

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Initial Research Report

Rating: Hold

I-Sector Corp

ISEC \$1.0625 (NASDAQ)

Luis Martins

March 30, 2001

	<u>FY1997A</u>	<u>FY1998A</u>	<u>FY1999A</u>	<u>FY2000A</u>	<u>FY2001E</u>
Revenues(Thousands)*	\$12,385	\$15,127	\$19,175	\$18,329	\$19,440
Earnings per share *	\$(0.28)	\$(0.54)	\$(0.02)	\$(0.92)	\$(1.33)
52-Week Range	\$5.00 -\$0.625		Fiscal Year Ends	Dec 31	
Shares Out-fully dil (thousands)	4,060		Revenues/Share (TTM)	\$4.51	
Approximate Float (shares)	1,624		Price/Sales(TTM)	0.24X	
Insider Holdings	60%		Price/Sales(2001)	0.22X	
Book value/Share	\$2.91		Price/Earnings(TTM)	NM	
Price/Book	0.37X		Price/Earnings(2001)	NM	

*Continuing operations

The Company owns and operates subsidiary companies that are engaged in various aspects of the information and communications technology industries.

Key Investment Considerations:

- *We are initiating coverage of I-Sector with a Hold rating. We believe that its 12-month upside potential is \$1.25 per share.*
- *As of December 31, 2000, its book value was \$2.91 per share. Additionally, the Company had \$2.07 per share in cash and no debt.*
- *Its call center products have been installed in more than 1,800 user sites throughout the world.*
- *The U.S. market for customer support and call center applications is expected to grow to \$4.6 billion in 2004 from \$1.8 billion. The worldwide call center services market is approximately \$23 billion in annual revenues, and is projected to double to \$58.6 billion by 2003.*
- *On March 12, 2001, ISEC announced fourth quarter revenues of \$3.7 million and a net loss from continuing operations of \$1.3 million or \$(0.34) per share.*
- *Recently, the Board of Directors of the Company approved the repurchase of up to 500,000 shares of the Company's common stock.*
- *As a result of the IT spending slowdown, the IT sector is expected to undergo consolidation in the near term. We believe that the Company may be involved in M&A activity.*

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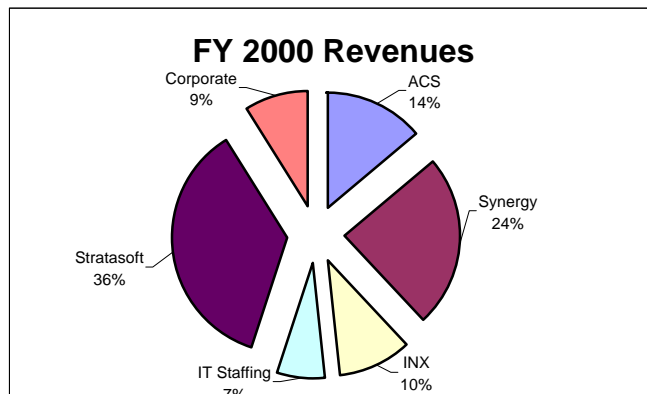
www.taglichbrothers.com

Company Overview

I-Sector (ISEC), formerly known as Allstar Systems, operates or invests in companies that are primarily engaged in the areas of information and communications technologies. The Company operates through five distinct subsidiaries:

- Stratasoft, Inc.
- I.T. Staffing, Inc.
- Allstar Computer Service, Inc.
- Synergy Helpdesk Solutions
- Internetwork Experts, Inc.

In July 2000, the shareholders approved the name change from Allstar Systems, Inc. to I-Sector Corporation. Management believes that the new name better communicates the business purpose and mission of the Company: owning, operating or investing in companies involved in some facet of information and communications technologies. The Company intends to invest in and/or start up other companies that may or may not be related to its existing subsidiaries.



Recently, the Board of Directors of the Company approved the repurchase of up to 500,000 shares of the Company's common stock. Management believes that the stock repurchase plan is an appropriate use of its available resources and is in the best long-term interests of stockholders given current market conditions and the price of the Company's stock.

Stratasoft, Inc.

Stratasoft develops and markets proprietary software that integrates business telephone systems and networked computer systems. Stratasoft products include software for call center management, both in-bound and out-bound, as well as interactive voice response software. Stratasoft's basic products are sometimes customized to suit a customer's particular needs and are sometimes bundled with computer hardware at the customer's request. Stratasoft's premier products, StrataDial Predictive Dialing and StrataVoice Notification Systems, have been installed in more than 1,800 user sites throughout the world. The Company combines features, functionality, and ease of use into one package. According to management, these products are fast becoming the de-facto standard in the call center industry.

Stratasoft's call center software solutions feature: Automated Call Distributors (ACD), Automated Dialing Systems (ADS), Predictive Dialing Systems (PDS), and Interactive Voice Response Systems (IVR).

StrataDial is **Stratasoft's** predictive dialing solution. Its high-level contact information database and reporting system, Tele-Management System (TMS), is completely driven by a pull-down menu system with a mouse option. This greatly decreases the learning curve for effective operation and eliminates the need to memorize complex command language.

StrataVoice is an outbound automated dialing system designed for companies and organizations that need to contact large volumes of people in a short period of time. StrataVoice applications vary from sales and marketing calls to public notification of important bulletins and events. StrataVoice is a fully integrated automated dialing system that automatically dials a database of numbers. It delivers digitally produced voice announcements upon detection of a "live voice" answering the telephone. Based upon the contacted party's response, the system is capable of asking a series of questions or branching to other questions or statements. StrataVoice also allows the contacted party to speak instantly with a live attendant or leave a message.

Call Center Industry

The call center industry is a subset of the customer relationship management (CRM) sector. Nortel, Lucent, Cisco, Quintus, Aspect and Genesys Telecommunications are the key participants in this market. Companies entering the market from the Internet space are eGain, eFusion, Kana, and Apropos. The CRM software market is set to grow to more than \$10 billion by 2005. The U.S. market for customer support and call center application is expected to grow from \$1.8 billion in 2000 to \$4.6 billion by 2004. Customer care software is the largest segment of the call center software market, with sales in excess of \$690 million in 1999. Further growth in the industry is expected because of key trends:

- The role of the call center is evolving into a multifunction contact center or customer interaction center. What was once regarded as a cost center has now become a key business differentiator with the ability to upsell and cross sell. A call center has tentacles and visibility into all avenues of customer contact. It may provide user loyalty by providing superior, more personalized service.
- Increase demand driven by Web-enabling software and media-neutral call monitoring solutions.
- Increased interest in e-commerce and Internet usage.
- The reduction in costs associated with implementing modern call center software continues to lure new entrants into the Web-based call center sector. The average cost of handling a call in a telephony-based center ranges from \$50-\$74. The average cost falls 43% in a Web-based call center.
- Datamonitor estimates U.S. call centers will increase to approximately 78,000 in 2003 from 69,500. It is estimated that 5.7 million people are currently employed at call centers.

The worldwide call center services market is approximately \$23 billion in annual revenues, and is projected to double to \$58.6 billion by 2003. According to a report by researchers Frost & Sullivan, the number of call centers in Europe will grow to 28,289 in 2006 from 12,750 in 1999. Europe's call center market is approximately \$9 billion. According to the Pelorus Group, Great Britain, France, Germany and Holland accounted for 80% of call center revenues within the 15-member European Union (EU). India, with its highly educated labor force and sizeable number of its tech-savvy companies, is making significant inroads in this industry. India is supplementing call centers in the US, Europe and other parts of southern Asia.

I.T. Staffing, Inc.

IT Staffing is a professional staffing firm specializing in the placement of experienced Information Technology experts with clients throughout Texas. The Company provides outsourced recruiting, contract staffing, permanent placement, project placements, and screening and testing.

Staffing Industry

The U.S. IT staffing market is expected to grow to \$42.8 billion in 2004 from \$23 billion, according to Dataquest Inc., a unit of Gartner Inc. IT staffing is expected to be the single largest sector of temporary help services.

Industry firms earn fees in three ways:

- 1) By retainer - a set fee that is paid regardless of the outcome of a search; or
- 2) On contingency- fees are tied to finding a candidate that ultimately is hired for the position.
- 3) On contract – fees are earned on the spread between what the client pays the firm and what the firm pays the employee.

The contingency model is most common when the position being filled pays less than \$100 thousand annually. Fees for contingency searches were forecasted to increase 24% to \$8.6 billion in 2000. The retainer model is more often used for top or very specialized positions. Fees for retainer searches, typically utilized in engagements for top business executives, are expected to increase 22% to \$4.5 billion in 2000. In either case, the fees can be either a flat amount or a percentage of the yearly salary to be earned by the candidate. Industry firms may earn up to one-third of a new hire's yearly salary.

During the late 1990's, the Internet became a major force in recruiting. Although there had been job postings and classified listings online, it was during this time that the use of the Web as a job search tool began to mature. However, the ongoing impact on the industry remains uncertain.

Allstar Computer Service, Inc

Allstar Computer Service, Inc. (ACS) specializes in the expert repair of all desktop computers, laptop computers, network file servers, and printers throughout Texas. ACS provides full service contracts, preventive maintenance contracts, time & materials contracts or work on an as-needed basis. Its technicians are A+ certified and hold numerous certifications from most of the tier one and tier two manufacturers.

Synergy Helpdesk Solutions

Synergy Helpdesk Solutions is a service-oriented company providing customers with helpdesk solutions, network services, project services, Microsoft solutions, implementation, and technical staff augmentation to support customer infrastructure management. Synergy Helpdesk Solutions is currently a partner of Peregrine Systems, Microsoft, Novell, IBM, Compaq, and HP. Membership affiliations include Help Desk Institute and Help Desk 2000.

Internetwork Experts, Inc

This subsidiary is a network infrastructure professional services firm which has developed practice areas in network baseline assessment, design/architecture, implementation, network management, project management, security and knowledge transfer. The Company has focused on the development of specialized practice areas in specific technologies, such as routing, switching (LAN/MAN/WAN), virtual private networks (VPN), voice over X (VoX), wireless security, thin client computing and server farms. Management believes that InterNetwork Experts is focused on delivering the highest level of technology-specific engineering expertise.

On November 7, 2000, InterNetworking Sciences, a wholly owned subsidiary of I-Sector Corporation, and Internetwork Experts announced the merger of the two companies. The transaction was accounted for as a purchase of certain of the assets of Internetwork Experts by InterNetworking Sciences with the

Company retaining the Internetwork Experts name. The seller received a cash purchase price of \$200 thousand plus a right to receive further payments contingent upon INX attaining certain Cisco designations within six months. Additionally, the principals of the seller entered into agreements to provide consulting services for which they are to receive compensation based on the performance of the acquired operations.

IT Industry

The information technology sector is a highly fragmented sector. Many sector companies are outsourcers that assume responsibility for other companies' IT functions. Companies in this sector provide many services, including:

- 1) Full-service outsourcing,
- 2) Functional outsourcing,
- 3) Network integration,
- 4) Management consulting,
- 5) Applications development, and
- 6) Web development.

Industry insiders believe that the industry is undergoing rapid evolution as clients move from employing technology simply as a cost-cutting tool to deploying technology on all levels as the most powerful weapon in their competitive arsenal. However, recent studies have shown a slowdown in IT spending.

- An InformationWeek research study indicates that uncertainty about U.S. economy has resulted in IT budget cuts for 15% of the respondents; another 7% are considering scaling back for the same reason.
- Meta Group, which tracks 2,200 companies worldwide reported overall IT spending growth of about 10%, down from 20% last year; the first decline since 1993. It is believed that the trend reversed as the dot-coms ran into trouble.
- A Merrill Lynch survey indicated that corporations are putting the brakes on IT spending growth. According to a survey of 50 U.S. and 20 European chief information officers, IT budget growth is expected to slow by 25% to 9% in 2001. This compares to a 12% overall growth rate in 2000.
- Computer Economics Inc., an independent research firm, expects total IT software spending will increase to approximately \$52.9 billion in the United States by the year 2002, versus about \$50 billion in 2000. A modest increase of 9%.

We believe spending has slowed for a variety of reasons, including the completion of big projects (Y2K), the fall of free-spending dot-com firms, the evolution of more powerful, longer-lasting technology, and most importantly the weakened economy. As a result of the spending slowdown, this sector is expected to undergo consolidation in the near-term.

Divested Operations

On May 22, 2000, Amherst Corporate Computer Sales & Solutions, a business-to-business e-seller of IT products, services and information, acquired the Company's Computer Products Division. Amherst assumed the operation of all branch offices and the operation of its distribution facility located in Dallas. The terms of the agreement included cash consideration of \$14.25 million plus a cash payment related to the purchase of certain inventory and equipment. The terms of the agreement also include contingent future cash payments based upon future performance and \$250 thousand as a non-accountable expense reimbursement.

On March 17, 2000, the Company announced a transaction with Communications World International, Inc. (CommWorld), in which CommWorld purchased certain assets and the ongoing business operations of the Company's Telecom Systems division. In the transaction, I-Sector sold its inventory and work-in process projects to CommWorld. In return, CommWorld offered employment to all employees and continued to support the segment's customers. Under the terms of the sale, I-Sector received \$250 thousand in cash and

the ability to obtain ISEC restricted stock. Additionally, the purchaser assumed all telephone equipment warranty obligations of I-Sector up to a maximum of \$30 thousand.

Management

James H. Long is the founder of the Company and has served as Chairman of the Board, Chief Executive Officer and President since the Company's inception in 1983. Prior to founding the Company, Mr. Long served with the United States Navy in a technical position and was then employed by IBM in a technical position.

William R. Hennessy has served as the President of Stratasoft, Inc., the Company's wholly owned subsidiary that was formed in 1995. Mr. Hennessy's responsibilities include the general management of Stratasoft, Inc. From July 1991 to January 1996, Mr. Hennessy was employed by Inter-Tel, Incorporated, a telephone systems manufacturer and sales and service company. In this position he served as the Director of MIS and the Director of Voice and Data Integration for the central region.

Thomas N. McCulley has been the Vice President, Information Systems for the Company since July 1996. From January 1992 to June 1996, Mr. McCulley served as the Information Services Director for the Company. He has responsibility for management and supervision of the Company's Management Information Systems.

Donald R. Chadwick served as Secretary since February 1992 and served as Chief Financial Officer from February 1992 until December 1999. As Chief Financial Officer, his duties included supervision of finance, accounting and controller functions within the Company. Mr. Chadwick is presently on the Board of Directors.

Recent Results- FY 2000

On March 12, 2001, ISEC announced fourth quarter revenues of \$3.7 million or 27% less than in the year ago quarter. Net loss from continuing operations was \$1.3 million or \$(0.34) per share as compared to net income of \$4 thousand or \$0.00 per share. For the year ended December 31, 2000, revenue from continuing operations decreased 4.4% to \$18.3 million from \$19.2 million in 1999. Net loss from continuing operations increased to \$3.7 million from \$69 thousand in 1999.

At the end of the fiscal year, cash and cash equivalents stood at \$8.3 million, an increase of \$3.7 million from the year ago period, while working capital increased to approximately \$10 million. The Company has no debt and adequate liquidity as evidenced by some key financial ratios. This is partially a result of proceeds received from the sale of its computer products division. We believe that its balance sheet will sustain the Company's operations for at least the next twelve months.

Segment Information

	Q1A	Q2A	Q3A	Q4A	F2000E
NET SALES (\$)					
ACS	768	656	571	537	2,491
Synergy	1,561	1,323	841	729	4,454
INX	-	-	700	1,174	1,874
IT Staffing	321	315	334	272	1,242
Stratasoft	<u>2,473</u>	<u>1,172</u>	<u>1,779</u>	<u>1,236</u>	<u>6,660</u>
Corporate	<u>901</u>	<u>762</u>	<u>(51)</u>	<u>(4)</u>	<u>1,608</u>
Total Sales	<u>6,024</u>	<u>4,228</u>	<u>4,174</u>	<u>3,944</u>	<u>18,329</u>
Ex-Corpoate	<u>5,123</u>	<u>3,466</u>	<u>4,225</u>	<u>3,948</u>	<u>16,721</u>

Segment Revenues

NET Revenues (\$)				Segment Mix	
	F1999A	F2000A	% Increase	F1999A	F2000A
ACS	3,644	2,491	-32%	22%	15%
Synergy	7,318	4,454	-39%	44%	27%
INX	-	1,874	NM	NM	11%
IT Staffing	1,191	1,242	4%	7%	7%
Stratasoft	4,318	6,660	54%	26%	40%
Corporate	<u>2,704</u>	<u>1,608</u>	-41%		
Total Revenues	<u>19,175</u>	<u>18,329</u>	-4%		
Ex-Corporate	16,471	16,721	2%		

	Q1A	Q2A	Q3A	Q4A	F2000A
Gross Margins					
ACS	28.52%	19.05%	10.51%	20.30%	20.26%
Synergy	29.92%	19.12%	12.60%	2.47%	18.95%
INX	-	-	-5.00%	-0.68%	-2.29%
IT Staffing	24.92%	26.67%	25.15%	29.78%	26.49%
Stratasoft	53.42%	42.49%	42.95%	40.70%	46.34%

F1999A F2000A**Gross Margins**

ACS	30.74%	20.26%
Synergy	30.91%	18.95%
INX	0.00%	-2.29%
IT Staffing	33.50%	26.49%
Stratasoft	50.76%	46.34%

Outlook & Projections

We believe that management will employ the following strategies to pursue rapid growth of its currently existing subsidiary companies:

- 1) Increase hiring of sales and marketing staff;
- 2) Increase marketing and promotional activities;
- 3) Perform selective acquisitions to supplement current businesses.

These measures are expected to negatively impact earnings through 2001 by initially driving up expenses. However, management believes that these investments are essential to enhance the long-term value of the Company. Additionally, we believe that there could be further acquisitions in the Company's future and/or management may start new businesses. These acquisitions and/or startups may operate as separate wholly owned subsidiary companies.

Accordingly, we do not expect the Company to be profitable in fiscal 2001. We are projecting a net loss of approximately \$5.4 million or \$(1.33) per share. We suspect that operations will improve in the second half of the year, as increased expenditures should drive increases in revenues in the second half. However, we see modest revenue gains of approximately 6% for the full year. Our estimates could prove to be conservative, as management has publicly stated that revenues could increase to an annual run rate of \$23 million by the fourth quarter. The magnitude of revenue expansion will dictate the magnitude of margin improvements. Nevertheless, we are forecasting modest improvements in margins for 2001.

We believe that the Company should see accelerating revenues and profits in fiscal 2002. However, due to the current market uncertainty and low visibility into 2002, we are withholding estimates for 2002. However, should management successfully execute its plans, the Company may see significant gains in revenues and eventually become profitable in 2002.

Other Considerations

The Company's prospects are tied to the future prospects of the IT sector. It should be noted that in the past 12 months there has been significant turmoil in companies with exposure to this sector of the economy. Although, we are of the view that companies with sound business models will prosper in the long-run, the short-term impact is uncertain. Many competitors' stock prices have suffered as a result of this turmoil. Additionally, many companies have warned of lower earnings and reduced future expectations. Struggling firms have been hurt by a decrease in spending by clients concerned about the slowing economy and the dot-com collapse.

The staffing industry is highly dependent on economic prosperity. According to Manpower Inc., U.S. employers plan to cut back their hiring in the second quarter. The study found that 59% intend no change, 28% plan to hire more people, 8% expect to cut staff, and 5% are undecided. In the same quarter a year ago, 58% were unchanged, 32% anticipated additions, 6% predicted decreases, and 4% were uncertain. All industries and regions are expecting a decline.

The shares of ISEC have risks common to those of the Micro-cap segment of the market. Often these risks cause Micro-cap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Therefore, risk averse investors should be cautious with the shares of ISEC. ISEC has approximately 1.6 million shares in the float. On average, approximately 9,300 shares are traded daily.

Valuation & Conclusion

We are initiating coverage of I-Sector with a Hold and a 12-month upside target of \$1.25 per share. Although, there could be appreciation potential beyond 2001, due to market conditions, lack of visibility beyond fiscal 2001, and lack of operating profitability, we are rating this equity a Hold. Accordingly, we have set an upside target based on the Company's book value adjusted for the anticipated losses throughout fiscal 2001 and the ensuing deterioration of the Company's balance sheet. We have further discounted this figure by 20% to incorporate the risks itemized in this report. The shares could appreciate above our target if:

- 1) There is re-inflation of market multiples and change in market sentiment;
- 2) The Company produces better than expect results;
- 3) There is M&A activity associated with the Company.



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I-Sector Corp.
Annual Income Statement Model
For Years Ended December 31
(in thousands)

	F1997A	F1998A	F1999A	F2000A	F2001E
Total Revenues	\$ 12,385	\$ 15,127	\$ 19,175	\$ 18,329	\$ 19,440
Costs of Goods Sold	<u>7,434</u>	<u>9,567</u>	<u>12,598</u>	<u>13,881</u>	<u>14,087</u>
Gross Profit	4,951	5,560	6,577	4,448	5,353
<i>Gross Margins</i>	<i>39.98%</i>	<i>36.76%</i>	<i>34.30%</i>	<i>24.27%</i>	<i>27.54%</i>
S,G&A	<u>6,500</u>	<u>9,184</u>	<u>6,671</u>	<u>9,970</u>	<u>11,000</u>
Operating Income	(1,549)	(3,624)	(94)	(5,522)	(5,647)
<i>Operating Margin</i>	<i>-12.51%</i>	<i>-23.96%</i>	<i>-0.49%</i>	<i>-30.13%</i>	<i>-29.05%</i>
Interest Expense(Income)-net	<u>(78)</u>	<u>(90)</u>	<u>(23)</u>	<u>(239)</u>	<u>(270)</u>
Pre-Tax Income	(1,471)	(3,534)	(71)	(5,283)	(5,377)
<i>Pre-Tax Margins</i>	<i>-11.88%</i>	<i>-23.36%</i>	<i>-0.37%</i>	<i>-28.82%</i>	<i>-27.66%</i>
Taxes (Benefit)	<u>(500)</u>	<u>(1,201)</u>	<u>(2)</u>	<u>(1,548)</u>	<u>-</u>
<i>Tax Rate</i>	<i>33.99%</i>	<i>33.98%</i>	<i>2.82%</i>	<i>29.30%</i>	<i>0.00%</i>
Net Income-continuing ops	<u>(971)</u>	<u>(2,333)</u>	<u>(69)</u>	<u>(3,735)</u>	<u>(5,377)</u>
EPS-fully diluted- cont ops	<u>\$ (0.28)</u>	<u>\$ (0.54)</u>	<u>\$ (0.02)</u>	<u>\$ (0.92)</u>	<u>\$ (1.33)</u>
Avg Shares Out-fully diluted	<u>3,519</u>	<u>4,346</u>	<u>4,168</u>	<u>4,060</u>	<u>4,048</u>
Income (loss) from discontinued	(323)	(310)	362	302	-
Gain (loss) on Disposal			(1,138)	1,114	-
Net Income	<u>\$ (1,471)</u>	<u>\$ (2,643)</u>	<u>\$ (845)</u>	<u>\$ (43)</u>	<u>\$ (5,377)</u>
EPS-fully diluted	<u>\$ (0.42)</u>	<u>\$ (0.61)</u>	<u>\$ (0.20)</u>	<u>\$ (0.01)</u>	<u>\$ (1.33)</u>
Avg Shares Out-fully diluted	<u>3,519</u>	<u>4,346</u>	<u>4,168</u>	<u>4,060</u>	<u>4,048</u>
Percent of Revenue					
Costs of Goods Sold	60.02%	63.24%	65.70%	75.73%	72.46%
SG&A	52.48%	60.71%	34.79%	54.39%	56.58%
Net Margin	-11.88%	-17.47%	-4.41%	-0.23%	-27.66%
YEAR / YEAR GROWTH					
Total Revenues		22.14%	26.76%	-4.41%	6.06%

I-Sector Corp.
Quarterly Income Statement Model
For Year Ended December 31, 2000
(in thousands)

	<u>Q1(3/00)A</u>	<u>Q2(6/00)A</u>	<u>Q3(9/00)A</u>	<u>Q4(12/00)A</u>	<u>F2000A</u>
Total Revenues	\$ 5,984	\$ 4,228	\$ 4,173	\$ 3,944	\$ 18,329
Costs of Goods Sold	<u>3,599</u>	<u>3,494</u>	<u>3,314</u>	<u>3,474</u>	<u>13,881</u>
Gross Profit	2,385	734	859	470	4,448
<i>Gross Margins</i>	39.86%	17.36%	20.58%	11.92%	24.27%
S,G&A	<u>2,309</u>	<u>1,951</u>	<u>3,282</u>	<u>2,428</u>	<u>9,970</u>
Operating Income	76	(1,217)	(2,423)	(1,958)	(5,522)
<i>Operating Margin</i>	1.27%	-28.78%	-58.06%	-49.65%	-30.13%
Interest Expense(Income)-net	<u>15</u>	<u>(50)</u>	<u>(100)</u>	<u>(104)</u>	<u>(239)</u>
Pre-Tax Income	61	(1,167)	(2,323)	(1,854)	(5,283)
<i>Pre-Tax Margins</i>	1.02%	-27.60%	-55.67%	-47.01%	-28.82%
Taxes (Benefit)	<u>19</u>	<u>(386)</u>	<u>(708)</u>	<u>(473)</u>	<u>(1,548)</u>
<i>Tax Rate</i>	31.15%	33.08%	30.48%	25.51%	29.30%
Net Income-continuing ops	<u>\$ 42</u>	<u>\$ (781)</u>	<u>\$ (1,615)</u>	<u>\$ (1,381)</u>	<u>\$ (3,735)</u>
EPS-fully diluted- cont ops	<u>\$ 0.01</u>	<u>\$ (0.19)</u>	<u>\$ (0.40)</u>	<u>\$ (0.34)</u>	<u>\$ (0.92)</u>
Avg Shares Out-fully diluted	<u>4,287</u>	<u>4,049</u>	<u>4,049</u>	<u>4,048</u>	<u>4,060</u>
Income (loss) from discontinued	302			-	302
Gain (loss) on Disposal	4,872	(387)	(1,095)	-	1,114
Net Income	<u>\$ 5,216</u>	<u>\$ (1,168)</u>	<u>\$ (2,710)</u>	<u>\$ (1,381)</u>	<u>\$ (43)</u>
EPS-fully diluted	<u>\$ 1.22</u>	<u>\$ (0.29)</u>	<u>\$ (0.67)</u>	<u>\$ (0.34)</u>	<u>\$ (0.01)</u>
Avg Shares Out-fully diluted	<u>4,287</u>	<u>4,049</u>	<u>4,049</u>	<u>4,048</u>	<u>4,060</u>
Percent of Revenue					
Costs of Goods Sold	60.14%	82.64%	79.42%	88.08%	75.73%
SG&A	38.59%	46.14%	78.65%	61.56%	54.39%
Net Margin	87.17%	-27.63%	-64.94%	-35.02%	-0.23%
YEAR / YEAR GROWTH					
Total Revenues	38.58%	-6.38%	-15.18%	-27.25%	-4.41%

I-Sector Corp.
Quarterly Income Statement Model
For Year Ended December 31, 2001
(in thousands)

	Q1(3/01)E	Q2(6/01)E	Q3(9/01)E	Q4(12/01)E	F2001E
Total Revenues	\$ 4,500	\$ 4,625	\$ 4,930	\$ 5,385	\$ 19,440
Costs of Goods Sold	<u>3,510</u>	<u>3,469</u>	<u>3,500</u>	<u>3,608</u>	<u>14,087</u>
Gross Profit	990	1,156	1,430	1,777	5,353
<i>Gross Margins</i>	22.00%	25.00%	29.01%	33.00%	27.54%
S,G&A	<u>2,900</u>	<u>2,800</u>	<u>2,800</u>	<u>2,500</u>	<u>11,000</u>
Operating Income	(1,910)	(1,644)	(1,370)	(723)	(5,647)
<i>Operating Margin</i>	-42.44%	-35.54%	-27.79%	-13.43%	-29.05%
Interest Expense(Income)-net	<u>(100)</u>	<u>(85)</u>	<u>(50)</u>	<u>(35)</u>	<u>(270)</u>
Pre-Tax Income	(1,810)	(1,559)	(1,320)	(688)	(5,377)
<i>Pre-Tax Margins</i>	-40.22%	-33.70%	-26.77%	-12.78%	-27.66%
Taxes (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income-continuing ops	<u>\$ (1,810)</u>	<u>\$ (1,559)</u>	<u>\$ (1,320)</u>	<u>\$ (688)</u>	<u>\$ (5,377)</u>
EPS-fully diluted- cont ops	<u>\$ (0.45)</u>	<u>\$ (0.39)</u>	<u>\$ (0.33)</u>	<u>\$ (0.17)</u>	<u>\$ (1.33)</u>
Avg Shares Out-fully diluted	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>
Income (loss) from discontinued	-	-	-	-	-
Gain (loss) on Disposal	-	-	-	-	-
Net Income	<u>\$ (1,810)</u>	<u>\$ (1,559)</u>	<u>\$ (1,320)</u>	<u>\$ (688)</u>	<u>\$ (5,377)</u>
EPS-fully diluted	<u>\$ (0.45)</u>	<u>\$ (0.39)</u>	<u>\$ (0.33)</u>	<u>\$ (0.17)</u>	<u>\$ (1.33)</u>
Avg Shares Out-fully diluted	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>
Percent of Revenue					
Costs of Goods Sold	78.00%	75.00%	70.99%	67.00%	72.46%
SG&A	64.44%	60.54%	56.80%	46.43%	56.58%
Net Margin	-40.22%	-33.70%	-26.77%	-12.78%	-27.66%
YEAR / YEAR GROWTH					
Total Revenues	-24.80%	9.39%	18.14%	36.54%	6.06%

I-Sector Corp.
Consolidated Balance Sheet
For Periods Ended December 31
(in thousands)

	<u>F1999A</u>	<u>F2000A</u>
Assets		
Current Assets		
Cash & Equivalents	\$ 4,647	\$ 8,346
Net Receivables	38,764	4,917
Inventory	7,442	774
Prepaid Expense & Other	<u>1,220</u>	<u>1,096</u>
Total Current Assets	52,073	15,133
Plant, Property, & Equipment-net	2,280	1,579
Other	<u>178</u>	<u>430</u>
Total Assets	<u>\$ 54,531</u>	<u>\$ 17,142</u>
Liabilities & Shareholders' Equity		
Current Liabilities		
Notes Payable	\$ 15,869	\$ -
Accounts Payable	21,687	1,892
Accrued Expenses & Other	4,511	2,138
Discontinued ops liabilities	199	1,014
Deferred revenue	<u>240</u>	<u>136</u>
Total Current Liabilities	42,506	5,180
Deferred Liabilities	195	195
Total Shareholders' Equity	<u>11,830</u>	<u>11,767</u>
Total Liabilities & Equity	<u>\$ 54,531</u>	<u>\$ 17,142</u>
SHARES OUT	4,061	4,042
Cash per Share	\$1.14	\$2.07
Working Capital	\$9,567	\$9,953
Current Ratio	1.23	2.92
Book Value per Share	\$2.91	\$2.91