which measures the amount of goodwill impairment.

F-10

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

Management tests the reasonableness of the inputs and outcomes of the discounted cash flow analysis. The entire goodwill balance is assigned to the Company s sole reporting unit.

No events or changes in circumstances occurred during 2006 that would indicate that goodwill might be impaired. At December 31, 2005, the Company reviewed the carrying value of goodwill and recognized an impairment loss in the amount of $162,071 during the year ended December 31, 2005.

Stock-Based Compensation: Prior to January 1, 2006, the Company accounted for stock-based compensation under the recognition and measurement provisions of SFAS 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, the Company adopted SFAS 123 (revised 2004), Share Based Payment (SFAS 123R). The Company adopted SFAS 123R using the modified prospective method. The adoption of SFAS 123R did not impact the Company s stock-based compensation expense for the year ended December 31, 2006. Further, the adoption of SFAS 123R is not expected to have a material adverse impact on the Company s future stock-based compensation expense. The Company recognizes stock-based compensation expense on a straight-line basis over the period the award is earned by the employee.

Net Loss Per Share: Net loss attributable to common stockholders was used in the calculation of both basic and diluted loss per share. The weighted average number of shares of common stock outstanding also was the same for calculating both basic and diluted loss per share. Options to purchase 1,625 shares of common stock, warrants to purchase 37,425 shares of common stock and Series A Convertible Preferred Stock convertible into 9,021,333 shares of common stock outstanding at December 31, 2006, options to purchase 1,625 shares of common stock and warrants to purchase 37,425 shares of common stock outstanding at June 7, 2006 and options to purchase 11,000 shares of common stock and warrants to purchase 38,759 shares of common stock outstanding at December 31, 2005, were not included in the computation of diluted loss per share, as the effect of including the options, warrants and Series A Convertible Preferred Stock in the calculation would be anti-dilutive.

Comprehensive Loss: For all periods presented, comprehensive loss is equal to net loss.

Income Taxes: The Company follows SFAS 109, Accounting for Income Taxes, for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is provided to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

Recently Issued Accounting Pronouncements:

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. FIN 48 is effective with the Company s fiscal year beginning January 1, 2007. The Company expects that the financial impact, if any, of applying the provisions of FIN 48 to all tax positions will not be material upon the initial adoption of FIN 48.

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, which provides guidance on quantifying financial statement misstatement and implementation (e.g., restatement or cumulative effect to assets, liabilities and retained earnings) when first applying this guidance. SAB 108 is effective for the Company for the year ended December 31, 2006. The adoption of SAB 108 did not have a material effect on the financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early application is encouraged, provided that the reporting entity has not yet issued financial statements for an interim period within that fiscal year. The Company estimates that the initial application of SFAS No. 157 will not be material.

NOTE 3 CHANGE IN CONTROL AND SERIES A CONVERTIBLE PREFERRED STOCK

Change in Control. In accordance with the Securities Purchase Agreement, as amended, by and among the Company, Radical Holdings LP and the other parties thereto, the Company issued and sold, and Radical Holdings LP purchased, 4,392,286 shares of the Series A Convertible Preferred Stock for an aggregate purchase price of $3,000,000, or $0.68 per share of Series A Convertible Preferred Stock, on June 8, 2006. The Series A Convertible Preferred Stock is, at the option of the holders of the Series A Convertible Preferred Stock, convertible at any time into that aggregate number of full shares of Company common stock representing 95% of the total common stock outstanding after giving effect to the conversion.

A holder of a share of Series A Convertible Preferred Stock is entitled to vote on all matters required or permitted to be voted upon by the stockholders of the Company. Each holder of a share of Series A Convertible Preferred Stock is entitled to the number of votes equal to the largest number of full shares of Company common stock into which all shares of Series A Convertible Preferred Stock held by that holder could be converted. As a result and as of June 8, 2006, Radical Holdings LP beneficially owned 95% of the outstanding securities entitled to vote on matters required or permitted to be submitted to the stockholders of the Company. Accordingly, a change in control of the Company occurred on June 8, 2006, resulting in a new basis of accounting.

Series A Convertible Preferred Stock. The following is a summary of the material terms of the Series A Convertible Preferred Stock issued to Radical Holdings LP and established pursuant to the Certificate of Designation, Rights and Preferences filed by the Company with the Secretary of State of Nevada on June 5, 2006:

Dividends. The holders of the Series A Convertible Preferred Stock are not entitled to any preferential dividends. Holders of the Series A Convertible Preferred Stock, however, are entitled to participate on an as-converted basis in any cash dividends declared and paid on shares of Company common stock.

Liquidation. Upon the liquidation, dissolution or winding up of the Company, an acquisition of the Company that results in the sale of more than 50% of the outstanding voting power of the Company, or the sale or exclusive license of all or substantially all of the assets of the Company, the holders of the Series A Convertible Preferred Stock are entitled to receive, out of the legally available funds and assets of the Company, before any payment is made to any shares of Company common stock or other junior stock, an amount per share equal to the greater of:

$0.683015632 per share of Series A Convertible Preferred Stock; and

The amount that the holder of that share of Series A Convertible Preferred Stock would have received had the holder converted that share into shares of Company common stock immediately prior to the liquidation event.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

If the legally available funds and assets of the Company are insufficient to pay the holders of shares of the Series A Convertible Preferred Stock the full amount to which they are entitled, the holders of the shares of Series A Convertible Preferred Stock and the holders of capital stock of the Company that are on a parity with the Series A Convertible Preferred Stock will share ratably in any distribution of the remaining legally available funds and assets of the Company.

Ranking. The Series A Convertible Preferred Stock shall, with respect to rights on liquidation, winding up, corporate reorganization and dissolution, rank senior to the shares of Company common stock and other junior stock.

Conversion. The shares of Series A Convertible Preferred Stock are convertible into that aggregate number of full shares of Company common stock representing 95% of the total common stock outstanding after giving effect to the conversion. Accordingly, in the event the Company should issue additional common stock before conversion of the Series A Convertible Preferred Stock, the conversion price per share is subject to downward adjustments in order to cause the holders of the Series A Convertible Preferred Stock, collectively, to own 95% of the outstanding shares of Company common stock upon conversion of all Series A Convertible Preferred Stock. The conversion price of a share of Series A Convertible Preferred Stock into shares of Company common stock also is subject to adjustment, from time to time, for, among other reasons, stock splits, combinations, dividends and distributions.

The Series A Convertible Preferred Stock is convertible at any time into Company common stock. An intrinsic value exists for a beneficial conversion feature if the market value of the Company common stock that can be acquired by conversion of the Series A Convertible Preferred Stock is greater than the carrying value of those shares before issue costs.

The Company issued 4,392,286 shares of Series A Convertible Preferred Stock at a per share price of $0.68 to Radical Holdings LP for cash proceeds of $3,000,000. The beneficial conversion feature represents the difference between the fair market value of Company common stock and the conversion price on the date of issuance of the Series A Convertible Preferred Stock, multiplied by the number of shares of common stock that would be received upon conversion. The Company recorded a deemed dividend due to the beneficial conversion price of $3,000,000, which represents the lesser of the proceeds or the beneficial conversion feature of $123,321,622.

Voting. The holders of the shares of Series A Convertible Preferred Stock are entitled to vote on all matters required or permitted to be voted upon by the stockholders of the Company. Each holder of a share of Series A Convertible Preferred Stock is entitled to the number of votes equal to the largest number of full shares of Company common stock into which all shares of Series A Convertible Preferred Stock held by that holder could be converted. Except as required by law on matters requiring class voting, the holders of the Series A Convertible Preferred Stock and Company common stock vote together as a single class.

Protective Provisions. Unless the directors designated by the holders of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement control the board of directors of the Company with respect to all actions, for so long as any shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement remain outstanding, except where the vote or written consent of the holders of a greater number of shares of the Company is required by law or by the Company s articles of incorporation, and in addition to any other vote required by law or by the Company s articles of incorporation, the Company cannot, and the Company shall cause its subsidiaries not to, as applicable, without the prior vote or written consent of the holders of at least 75% of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement then outstanding:

(a) amend the articles or bylaws in any manner that would alter or change any of the rights, preferences, privileges or restrictions of the Series A Convertible Preferred Stock or the shares issuable upon conversion of the Series A Convertible Preferred Stock;

(b) reclassify any outstanding securities into securities having rights, preferences or privileges senior to, or on a parity with, the Series A Convertible Preferred Stock;

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

(c) authorize or issue any additional shares of capital stock (other than to holders of the Series A Convertible Preferred Stock);

(d) merge or consolidate with or into any corporation or other person;

(e) sell all or substantially all their respective assets in a single transaction or series of related transactions;

(f) license all or substantially all of their respective intellectual property in a single transaction or series of related transactions;

(g) liquidate or dissolve;

(h) alter any rights of the holders of the Series A Convertible Preferred Stock or change the size of the Board of Directors;

(i) declare or pay any dividends (other than dividends payable to the Company or its subsidiaries) on or declare or make any other distribution, directly or indirectly, on account of any shares of Company common stock now or hereafter outstanding;

(j) repurchase any outstanding shares of capital stock;

(k) approve or modify by 10% or more the aggregate amount of any annual or other operating or capital budget, or approve or modify by 50% or more any single line item of any such operating or capital budget;

(l) increase the salary of any officer or employee or pay any bonus to any officer, director or employee not contemplated in a budget or bonus plan approved by directors designated by the holders of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement then outstanding;

(m) retain, terminate or enter into any salary or employment negotiations or employment agreement with any employee or any future employee;

(n) incur indebtedness (other than trade payables) or enter into contracts or leases that require payments in excess of $5,000 in the aggregate;

(o) make or incur any single capital expenditure;

(p) award stock options, stock appreciation rights or similar employee benefits or determine vesting schedules, exercise prices or similar features;

(q) make any material change in the nature of its business or enter into any new line of business, joint venture or similar arrangement;

(r) pledge its assets or guarantee the obligations of any other individual or entity;

(s) recommend approval of any new equity incentive plan;

(t) form or acquire any subsidiary, joint venture or similar business entity; or

(u) directly or indirectly enter into, or permit to exist, any material transaction with any affiliate of the Company, any director or officer or any affiliate of a director or officer, or transfer, pay, loan or otherwise obligate the Company to give cash, services, assets or other items of value to affiliates, officers or directors or any affiliate of a officer or director or commit to do any of the preceding after the date hereof, except for employee compensation or for reimbursement of ordinary business expenses.

Board of Directors. For so long as any shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement remain outstanding, the holders of a majority-in-interest of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement then outstanding have the right to designate all the persons to serve as directors on the Board of Directors of the Company and its subsidiaries. If the holders of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement then outstanding choose not to designate any directors, the holders of a majority-in-interest of the shares of the Series A Convertible Preferred Stock originally issued under the Securities Purchase Agreement then outstanding

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

may appoint a designee to serve as an observer at all meetings of the Company s or its subsidiaries Board of Directors and committees thereof.

Investor s Rights Agreement. In connection with, and as a condition to, the purchase and sale of the Series A Convertible Preferred Stock, the Company, Radical Holdings LP, Zach Bair and Paul Marin entered into an Investor s Rights Agreement. The Investor s Rights Agreement grants Radical Holdings LP certain demand, piggy-back and shelf registration rights and sets forth the procedures pursuant to which those rights may be exercised and effected. The Investor s Rights Agreement also grants Radical Holdings LP rights of first refusal to purchase any or all of the securities of the Company that Messrs. Bair or Marin propose to sell or otherwise transfer on the same terms and conditions as the proposed sale or transfer by them. In addition, the Investor s Rights Agreement provides that Messrs. Bair and Marin are prohibited from selling or otherwise transferring any securities of the Company owned by them for a period of three years. After three years, they can sell or otherwise transfer half of the securities owned by them. If, however, Messrs. Bair or Marin is terminated for a reason other than cause, upon his termination he can sell a total of 10% of the securities owned by him in any given month. Further, in the Investor s Rights Agreement, the Company covenanted with Radical Holdings LP to certain matters, including, the protective provisions described above. Pursuant to a Stock Purchase Agreement, dated October 13, 2006, by and among the Company, Radical Holdings LP and Mr. Bair, Radical Holdings LP and the Company agreed to release Mr. Bair from certain of his obligations, which include his obligations under the Investor s Rights Agreement.

Classification. Since the redemption right with respect to the Series A Convertible Preferred Stock is conditional, the Series A Convertible Preferred Stock is not a liability under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, but should be classified as equity. Based on the guidance in EITF D-98, Classification and Measurement of Redeemable Securities, however, the Series A Convertible Preferred Stock is classified outside of permanent stockholders equity. Except in the case of an ordinary liquidation event that involves the redemption and liquidation of all equity securities, EITF D-98 provides that if a security is subject to any event that could trigger a redemption and that event is not solely within the control of the Company, regardless of its probability, then the preferred stock is to be classified outside of permanent equity. Radical Holdings LP controls over 50% of the voting securities of the Company since the Series A Convertible Preferred Stock held by Radical Holdings LP can vote on all matters in which the common stockholders are required or permitted to vote. Therefore, Radical Holdings LP would be able to control a vote to redeem the Series A Convertible Preferred Stock if such a measure were brought to a vote of stockholders and, thus, the Series A Convertible Preferred Stock could be redeemable at the option of the holder and any redemption event would be outside the control of the issuer.

NOTE 4 NEW BASIS OF ACCOUNTING

In accordance with Emerging Issues Task Force Issue No. D-97, Push Down Accounting, as a result of the change in control of the Company by virtue of the purchase of the Series A Convertible Preferred Stock by Radical Holdings LP, the Company has pushed down this new basis to a proportionate amount of its underlying assets and liabilities acquired based on the estimated fair market values of the assets and liabilities. The primary changes to the balance sheet reflect:

adjustments to the Company s fixed assets to reflect a step-up in basis of those assets to fair value;

the recording of the fair value of the Company s trade names, trade marks and covenants not to compete;

adjustments to historical goodwill to reflect goodwill arising from the push down accounting adjustments;

the recording of the fair value of assets held for sale;

a decrease in additional paid-in capital from these adjustments; and elimination of the accumulated deficit.

The primary changes to the statements of operations are:

an increase in net operating loss due to a higher level of depreciation from the increase in the depreciable basis of fixed assets; and

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

an increase in net operating loss due to a higher level of amortization related to the increase in the amortizable basis of intangible assets.

The increases in net loss due to higher levels of depreciation and amortization from the increase in the depreciable and amortizable basis of fixed assets and intangible assets, as applicable, were offset in cash used in operations by corresponding non-cash adjustments.

As a result of the new basis of accounting resulting from the push down accounting adjustments described above, the statements of operations, the statements of cash flow and the statements of changes in stockholders deficit presentations separate the Company s 2006 results, cash flows and stockholders deficit into two periods: (1) the period ending on June 7, 2006, which was the day prior to the consummation of the sale of the Series A Convertible Preferred Stock, and (2) the period beginning on June 8, 2006 utilizing the new basis of accounting.

NOTE 5 GOING CONCERN

As shown in the accompanying financial statements, as of December 31, 2006, the Company has an accumulated deficit of $168,995. For the year ended December 31, 2006, the accumulated deficit balance represents 207 days of activity, including gains on extinguishment of debt and changes in the estimates and settlements of certain payroll and sales tax liabilities of $80,021 and $90,480, respectively, and, therefore, is not indicative of expected future results (*See* Note 13 Accrued Liabilities). Prior to the new basis of accounting, the Company had an accumulated deficit of $9,545,686. Accordingly, this raises substantial doubt about the Company s ability to continue as a going concern.

Prior to the issuance and sale of the Series A Convertible Preferred Stock, the Company had been attempting to raise adequate capital to be able to continue its operations and implement its business plan, and management had to devote a significant amount of time to raising capital rather than to operations. Due to the lack of adequate funds in the second half of 2005 and the first five months of 2006, management of the Company took certain steps to reduce cash expenditures while pursuing additional financing. In January 2006, the Company entered into the Securities Purchase Agreement with Radical Holdings LP. This transaction was consummated on June 8, 2006, and provided the Company with an aggregate of $2,653,000 in funds, which is net of $347,000 of funds previously loaned to the Company by Radical Holdings LP and credited towards the purchase price of the Series A Convertible Preferred Stock. . In accordance with the Securities Purchase Agreement, the proceeds from the issuance and sale of the Series A Convertible Preferred Stock were, and are being, utilized to pay all outstanding liabilities, including, among others, taxes, accounts payable and indebtedness. After satisfying all of the Company s liabilities, management of the Company estimates that it will have $775,000 of operating funds, which management anticipates will sustain the Company s current operations until the conclusion of the second quarter of 2008. At the end of the second quarter of 2008, the Company will be required to obtain additional funds if it does not generate sufficient cash from operating activities to fund its future operations.

In that regard, the Company is undertaking various plans and measures, which it believes will increase funds generated from operating activity. No assurances, however, can be given that those plans and measures will be successful in increasing funds generated from operating activity.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 6 RESTATEMENT OF PRIOR YEAR S CONSOLIDATED FINANCIAL STATEMENTS

In July 2006, the Company restated its consolidated financial statements for the year ended December 31, 2005, due to the discovery of errors in accounting treatment and reported amounts. The restated consolidated financial statements were filed in an amendment to its Annual Report on Form 10-KSB for the year ended December 31, 2005. That amendment was filed on July 18, 2006 with the Securities and Exchange Commission.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

NOTE 7 ASSET ACQUISITION

On February 28, 2005, the Company entered into an Asset Purchase Agreement with Moving Records, LLC, a private Minnesota corporation. Pursuant to the Asset Purchase Agreement, the Company acquired assets and assumed certain liabilities in exchange for 16,000 shares of Company common stock. A summary of the fair market value of assets acquired and the liabilities assumed recorded in the financial statements is as follows:

Equipment	$ 288,998
Intellectual property	237,781
Accounts payable	(13,973)
Note payable due to bank	(24,806)
Note payable commercial vehicle	(80,000)
Note payable sellers	(120,000)
Net fair market value	$ 288,000

In connection with the Asset Purchase Agreement, the Company issued 7,000 shares of its common stock in exchange for the extinguishment of the note payable for the commercial vehicle in the amount of $80,000. The fair market value of the common stock was $126,000. The difference between the fair market value of the common stock in exchange for the note payable was $46,000 and was recorded as a loss on extinguishment of debt in the financial statements.

NOTE 8 NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE

Pursuant to the Securities Purchase Agreement, Radical Holdings LP loaned funds to the Company to pay outstanding liabilities, accounts payable or other obligations and to provide necessary funds to operate the Company s business prior to the consummation of the sale of the Series A Convertible Preferred Stock. These funds loaned to the Company were required to be applied in strict accordance with the uses approved by Radical Holdings LP and be fully credited towards the aggregate purchase price of the Series A Convertible Preferred Stock. As of June 7, 2006, Radical Holdings LP had loaned the Company an aggregate of $347,000, which was applied to the purchase price of the Series A Convertible Preferred Stock.

	December 31,	
Description	**2006**	**2005**
Amended & Restated Consolidated Secured Convertible Promissory Note, bearing interest at 10% per annum, due on June 30, 2006	$	$ 330,249(1)
Secured Promissory Note, bearing interest at 10% per annum, due due on April 1, 2006		425,000(2)
Secured Convertible Promissory Notes, bearing interest at 10% per annum, due April 1, 2006		250,000(3)
Unsecured note from a related party bearing no interest and due on demand		43,000(4)
Secured Promissory Note in favor of Community Bank, bearing interest at 7% per annum		18,606
Promissory Note, bearing interest at 7% per annum, due April 1, 2006		100,000(2)
Promissory Note, bearing no interest, due April 1, 2006		5,000(5)
Total notes payable and convertible notes payable	$	$ 1,171,855

(1) Effective January 31, 2006, the Company made this Amended and Restated Consolidated Secured Convertible Promissory Note in favor of a noteholder. This note revised the conversion terms of the Secured Convertible

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

Promissory Notes previously made by the Company in favor of the noteholder and consolidated all of the Secured Convertible Promissory Notes previously made by the Company in favor of the noteholder and advances to the Company previously made by the noteholder. The commitment date was determined to be the date this note was executed, or April 7, 2006. The fair market value of the Company s common stock on the commitment date was $16.00 per share. Pursuant to the conversion terms of this note, $300,500 aggregate principal amount was converted into Company common stock at a conversion price of $12.50 per share, or a total of 24,040 shares of Company common stock, on June 7, 2006, the day prior to the consummation of the sale of the Series A Convertible Preferred Stock. Additionally, $31,533 of accrued interest related to this note was forgiven upon conversion, which is recorded as a gain on extinguishment of debt/liabilities in the accompanying statement of operations for the period ended June 7, 2006. On June 7, 2006, as a result of the conversion contingency being resolved, the value of the beneficial conversion feature of $84,140 was recorded in the financial statements. The value of the beneficial conversion feature was calculated as the difference between the fair market value, as determined on the commitment date, of the Company common stock and the modified conversion price, multiplied by the number of shares that the note was convertible into. The conversion was measured as of the commitment date, but not recorded until the conversion contingency was satisfied. The remaining principal balance on this note of $29,749 was paid during June 2006 subsequent to the closing of the Securities Purchase Agreement with Radical Holdings LP.

(2) These notes were paid in full during 2006. Upon payment of these notes, the noteholders waived all accrued and unpaid interest on the notes,

which resulted in a gain on extinguishment of debt/liabilities in the amount of $69,219.

(3) Pursuant to a Note Conversion Agreement, Waiver and Release, as amended, with each of these noteholders, $225,000 aggregate principal amount of these notes was converted into Company common stock at a conversion price of $12.50 per share, or a total of 18,000 shares of Company common stock, on June 7, 2006, the day prior to the sale of the Series A Convertible Preferred Stock. The fair market value of Company common stock on the date of conversion of these notes was $14.00 per share. As a result of the conversion, $27,000 was recorded as a

loss on extinguishment of debt/liabilities in the accompanying statement of operations for the period ended June 7, 2006. The loss was calculated as the difference between the fair market value of Company common stock issued upon conversion and the outstanding balance of the notes. Additionally, $36,551 of accrued interest related to these notes was forgiven upon conversion, which is recorded as a gain on extinguishment of debt/liabilities in the accompanying statement of operations for the period ended June 7, 2006. The remaining principal balance on these notes of $25,000 was paid during June 2006 subsequent to the closing of the Securities Purchase

Agreement with Radical Holdings LP.

(4) Interest was imputed at a rate of 10% in the accompanying financial statements. The related party noteholder was an employee stockholder. As such, the interest totaling $2,297 for the period ended June 27, 2006, was considered to be a deemed contribution and has been recorded as additional paid-in capital and non-cash interest expense. The outstanding principal balance on this note was paid during June 2006 subsequent to the closing of the Securities Purchase Agreement with Radical Holdings LP.

(5) The outstanding principal balance on this note was paid during June 2006 subsequent to the closing of the Securities

Purchase
Agreement with
Radical
Holdings LP.

NOTE 9 STOCKHOLDERS DEFICIENCY

The Company is authorized to issue 500,000,000 shares of common stock, $0.001 par value per share, and 5,000,000 shares of preferred stock, $0.001 par value per share. Of the preferred stock, 4,392,286 shares have been designated as Series A Convertible Preferred Stock. All shares of common stock issued prior to June 6, 2006, are subject to preemptive rights, which entitle the holder of that common stock to purchase additional shares of common stock with respect to issuances of common stock, or any security convertible into shares of common stock, prior to June 6, 2006 in certain circumstances.

At the close of business on June 6, 2006, the Company effected a 100-for-1 reverse stock split of its then outstanding common stock. After giving effect to the reverse stock split, each stockholder of record immediately prior to the reverse stock split holds one one-hundredth of the shares they held before the reverse stock split. All fractional shares were rounded up to the next whole number. As a result, all references in this Annual Report on Form 10-KSB to

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

numbers of shares of Company common stock, including those relating to prior periods, have been adjusted to reflect the reverse stock split.

During 2005, the Company issued 2,640 shares of its common stock for consulting services. The fair market value of those shares was determined to be $37,680 as of the measurement dates and was charged to consulting expense accordingly.

During 2005, the Company issued 500 shares of its common stock to employees for services rendered. The fair market value of the underlying shares was determined to be $2,500 on the respective grant dates, as no further services were required by the employees.

On February 28, 2005, the Company issued 16,000 shares of its common stock in exchange for certain assets acquired and the liabilities assumed from Moving Records, LLC. Additionally, in connection with the asset purchase, the Company issued 7,000 shares of its common stock with a fair value of $126,000 in exchange for the extinguishment of the note payable for the commercial vehicle in the amount of $80,000. *See* the discussion of the Moving Records, LLC transaction in Note 7 above.

On September 15, 2005, the Company issued 30,000, 22,750 and 5,000 shares of Company common stock to Zach Bair, Paul Marin and Gary Blum, respectively. On March 2, 2006, Zach Bair, Paul Marin and Gary Blum agreed with the Company to rescind these shares effective as of the date of issue. The certificates evidencing these shares were returned to the transfer agent and cancelled in March 2006.

On September 23, 2005, the Company issued 6,000 shares of its common stock to Paul Marin valued at $12,000. Effective September 2005, Mr. Marin returned these shares of Company common stock to the transfer agent because they were issued to him in error.

On June 7, 2006, pursuant to agreements with holders of instruments evidencing Company indebtedness, the Company issued an aggregate of 42,040 shares of Company common stock upon conversion of $525,500 aggregate principal amount of that indebtedness. The fair market value of the common stock was determined to be $636,640 on the commitment date, which resulted in a loss on extinguishment of debt of $43,056.

On June 7, 2006, pursuant to an Agreement, Settlement and Release with each of Jess Morgan & Company, or Jess Morgan, and Phil McMorrow, the Company issued 98,783 and 9,879 shares of Company common stock to Jess Morgan and Mr. McMorrow, respectively. Jess Morgan and Phil McMorrow agreed, upon receipt of those shares, to terminate all agreements, other than the warrant, between them and the Company, including, without limitation, the Proposal of Terms and a letter agreement regarding operation guidelines, and forever waive and release any and all rights, claims and other matters that Jess Morgan or Phil McMorrow may have. The shares were valued using the fair market value of Company common stock on the date of issuance and was recorded as Additional Paid in Capital.

On June 8, 2006, the Company issued and sold 4,392,286 shares of Series A Convertible Preferred Stock to Radical Holdings LP for an aggregate cash purchase price of $3,000,000. *See* Note 3 Change in Control and Series A Convertible Preferred Stock above.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

NOTE 10 WARRANTS AND OPTIONS

Warrants to purchase Company common stock:

The following table summarizes the information with respect to warrants for the years ended December 31, 2006 and 2005:

	2006		2005	
	Number of Shares Underlying Warrants	Weighted Average Exercise Price	Number of Shares Underlying Warrants	Weighted Average Exercise Price
Balance, beginning of year	38,759	$ 23.51	45,559	$ 34.37
Warrants granted				
Warrants expired	(1,334)	30.00	(6,800)	96.25
Warrants exercised				
Balance, end of year	37,425	$ 23.28	38,759	$ 23.51
Exercisable, end of year	37,425	$ 23.28	38,759	$ 23.51

	Shares Underlying Warrants Outstanding				Shares Underlying Warrants Exercisable	
Date	Range of Exercise Prices	Shares Underlying Warrants Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Warrants Exercisable	Weighted Average Exercise Price
December 31, 2006	$20.00-75.00	37,425	0.27 years	$23.28	37,425	$23.28

Options to purchase Company common stock:

On May 6, 2005, the Company entered into a consulting agreement with an individual. As consideration for services to be performed under the consulting agreement, the Company granted to this individual an option to purchase 6,500 shares of Company common stock that vested in 36 equal monthly installments at the end of each calendar month, commencing in May 2005, so long as the consulting arrangement was in effect. The value of the options on the measurement date using the Black-Scholes Model was determined to be $34,102. The Company has recorded non-cash stock compensation expense in the amount of $22,917 as of December 31, 2005. The consulting agreement was terminated on February 14, 2006. As a result and in accordance with the option agreement, the shares acquirable pursuant to this option ceased to vest after nine monthly installments, which resulted in 1,625 vested shares under this option. The term of this option for the vested shares expires on May 5, 2008.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

The following table summarizes the information with respect to stock options for the years ended December 31, 2006 and 2005:

	2006		2005	
	Number of Shares Underlying Stock Options	Weighted Average Exercise Price	Number of Shares Underlying Stock Options	Weighted Average Exercise Price
Balance, beginning of year	11,000	$ 35.45	4,500	$ 65.00
Stock options granted			6,500	15.00
Stock options expired	9,375	39.00		
Stock options exercised				
Balance, end of year	1,625	$ 15.00	11,000	$ 35.45
Exercisable, end of year	1,625	$ 15.00	5,944	$ 52.85

		Shares Underlying Options Outstanding			Shares Underlying Options Exercisable	
Date	Range of Exercise Prices	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
December 31, 2006	$ 15.00	1,625	1.3 years	$ 15.00	1,625	$ 15.00

NOTE 11 FIXED ASSETS

Fixed assets consist of the following:

	December 31, 2006	December 31, 2005
Computer equipment	$ 36,133	$ 26,224
Recording equipment	89,259	
Office furniture and equipment	9,036	
	134,428	26,224
Less accumulated depreciation	(18,909)	(7,625)
Fixed assets, net	$ 115,519	$ 18,599

Depreciation expense totaled $24,055 and $59,445 for the years ended December 31, 2006 and 2005, respectively.

NOTE 12 ACCOUNTS PAYABLE

The Company has negotiated reductions and settled with certain accounts payable vendors. The settlements resulted in a reduction of accounts payable of $140,525 for the predecessor period ended June 7, 2006. This amount was primarily related to legal and consulting expenses incurred in prior years. The settlements were recorded in the financial statements upon acceptance of payment in full by the vendors.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

NOTE 13 ACCRUED LIABILITIES

Accrued liabilities include estimated amounts payable for sales tax. During 2006, the Company settled with 36 of 48 states for sales tax amounts due. The settlements with those states resulted in $15,017 of accrued interest and penalties being dismissed. This amount was recorded as a gain on settlement in the financial statements. The Company expects to settle with the remaining states during 2007 and has accrued estimated taxes due.

Accrued liabilities also include estimated penalties and interest for payroll taxes remaining unsettled. During 2006, the Company paid $162,086 in back payroll taxes. In the fourth quarter of 2006, $75,463 was written-off due to the partial settlement and a correction in the estimate of payroll taxes ($52,223) and backup withholdings ($23,240). At December 31, 2006, $181,260 remains in the accrual for estimated penalties and interest on these taxes. The Company expects to settle these remaining amounts during 2007.

NOTE 14 RELATED PARTY TRANSACTIONS

Stockholder loans: The Company received $590,745 during the year ended December 31, 2005 in notes payable for operating expenses from stockholders of the Company, all of which were settled during the year ended December 31, 2006 (*See* Note 8 Notes Payable and Convertible Notes Payable above).

Asset Sales: On October 20, 2006, the Company sold three computers to Dallas Basketball Limited, an affiliate of Radical Holdings LP, for $600. The purchase price was consistent with other computers sold to unrelated parties. On November 9, 2006, the Company sold a server to HDNet LLC, an affiliate of Radical Holdings LP, for $3,000. The purchase price was consistent with published prices for similar equipment.

Management services: Since June 8, 2006, affiliates of Radical Holdings LP have provided certain management services, including, among others, legal services, to the Company. Management of the Company estimates the costs of those services was approximately $29,000 during the period from June 8, 2006 through December 31, 2006. The costs of these services were determined by multiplying the hourly rate of the personnel providing these services by the estimated number of hours expended performing these services. The Company recently entered into a Management Services Agreement that provides for the provisions of these services by affiliates of Radical Holdings LP (*See* Note 16 Subsequent Events).

Since the affiliate of Radical Holdings LP does not require payment for those services, the Company has recorded the costs of these services as a deemed contribution and non-cash consulting expense in the financial statements.

NOTE 15 INCOME TAXES

While the Company had generated substantial tax loss carryforwards in prior years, the ability to use these loss carryforwards has been substantially affected as a result of an ownership change (as defined in the Internal Revenue Code of 1986, as amended) that occurred in connection with the issuance and sale of the Series A Convertible Preferred Stock. The Company believes that the use of loss carryforwards generated prior to the issuance and sale of the Series A Convertible Preferred Stock will be limited to approximately $133,000 per year for the next 20 years. Future benefits, if any, derived from the use of these loss carryforwards will be applied first to reduce to zero any goodwill resulting from the transaction, second to reduce to zero other non-current intangible assets related to the transaction and, third, to reduce income tax expense. The Company has recorded a valuation allowance against its net deferred tax asset due to the uncertainty of the utilization of the net operating loss carryforwards in future periods.

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

The following table presents the components of the deferred tax asset and liabilities:

	December 31, 2006	December 31, 2005
Deferred Tax Asset:		
Net operating loss acquired	$ 1,013,799	$ 1,567,793
Net operating loss successor	213,134	
Amortization	66,523	
Valuation allowance	(1,281,538)	(1,546,184)
Deferred tax asset, net	$ 11,918	$ 21,609
Deferred Tax Liability:		
Depreciation	$ 11,918	$
Amortization		21,609
	$ 11,918	$ 21,609
Net	$	$

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income (loss) before income taxes. The sources and tax effects of the differences are as follows for the years ended December 31, 2006 and 2005:

	2006	2005
Income tax benefit of federal statutory rate of 35%	$ (219,618)	$ (680,074)
Permanent differences	104,111	
State income taxes, net of federal benefit	(18,636)	
Reduction of NOL due to change in control	322,776	
Increase in book basis of certain assets as result of change in control	72,773	
Change in valuation allowance	(469,318)	
Prior year differences	152,567	676,219
Other	55,345	3,855
	$	$

Table of Contents

IMMEDIATEK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
DECEMBER 31, 2006

NOTE 16 SUBSEQUENT EVENTS

The sublease for the Company s office space located at 10488 Brockwood Road, Dallas, Texas 75238 expired on February 28, 2007. As a result, on February 21, 2007, the Company entered into a Sublease with HDNet LLC, an affiliate of Radical Holdings LP, pursuant to which the Company subleases from HDNet LLC approximately 600 square feet of office space. The rent is $900 per month, utilities included. This Sublease commenced on March 1, 2007 and expires February 29, 2008. HDNet LLC leases this office space from Radical Computing, Inc., another affiliate of Radical Holdings LP.

On February 23, 2007, but effective as of January 1, 2007, the Company entered into a Management Services Agreement with Radical Incubation LP, an affiliate of Radical Holdings LP. Pursuant to this Management Services Agreement, personnel of Radical Incubation LP will provide certain management services to the Company, including, among others, legal, financial, marketing and technology. These services will be provided to the Company at cost of $3,500 per month; however, the Company is not required to pay these fees and, accordingly, will account for these costs of services as a deemed contribution to the Company.

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of the Registrant, dated as of June 2, 2006 and filed with the Secretary of State of the State of Nevada on June 5, 2006 (filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
3.2	Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.1	Form of common stock certificate of the Registrant (filed as Exhibit 4.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.2	Warrant to Purchase Common Stock of the Registrant, dated as of March 22, 2004, issued by the Registrant to Jess S. Morgan & Co. (filed as Exhibit 10.2 to the Registrant s Registration Statement on Form SB-2 (File No. 333-115989) and incorporated herein by reference).
4.3	Warrant to Purchase Common Stock of the Registrant, dated as of April 23, 2004, issued by the Registrant to Phil McMorrow (filed as Exhibit 4.3 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.4	Warrant to Purchase Common Stock of the Registrant, dated as of June 22, 2004, issued by the Registrant to Broad Street Ventures, LLC (filed as Exhibit 4.4 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.5	Warrant to Purchase Common Stock of the Registrant, dated as of June 22, 2004, issued by the Registrant to Doman Technology Capital, Inc (filed as Exhibit 4.5 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.6	Warrant to Purchase Common Stock of the Registrant, dated as of December 9, 2004, issued by the Registrant to Doman Technology Capital, Inc (filed as Exhibit 4.6 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
4.7	Certificate of Designation, Rights and Preferences of Series A Convertible Preferred Stock of the Registrant, dated as of June 2, 2006 and filed with the Secretary of State of the State of Nevada on June 5, 2006 (filed as Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
4.8	Form of stock certificate for Series A Convertible Preferred Stock (filed as Exhibit 4.8 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).

Table of Contents

Exhibit Number	Description of Exhibit
10.1.1	Secured Promissory Note, dated as of April 8, 2005, made by the Registrant in favor of Osias Blum in the aggregate principal amount of $425,000 (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on April 14, 2005 and incorporated herein by reference).
10.1.2	Collateral Assignment and General Security Agreement, dated as of April 8, 2005, by and between Osias Blum and the Registrant (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on April 14, 2005 and incorporated herein by reference).
10.2.1	Asset Purchase Agreement, dated as of February 28, 2005, by and between the Registrant and Moving Records, LLC (filed as Exhibit 10.4.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.2.2	First Amendment to Asset Purchase Agreement, executed as of February 28, 2006, but effective as of February 28, 2005, by and between the Registrant and Moving Records, LLC (filed as Exhibit 10.4.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.3	Non-Qualified Stock Option Agreement, made as of January 31, 2006, but effective as of May 6, 2005, by and between the Registrant and Charles Humphreyson (filed as Exhibit 10.5 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.4.1	Securities Purchase Agreement, dated as of January 24, 2006, by and among the Registrant, Radical Holdings LP and the other parties thereto (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on January 27, 2006 and incorporated herein by reference).
10.4.2	First Amendment to Securities Purchase Agreement, dated as of March 3, 2006, by and among the Registrant, Radical Holdings LP and the other parties thereto (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.5	Employment Agreement, executed as of March 7, 2006, but effective as of March 1, 2006, by and between Zach Bair and DiscLive, Inc., a wholly-owned subsidiary of the Registrant (filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.6	Employment Agreement, executed as of March 7, 2006, but effective as of March 1, 2006, by and between Paul Marin and DiscLive, Inc., a wholly-owned subsidiary of the Registrant (filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference).
10.7.1	Agreement, Settlement and Release, dated as of January 23, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.7.2	First Amendment to Agreement, Settlement and Release, dated as of March 15, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by

reference).

Table of Contents

Exhibit Number	Description of Exhibit
10.7.3	Second Amendment to Agreement, Settlement and Release, dated as of May 15, 2006, by and between the Registrant and Jess Morgan & Company (filed as Exhibit 10.9.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.8.1	Agreement, Settlement and Release, dated as of January 23, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.10.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.8.2	First Amendment to Agreement, Settlement and Release, dated as of March 15, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.10.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.8.3	Second Amendment to Agreement, Settlement and Release, dated as of May 15, 2006, by and between the Registrant and Phil McMorrow (filed as Exhibit 10.9.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.9.1	Form of Note Conversion Agreement, Release and Waiver, each dated as of January 9, 2006, by and between the Registrant and each of Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc., Steven Lenzen and Osias Blum (filed as Exhibit 10.11.1 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.9.2	Form of First Amendment to Conversion Agreement, Release and Waiver, each dated as of March 15, 2006, by and between the Registrant and each of the Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc. and Osias Blum (filed as Exhibit 10.11.2 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.9.3	Form of Second Amendment to Note Conversion Agreement, Release and Waiver, each dated as of May 15, 2006, by and between the Registrant and each of the Barnett Family Partnership II, Broad Street Ventures, LLC, Doman Technology Capital, Inc. and Osias Blum (filed as Exhibit 10.11.3 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.10	Amended and Restated Consolidated Secured Convertible Promissory Note, effective as of January 31, 2006, made by the Registrant in favor of Gary Blum in the aggregate principal amount of $330,629 (filed as Exhibit 10.12 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.11.1	Waiver and Release, dated as of February 1, 2006, by and between the Registrant and Gary Blum (filed as Exhibit 10.13 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).

10.11.2	First Amendment to Waiver and Release, dated March 17, 2006, by and between the Registrant and Gary Blum (filed as Exhibit 10.13.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.12	Form of Agreement of Waiver by and between the Registrant and stockholders of the Registrant (filed as Exhibit 10.14 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.13	Agreement of Waiver, dated as of May 1, 2006, but effective as of January 24, 2006, by and between the Registrant and Zach Bair (filed as Exhibit 10.15 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.14	Agreement of Waiver, dated as of May 1, 2006, but effective as of January 24, 2006, by and between the Registrant and Paul Marin (filed as Exhibit 10.16 to the Registrant s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference).
10.15	Investor s Rights Agreement, dated as of June 8, 2006, by and among the Registrant, Radical Holdings LP, Zach Bair and Paul Marin (filed as Exhibit 10.17 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference).
10.16	Employment, Confidential Information and Invention Assignment Agreement, dated as of April 3, 2006, by and between DiscLive, Inc. and Travis Hill (filed as Exhibit 10.18 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended June 30, 2006 (filed on August 14, 2006) and incorporated herein by reference).
10.17	Stock Purchase Agreement, dated October 13, 2006, by and among the Registrant, Radical Holdings LP and Zach Bair (filed as Exhibit 10.19 to the Registrant s Current Report on Form 8-K filed on October 18, 2006 and incorporated herein by reference).
10.18	Sublease, dated as of February 21, 2007, by and between DiscLive, Inc. and HDNet LLC (filed as Exhibit 10.20 to the Registrant s Current Report on Form 8-K filed on February 26, 2007 and incorporated herein by reference).
10.19	Management Services Agreement, dated as of February 23, 2007, but effective as January 1, 2007, by and among the Registrant, DiscLive, Inc. and Radical Incubation LP (filed as Exhibit 10.21 to the Registrant s Current Report on Form 8-K filed on February 26, 2007 and incorporated herein by reference).
14.1	Immediatek, Inc. Code of Business Conduct and Ethics (filed as Exhibit 14.1 to the Registrant s Quarterly Report on Form 10-QSB for quarter ended June 30, 2006 (filed on August 14, 2006) and incorporated herein by reference).
21.1*	Subsidiaries of the Registrant.
31.1**	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2**	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1**	Certification Required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

* Previously filed.

** Indicates document filed herewith.