

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

**I-Sector Corp.**

**Rating: Buy**

Luis Martins

**ISR - \$6.75 (AMEX)**

April 15, 2005

	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005E</u>
Revenues (Thousands)	\$23,620	\$42,021	\$62,152	\$93,069	\$107,000
Earnings per share	\$(0.95)	\$(0.10)	\$(0.50)	\$0.31	\$0.31*

52-Week Range	\$10.11 – 4.48	Fiscal Year Ends	December
Shares Outstanding (000)'s	5,455	Revs/Share (TTM)	\$18.60
Approximate Float (000's shares)	2,300	Price/Sales(TTM)	0.4X
Insider Holdings	57%	Price/Sales(2005)E	0.3X
Tangible Book Value/Share	\$2.79	Price/Earnings(TTM)	21.8X
Price/Tangible book	2.4X	Price/Earnings(2005)E	21.8X

\*excluding a \$1.7 million non-cash charge

The Company owns and operates wholly owned subsidiary companies, Internetwork Experts, Inc., Stratasoft, Inc., and Valerent, Inc., which are engaged in various aspects of the information and communications technology. The Company's main focus is the IP Telephony Services Market.

### **Key Investment Considerations:**

*We are upgrading our rating on the shares of ISR to a Buy from a Speculative Buy and establishing a 12-month price target of \$8.70 per share. We believe that the shares of ISR offer a compelling investment opportunity for technology investors focused on IP Telephony.*

*Our upgrade is based on: 1) Historical growth; 2) Company's strategy for continued growth in the enterprise IP Telephony service market; 3) Company expertise in the market; 4) IP market potential; 5) Acquisition strategy; 6) Track record of success; and 7) Attractive valuation.*

*In March, stockholders approved the exchange of the minority interest and options in INX subsidiary, resulting in a 1.16 million increase in shares and a one-time, non-cash charge to earnings of approximately \$5.7 million. This transaction was part of a larger long-term plan to grow the Company from a regional to national service provider of Cisco-centric IP telephony and network infrastructure.*

*I-Sector reported fourth quarter net operating revenues of \$24.295 million and net income of \$0.822 million or \$0.15 per fully diluted share. In the year ago quarter, ISR reported net operating revenues of \$15.221 million and a net loss of \$0.299 million or \$(0.08) per share.*

*IP Telephony has emerged into a mainstream technology. ISR has a close working relationship with Cisco Systems, the leader in IP Telephony hardware. IP telephony is expected to be a top growth driver for Cisco.*

*\* Please view our disclaimer located on page 16.*

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## ***Company Overview***

I-Sector Corporation (AMEX: ISR), founded in 1983 in Dallas, Texas, is engaged in providing network integration services and managed IT services, as well as selling associated network hardware and telephony software products. The Company operates through three wholly owned subsidiaries, InterNetwork Experts (INX), Stratasoft, and Valerent. INX accounted for approximately 83.1% of fiscal 2004 revenues, Stratasoft accounted for approximately 9.5% of revenues, and Valerent accounted for approximately 7.4% of revenues in 2004.

The Company's main focus is providing professional and integration services for Cisco-centric Internet Protocol (IP) Telephony through its InterNetwork Experts subsidiary. INX offers a complete range of products and services for Cisco-centric IP Telephony solutions that support the entire life-cycle (design, implementation, and support) of enterprise IP communications, including a full suite of convergence solutions and network infrastructure products. INX is believed to be one of the few companies that offer end-to-end solutions, providing hardware, services, and applications. INX has been recognized with numerous awards and certifications by Cisco Systems.

The Company's customers include corporations, public schools (i.e. Austin, Dallas, Katy, Houston, and Pasadena Independent School Districts), military, and federal, state, and local governmental agencies. Some recent notable deals include IP Telephony deals with Avidyn Health, R&M Energy Systems, Strasburger & Price, The Staubach Company, and C.L. Thomas Petroleum.

INX, through its NetSurant business unit, provides comprehensive service based products for managing converged Cisco networks through the combination of best-of-class services delivery with a suite of industry-standard management technologies. Recently, this unit was awarded a number of contracts including a 5-year services contract to provide support services for a 120-site Cisco-centric converged network. The total value of the contract was in excess of \$4 million.

Stratasoft develops and markets proprietary computer telephony software intended for professional contact centers and other complex, high volume telephony environments. Increasingly it has also been developing new products that take advantage of the opportunity that exists for computer telephony software applications for enterprise organizations that use IP telephony. Its customers are located in the United States, Canada, the United Kingdom, Germany, Greece, India, Egypt, Japan, the Philippines, and Grenada.

Stratasoft's product offerings allow customers to rapidly customize the Company's software to their business applications. These customized products provide telephony functionality essential to contact center operations including: Outbound predictive dialing; Inbound automatic call distribution; Call blending between inbound and outbound activity; Voice mail and auto attendant applications; Text-to-speech capabilities; Web-based text chatting; Fax on demand; Interactive voice response; and Rapid application development.

Valerent offers a variety of services and hardware products related to cost reduction and performance improvement of information technology through Internet-based remote service and support of that technology. Service offerings include 1) remote end user and server management; 2) data and network management; and 3) security and Internet services. Hardware products, facilitating Valerent's managed services, include remote management software products from Altiris, and security software products from Network Associates.

## ***Company Strategy***

The Company intends to use the following strategy to improve its financial position, increase shareholder value, and grow from a regional (Texas) to national service provider of IP telephony and network infrastructure services:

- Seek larger, full-scale IP Telephony implementation projects;
- Increase revenues from higher gross margin offerings, such as INX services and Stratasoft custom projects;
- Continue to align itself with Cisco as ISR's exclusive supplier of network and IP Telephony equipment and technology;
- Capitalize on the trend of convergence in the call center by cross-marketing the capabilities of INX and Stratasoft;
- Expand geographically by acquiring complementary businesses and/or by opening new offices; and
- Develop and market proprietary computer telephony software that operates with and augments Cisco-centric IP Telephony product.

## ***Recent Developments***

**On March 18, 2005, stockholders approved the exchange of the minority interest and the assumption of stock options in the majority owned (92.4%) InterNetwork Experts subsidiary.**

The minority interest in INX was eliminated by issuing approximately 0.2 million shares of ISR common stock. ISR also assumed all outstanding INX stock options by issuing 1.1 million shares of ISR common stock. After the transaction, Management estimated that number of shares used to computing diluted earnings per share increased by approximately 1.16 million shares to approximately 6.72 million shares outstanding.

As a result of this transaction, ISR will record a one-time, non-cash charge to earnings of approximately \$5.7 million in the first quarter of 2005. The charge is the result of the re-measurement of InterNetwork Experts stock options that were assumed by the Company in the exchange, which are now exercisable to acquire shares of I-Sector common stock. In addition, the Company will record other expenses of approximately \$0.175 million that are directly related to the exchange.

This transaction was part of a larger long-term plan to grow the Company from a regional to national service provider of Cisco-centric IP telephony and network infrastructure.

## ***Recent Results***

**Over the past four years (2001 to 2004), the Company experienced substantial growth in revenues, operating income, and profits.** During this time frame, revenues increased over 50% CAGR to \$93.1 million. Additionally, Management successfully turned losses into profits, most recently reporting 2004 fiscal year operating and net income of \$1.7 million and \$0.6 million, respectively. 2004 EBITDA reached \$2.9 million.

Much of the growth in the Company was due to the revenue and margin improvement at its INX subsidiary, which concentrates on Cisco-centric IP Telephony service solutions. Since 2001, revenues from INX increased to \$77.9 million from \$10.8 million. Operating income increased to \$2.6 million from a loss in 2001. The increase in segment income was primarily due to an increase in margins stemming from higher margin service revenues.

The following charts provide a snapshot of the subsidiary's income statement.

*INX Segment Analysis (\$ 000's)*

	2002	2003	2004
Total Revenues	30,738	40,975	77,926
Gross Profit	3,421	3,939	12,941
Gross Margin	11.1%	13.9%	16.6%
Operating Income	-124	894	2,646

Source: SEC filings

*INX Revenue Analysis (\$ 000's)*

Revenues from:	2002	2003	2004
Product	28,992	45,749	71,646
Service	1,748	4,226	6,280

Source: SEC filings

*INX Margin Analysis*

Gross margin from:	2002	2003	2004
Product	11.5%	12.4%	15.1%
Service	5.1%	29.6%	33.4%

Source: SEC filings

**On March 21, 2005, I-Sector reported results for its 2004 fourth quarter, ended December 31, 2004.**

The Company reported net operating revenues of \$24.295 million and net income of \$0.822 million or \$0.15 per fully diluted share. Included in fiscal 4Q04 results was a gain on disposal of discontinued operations of \$0.037 million or \$0.01 per fully diluted share.

In the year ago quarter, ISR reported net operating revenues of \$15.221 million and a net loss of \$0.299 million or \$(0.08) per share. Included in fiscal 4Q03 results was a gain on disposal of discontinued operations of \$0.171 million or \$0.04 per fully diluted share.

**Excluding gains on disposal of discontinued operations, fully diluted EPS increased to \$0.15 from a loss per share of \$(0.12) in the year ago period.** On an operating basis, income increased to \$0.945 million from a loss of \$0.570 million, primarily due to an increase in margins.

In comparison, Taglich Brothers' estimates called for revenues of \$25.5 million and net income of \$0.265 million per share of \$0.05 per share.

The improvement in bottom line results was primarily due to the strong revenue growth, as well as generally improved gross and operating margins. The following chart illustrates overall operating, pre-tax, and after-tax margins, as compared to the year ago period.

*Margin Analysis*

Margin	4Q03A	4Q04A
Gross	19.26%	24.73%
Operating	-3.74%	3.89%
Pre-tax	-3.67%	3.40%
After-tax	-1.96%	3.38%

Source: SEC filings

The increase in overall revenues was attributed to increased performance from all its subsidiaries and all consolidated revenue items. During the quarter, INX, Stratasoft, and Valerent accounted for 83.5%, 8.9%, and 8.2%, respectively, of overall consolidated revenue. The following charts illustrate the details of the Company's revenues in the fourth quarter of 2003 and 2004.

*Fiscal 4Q04A and 4Q03A Revenue Analysis (\$ 000's)*

	4Q03A	4Q04A
Product	46,900	72,680
Service	7,725	11,393
Custom Projects	7,527	8,996

Source: SEC filings

Investors should note the substantial increase in service related revenues. The gross profit margins from services are substantially higher than those from the sales of most hardware products. Further increases in service revenue are expected, particularly from its INX post-implementation services (NetSurant business unit) for IP telephony.

*Fiscal 4Q04A Segment Analysis (\$ 000's)*

	INX	Stratasoft	Valerent
Revenues	20,278	2,159	1,990
Gross Profit	4,199	1,180	629
Gross Margin	20.7%	54.7%	31.6%
Operating Income	1,438	-350	141

*Fiscal 4Q03A Segment Analysis (\$ 000's)*

	INX	Stratasoft	Valerent
Revenues	12,456	1,532	1,296
Gross Profit	1,936	653	342
Gross Margin	15.5%	42.6%	26.4%
Operating Income	410	-541	-70

Source: SEC filings

*INX Gross Margin Analysis*

Offering	4Q03A	4Q04A
Product	11.7%	18.4%
Service	42.3%	39.4%
Overall	15.5%	20.7%

Source: SEC filings

Gross margin also increased because starting in the fourth quarter of 2004, the Company changed how it records product incentives from Cisco. Cisco pays incentives earned under this program semi-annually. The six-month measurement periods end one month following the end of the second and fourth quarters. Starting in the fourth quarter of 2004, the Company changed how it records these incentives based on Management's belief that collection of the incentive was probable and therefore recognizable. As a result, the Company recognized two additional months (from the third quarter of 2004) of incentives. It is estimated that this one-time adjustment resulted in an additional \$0.5 million in gross profits.

SG&A increased noticeably to \$5.063 million from \$3.502 million in support of the Company's growth. Management identified compensation and administrative expenses as the main causes of the increase. As a percentage of sales, SG&A dropped to 20.8% from 23.0%.

The following charts illustrate SG&A expenses on a subsidiary level.

*S,G &A Analysis (\$ 000's)*

Subsidiary	4Q03A	4Q04A
INX	1,526	2,761
Stratasoft	1,194	1,530
Valerent	412	488

Source: SEC filings

*S,G &A Analysis (as a percentage of sales)*

Subsidiary	4Q03A	4Q04A
INX	12.3%	13.6%
Stratasoft	77.9%	70.9%
Valerent	31.7%	24.5%

Source: SEC filings

*Balance Sheet*

At the end of the fourth quarter of 2004, ISR had cash and cash equivalents of \$4.77 million, working capital of approximately \$13.14 million, long-term debt of \$0.122 million, and stockholders' equity of \$15.849 million. At the end of 2003, ISR had cash and cash equivalents of \$2.17 million, working capital of approximately \$3.72 million, long-term debt of \$0.23 million, and stockholders' equity of \$6.62 million.

As of December 31, 2004, the Company's accounts receivables and current portion of long-term debt stood at \$28.236 million and \$8.22 million, respectively. The substantial increase in accounts receivables and borrowings, as compared to previous quarters and the end of the last fiscal year, was a direct result of the DISD project, which experienced delays in payments due to administrative issues with the funding mechanism (E-Rate program) of the project. At December 31, 2004, total net accounts receivable included approximately \$17.1 million of net E-Rate funded accounts receivable, approximately \$14.0 million of which were amounts related to a single SLD-funded project (DISD). On March 23, 2005, approximately \$10.7 million of the past due balance was collected.

The Company believes that although collections have occurred for more significantly aged invoices, it will continue to experience payment delays from educational projects funded by E-Rate.

*Credit Facility*

As of December 31, 2004, the Company had outstanding borrowings of \$16 million under a \$25.0 million inventory financing facility with Textron Financial Corporation. Interest accrues at the prime rate plus 2.5%. The Company uses the facility to finance purchases of Cisco products from Cisco and other wholesale distributors. Cisco provides the Company with 60-day terms. Other wholesale distributors typically provide 30-day terms. Balances within these 60-day and 30-day periods do not accrue interest and are classified as accounts payables. As of December 31, 2004, approximately \$7.9 million of the outstanding balance was within the free finance period and was reflected as accounts payable on the balance sheet.

## ***Competitive Overview***

ISR, through its INX subsidiary, primarily competes in the enterprise IP communications market. According to industry sources, this market has evolved rapidly over the past few years. At first it was a novel technology market with few adopters. Now many companies believe it to be a mainstream technology. As a result, there have been many announcements on companies adopting IP into their telecommunications infrastructure, ranging from the likes of Merrill Lynch, First Health, the U.S. Military, Sony, and Others. By 2009, IP Communications spending is expected to reach \$26.9 billion.

Adoption rates are increasing as:

- Companies come to the realization that IP Telephony is not just an upgrade in technology but also provides costs benefits, improved security, and increased productivity, as well as allowing enterprises to reap the benefits of participating in the convergence of communications technology; and
- The economy continues its upward trend. An improving economy results in companies spending more on technology and communications for their enterprise. According to the government, GDP increased 4.4% in 2004 compared with an increase of 3.0 % in 2003. Through the end of 2005, economists predict that GDP will continue to advance.

The top hardware vendors in the IP communications market are Avaya (NYSE: AV), Cisco (NASDAQ: CSCO), Mitel, NEC (NASDAQ: NIPNY), Nortel Networks (NYSE: NT), Alcatel (NYSE: ALA), and Siemens (NYSE: SI). Currently, Cisco is believed to be the leading hardware provider in the market, followed closely by Avaya and Nortel. According to Synergy Research, more than 60 percent of Fortune 500 companies have deployed Cisco IP Communications systems and Cisco has more than 16,500 IP Communications customers worldwide. CSCO's Chief Technology Officer was recently quoted as saying that IP telephony will be a top growth driver for Cisco.

ISR is exclusively focused on providing Cisco-centric IP Telephony service solutions that support the entire life-cycle of IP communications. ISR's relationship with CSCO is believed to be strong. In fact, ISR has been recognized with numerous awards and certifications by Cisco Systems through the years, including Gold Certified Partner. Additionally, its sales organization works closely with the Cisco sales organization to identify opportunities for IP telephony and network infrastructure solutions.

ISR competes directly with such larger companies as: Electronic Data Systems (NYSE: EDS), IBM (NYSE: IBM), and SBC Communications (NYSE: SBC). However, many other companies have authorizations similar to those of ISR. Other competitors are rapidly deploying assets to compete in the IP Telephony space. Some companies may have or may develop greater resources and may be better able to respond to industry changes.

Competition in the industry occurs on the basis of such factors of price, technical competence, financial and operational ability to manage a project, and the quality of industry relationships.

## ***Outlook***

According to the latest public guidance, the Company expects revenues to continue to increase in 2005 for each of its three subsidiaries, with INX growing the most. However, INX's growth rate for 2005 will be less, excluding the impact of any acquisitions that may occur, than its growth rate for 2004, primarily due to market saturation. INX has a dominant position in the Texas market as provider of Cisco-based IP telephony service solutions to customers with approximately 300 to 10,000 employees.

The Company expects that it will make one or more accretive acquisitions during 2005, which will likely add additional revenue growth. ISR has made substantial progress towards building a pipeline of potential acquisitions to enable geographic expansion. It is believed that Management has identified a few prime targets for acquisition. These companies have revenues that range between \$10 million and \$20 million

### **Projections**

Based on market trends and Company dynamics, we believe that ISR has a bright long-term future in the IP communications market as a provider of design, implementation, and support solutions. We believe that ISR's growth will be continue to be bolstered by competitive advantages it holds as compared to certain competitors, the Company's experience in the Industry, record of past installations, numerous awards and certifications, and strong relationship with Cisco.

**However, we are adjusting estimates for 2005 due to recent operating and margin trends, recent developments including the March 2005 share exchange, and the outlook for the Company and its markets through 2005.**

Our revised 2005 forecast calls for revenues of \$106.9 million and net income of \$2.1 million or \$0.31 per diluted share. Our previous 2005 forecasted calls for revenues of \$107 million and net income of \$2.2 million or \$0.39 per diluted share.

Our current model incorporates:

- Revenue gains of 15% in 2005. Our projection for revenue growth takes into consideration recently received orders, Management guidance, projected demand for the Company's service offerings, and the fundamentals of the IP marketplace. The following table illustrates our revenue estimates by subsidiary:

*Projected Revenue by Segment (\$ 000's)*

	2004A	2005E
INX	6,942	7,000
Stratasoft	77,926	91,000
Valerent	8,996	9,000

Source: SEC filings and Taglich Brothers estimates

- An improvement in operating margins due to efficiencies, increased staff utilization, the spreading of fixed costs over a larger revenue base, and gross margin enhancement programs. The following table illustrates margin estimates:

*Projected Margin Analysis*

Margin	2004A	2005E
Gross	21.4%	22.2%
Operating	1.8%	2.1%
Pre-tax	1.7%	1.9%
After-tax	1.6%	1.9%

Source: SEC filings and Taglich Brothers estimates

- Increased EBITDA and EBITDA margins. We are projecting 2005 EBITDA margins of 3.0%. The following table illustrates EBITDA estimates:

## EBITDA Projections

Year	EBITDA (\$ millions)
2003A	-1.6
2004A	2.6
2005E	3.2

Source: SEC filings and Taglich Brothers estimates

- Negligible income tax expense. ISR has accumulated net operating loss (NOL) carryforwards for federal income tax purposes of approximately \$2.0 million. The NOL's are available to offset future federal and state taxable income through 2023; and
- Increased number of shares outstanding primarily due to the recent equity offering and share exchange. We are projecting 6.5 million as compared to 5 million in 2004.

Investors should note that in the short-term, due to the relative infancy of the IP Telephony Industry, its rapidly evolving nature, timing of payments for large government sponsored contracts, and uncertainty in the timing of deployments, it is entirely possible for I-Sector to report severe quarterly fluctuations. These fluctuations may cause actual results to vary significant from our estimates. Additionally, it is anticipated that ISR will pursue growth through acquisitions. However, there is no assurance that acquisitions will occur. If acquisitions are finalized, we will adjust our estimates accordingly.

### **Management**

**James H. Long has been the Chairman, CEO, and a Director of I-Sector since April 1983.** He is the founder of the Company. He served as President through December of 2003. Prior to founding I-Sector, Mr. Long served with the United States Navy in a technical position and was employed by IBM in a technical position.

**Mark T. Hilz has been the President and Chief Operating Officer of I-Sector Corporation since December 2003 and President of Internetwork Experts, Inc. since July 2000.** Mr. Hilz served as a Director of I-Sector from April 1999 until June 2001. From January 1999 to June 2000, Mr. Hilz was Vice President of Project Development at Mathews Southwest, LLC, Inc., a real estate investment and development firm headquartered in Dallas. From 1998 to July 2000, Mr. Hilz was one of a Director of ISR and the Chief Executive Officer of Nichecast, Inc., a privately held internet services company. From July 1990 to July 1998, Mr. Hilz was the founder, President, and Chief Executive Officer of PC Service Source, Inc., a publicly held distributor of personal computer hardware for the repair industry. Before that, Mr. Hilz was founder, President and Chief Executive Officer of Hilz Computer Products, Inc., a privately held wholesale computer products distributor.

**William R. Hennessy has been the President of Stratasoft, Inc. since September 1996.** From July 1991 to January 1996, Mr. Hennessy was employed by Inter-Tel, Incorporated, a publicly held telephone systems manufacturer and sales and service company, where he served as the Director of MIS and the Director of Voice and Data Integration for the central region.

**Frank Cano has been the President of Valerent, Inc., since November 2002.** From May 2000 to May 2002, Mr. Cano served as a Division President of Amherst Southwest, LLP. Prior to that, Mr. Cano held various positions at the Company including serving as the President of ISR's former computer products division, as Senior Vice President, Branch Operations, and as Branch Manager for the Dallas-Fort Worth office. Mr. Cano is the brother-in-law of Mr. Long.

**Brian Fontana has been the CFO of the Company since January 2005.** His prior experience includes serving as Chief Financial Officer of Talent Tree, Inc., a privately-held workforce outsourcing organization; Performance Retail, Inc., an early-stage venture-capital funded software company; Drypers Corporation, a NASDAQ listed multinational diaper manufacturing company; Pentacon, Inc., a NYSE listed fastener distribution company; Prime Service, Inc., a NYSE listed equipment rental company; and National Convenience Stores, Inc., a NYSE listed operator of convenience stores. Mr. Fontana is a 1981 graduate of the University of Texas, where he earned a BBA in Finance.

## ***Risks***

### *Payment Issues*

In recent quarters, ISR's balance sheet was negatively impacted by payment delays involving a major project. This problem was caused by administrative issues with the funding mechanism (E-Rate program) of the DISD project. At December 31, 2004, total net accounts receivable of \$28.2 million included approximately \$17.1 million of net E-Rate funded accounts receivable, approximately \$14.0 million of which were amounts related to a single project that had been temporarily suspended due to a past due balance of \$11.8 million. In addition to the DISD project, ISR has several other smaller projects with school districts that are funded by the E-Rate program. As a result of the payment issues, ISR temporarily suspended product shipments for certain projects in November 2004.

After December 31, 2004, significant payments were made on past due accounts and the Company resumed product shipments for the previously suspended projects. On March 23, 2005, approximately \$10.7 million of the past due balance was collected. For the year ending December 31, 2004, INX generated approximately \$18.7 million of revenue from E-Rate funded projects.

The Company believes that although collections have occurred for more significantly aged invoices, it will continue to experience payment delays for such educational projects due to increased administration standards and continued changes at the Schools and Libraries Division and the E-Rate program.

### *Balance Sheet*

The Company's credit facility features a variable interest rate tied to the prime rate. If interest rates rise or ISR becomes increasingly indebted, debt service will increase. This will adversely impact the Company's financial results.

### *Dependency on Cisco Systems*

The Company has aligned itself with Cisco Systems. Approximately 77% of 2004 revenues were derived from the sale of Cisco products, network products and related services. As a result, ISR's success is dependent on its ongoing relationship with Cisco.

Gross margin may be substantially influenced by decisions made by Cisco, relative to its sales incentive programs. Cisco pays incentives earned under this program semi-annually. The six-month measurement periods end one month following the end of the second and fourth quarters. Historically, this caused significant fluctuations in gross profit and operating profits from quarter to quarter. Starting in the fourth quarter of 2004, the Company changed how it records these incentives based on Management's belief that collection of the incentive was probable and therefore recognizable.

For 2004, the INX products cost of goods was \$60.8 million, which was net of \$3.4 million of vendor incentives recognized. For 2003, the INX product cost of goods was \$40.1 million, which was net of \$313,000 in vendor incentives recognized.

According to our research, the following public companies provide IP products that may directly or indirectly compete with Cisco's product offerings: Alcatel (NYSE: ALA), Avaya (NYSE: AV), 8X8 (NASDAQ: EGHT), Inter-Tel (NASDAQ: INTL), Lucent (NYSE: LU), NEC (NASDAQ: NIPNY), Nortel (NYSE: NT), Polycom (NASDAQ: PLCM), Siemens (NYSE: SI), Sonus (NASDAQ: SONS), VocalTec (NASDAQ: VOCL) and 3Com (NASDAQ: COMS). Cisco also faces competition from private companies such as Mitel, Shoreline, Zultys, and others.

While Cisco Systems (NYSE: CSCO) is one of leading players in IP hardware, other companies such as Nortel (NYSE: NT), Avaya (NYSE: AV), Alcatel (NYSE: ALA), and Siemens (NYSE: SI), have a competitive market share. ISR and Cisco believe that Cisco-based systems will continue to gain market share. CSCO's Chief Technology Officer was recently quoted as saying that IP telephony will be a top growth driver for Cisco.

#### *Economic Risk*

The Company's financial results depend largely on customer buying cycles, capital spending trends, and the general business outlook of existing and new customers. An adverse indication on these and other key metrics may negatively impact the Company's financial results and equity values.

#### *Acquisition Risk*

The Company makes selected acquisitions a part of its business strategy. As part of its stated strategy to emerge as a national IP telephony service provider, Management intends to make further acquisitions. Issues that may come up in the integration process include, differing corporate cultures, customer policies, and management styles. These issues may cause a clash resulting in a lack of synergies and the inability to execute stated goals and financial objectives. However, there are no assurances that acquisitions will occur.

#### *Sector Risk*

The Company operates in the Technology Sector, which is rapidly advancing. Furthermore, the IP Telephony Industry is a relatively new industry within the Technology Sector. Therefore, it is rapidly evolving and competitive. Due to the relative infancy of the IP Telephony Industry, its rapidly evolving nature, timing of payments for large government sponsored contracts, and uncertainty in the timing of deployments, it is entirely possible for I-Sector to report severe quarterly fluctuations. These fluctuations may cause actual results to vary significant from our estimates.

#### *Competition*

Currently, the Company believes that it competes directly with such large companies as: Electronic Data Systems (NYSE: EDS), IBM (NYSE: IBM), and SBC Communications (NYSE: SBC). According to CSCO's Internet site, many companies have authorizations similar to those of ISR. Other competitors are rapidly deploying assets to compete in the space. Some companies may have or may develop greater resources and may be better able to respond to industry changes. Competitors may develop better relationships with Cisco. These factors may adversely impact ISR's financial results and equity value.

The Company's contact center operations competes with large manufacturers of specialized contact center systems, such as Avaya, Concerto, and Interactive Intelligence, as well as other less known companies. Its remote managed services business competes with numerous large, well established IT services and support organizations, large IT equipment manufacturers, and numerous smaller IT services and support organizations. Some competitors may have or may develop greater resources and may be better able to respond to industry changes.

#### *Market & Technological Acceptance*

The Company's offerings are technologically innovative. As such, potential customers may not want to be early adopters of such technology. They may opt to stay with current methods until there is substantial

penetration and/or further data points to evaluate. If the Company's products and technology develop more slowly than expected, it can adversely affect the Company's growth potential as well as the Company's financial liquidity and equity values. Also limiting acceptance could be the regulatory landscape and any requirements or mandates imposed by regulators on vendors, suppliers, or service providers.

#### *Dilution*

In May 2004, the Company completed a placement of equity securities. Paulson & Company acted as the placement agent and Taglich Brothers, Inc. assisted in the placement of a portion of equity securities. In the future, the Company may seek and complete further equity offerings. If the Company completes any equity offering, existing shareholders may suffer dilution. Additionally, terms of any offerings may not be on terms favorable to Company.

#### *Growth Management*

As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted.

#### *Ownership of Stock*

One investor, Jim Long (the Company's Founder, Chairman, and CEO) owns a substantial stake in ISR. Small investors should be aware that investors with significant stakes can control the outcome of certain shareholder votes. These outcomes may not be in the best interests of all shareholders. If a sizable stake is liquidated in the open market, there could be substantial selling pressure on the shares.

#### *Federal Reserve*

After its last seven meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 after each meeting. Such a monetary policy is theoretically and empirically bad news for equity prices and valuations, particularly for smaller cap stocks.

#### *Liquidity*

Shares of ISR have risks common to those of the microcap segment of the market. Often these risks cause microcap 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 the stock price. Therefore, risk averse investors should be cautious with shares of ISR. The Company has approximately 2.3 million shares in the float. On average, approximately 21,000 shares are traded daily.

#### *Miscellaneous Risks*

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

### ***Valuation & Conclusion***

**We believe that shares of ISR offer a compelling investment opportunity for technology investors. Therefore, we are upgrading our rating to a Buy from a Speculative Buy rating.**

Our upgrade is based on the following reasoning:

- Historical growth;
- Company's strategy for continued growth;
- Management and employee talent and relationship with Cisco;

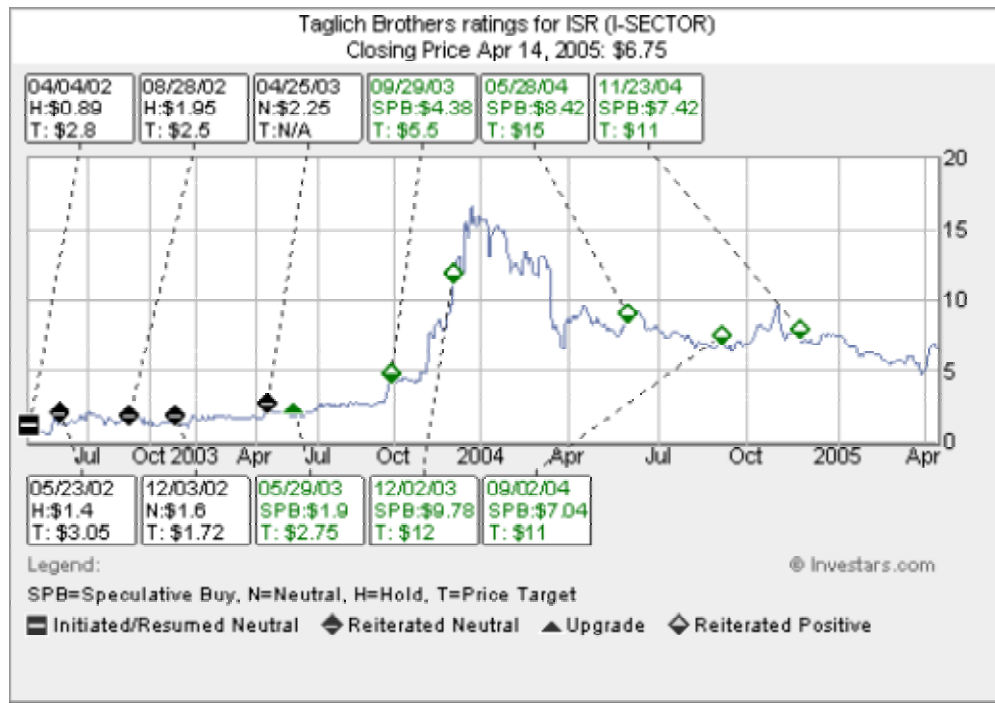
- IP Telephony market potential;
- Acquisition strategy;
- Track record of success and recent milestones; and
- Attractive valuation

**Our 12-month price target is \$8.70 per share.** Our price target is based on applying a P/E multiple of 28X to our 2005 estimated EPS of \$0.31 per share. The shares are currently trading at around 21X, while the Technology Sector trades at 28X.

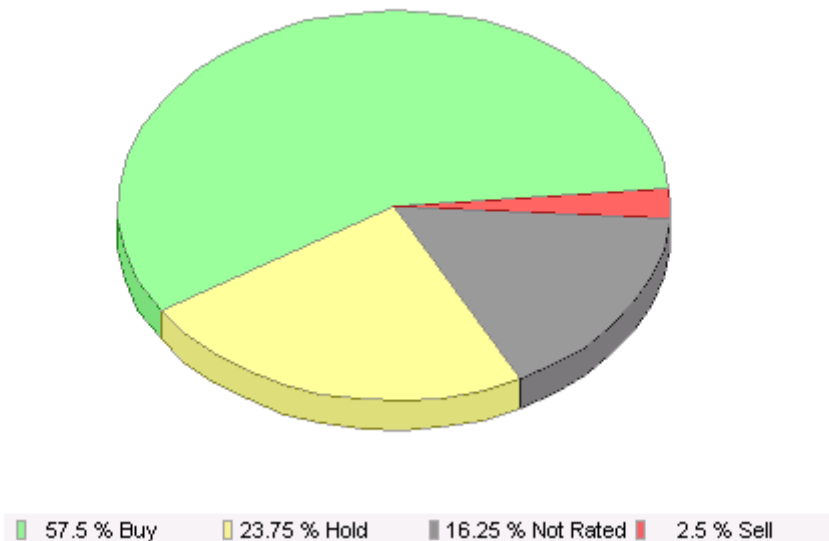
Over the recent years and quarters, the Company has substantial improved revenues, operating income, EBITDA, and profits. The Company's historic and projected growth rates compare favorably to peers in the Technology Sector. Given the Company's historical performance, projected growth rate, current multiples, and risks, we believe that a multiple of 28X is an appropriate valuation for the Company at this time.

Investors may notice that the Company's EPS is expected to be essentially unchanged as compared to 2004 levels. However, this is entirely due to the effect of a share exchange to eliminate the minority interest in its INX subsidiary. We believe this transaction was part of a larger long-term strategy to grow the Company from a regional company to a national company. Primarily due to this increase in shares outstanding, our price target drop from \$11.00 per share.

Although we believe that ISR may be positioning itself for long-term growth and profitability, its results and shares will continue to be influenced by the Company's risk factors, macroeconomic factors, and world events.



Taglich Brothers' Current Rating Distribution



## Meaning of Ratings

### *Buy*

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

### *Speculative Buy*

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

### *Neutral*

We will remain neutral pending certain developments.

### *Underperform*

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

### *Sell*

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

## **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap 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 which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies mentioned in this report:

3Com (NASDAQ: COMS)

Avaya (NYSE: AV)

Alcatel (NYSE: ALA)

BellSouth Business (NYSE: BLS)

Cisco Systems (NASDAQ: CSCO)

8X8 (NASDAQ: EGHT)

Lucent (NYSE: LU)

Nortel (NYSE: NT)

SBC Communications (NYSE: SBC)

Siemens (NYSE: SI)

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**I, Luis Martins, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

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

	F2001A	F2002A	F2003A	F2004A	F2005E
Total Revenues	\$ 23,620	\$ 42,021	\$ 62,152	\$ 93,069	\$ 107,000
Costs of Goods Sold	<u>17,325</u>	<u>33,752</u>	<u>49,425</u>	<u>73,117</u>	<u>83,200</u>
<b>Gross Profit</b>	<b>6,295</b>	<b>8,269</b>	<b>12,727</b>	<b>19,952</b>	<b>23,800</b>
<i>Gross Margins</i>	<i>26.65%</i>	<i>19.68%</i>	<i>20.48%</i>	<i>21.44%</i>	<i>22.24%</i>
S,G&A	<u>10,573</u>	<u>10,625</u>	<u>15,061</u>	<u>18,254</u>	<u>21,530</u>
<b>Operating Income</b>	<b>(4,278)</b>	<b>(2,356)</b>	<b>(2,334)</b>	<b>1,698</b>	<b>2,270</b>
<i>Operating Margin</i>	<i>-18.11%</i>	<i>-5.61%</i>	<i>-3.76%</i>	<i>1.82%</i>	<i>2.12%</i>
<i>EBITDA</i>	<i>(3,828)</i>	<i>(1,760)</i>	<i>(1,586)</i>	<i>2,616</i>	<i>3,210</i>
Interest Expense(Income)-net	<u>(316)</u>	<u>(115)</u>	<u>(107)</u>	<u>108</u>	<u>220</u>
<b>Pre-Tax Income</b>	<b>(3,962)</b>	<b>(2,241)</b>	<b>(2,227)</b>	<b>1,590</b>	<b>2,050</b>
<i>Pre-Tax Margins</i>	<i>-16.77%</i>	<i>-5.33%</i>	<i>-3.58%</i>	<i>1.71%</i>	<i>1.93%</i>
Taxes (Benefit)	<u>(87)</u>	<u>(1,595)</u>	<u>(181)</u>	<u>(19)</u>	<u>-</u>
<i>Tax Rate</i>	<i>2.20%</i>	<i>71.17%</i>	<i>8.13%</i>	<i>-1.19%</i>	<i>0.00%</i>
<b>Net Income-continuing ops</b>	<b>\$ (3,875)</b>	<b>\$ (646)</b>	<b>\$ (2,046)</b>	<b>\$ 1,609</b>	<b>\$ 2,050</b>
<b>EPS-fully diluted- cont ops</b>	<b>\$ (0.99)</b>	<b>\$ (0.17)</b>	<b>\$ (0.56)</b>	<b>\$ 0.32</b>	<b>\$ 0.31</b>
Avg Shares Out-fully diluted	<u>3,911</u>	<u>3,711</u>	<u>3,691</u>	<u>5,004</u>	<u>6,529</u>
Income (loss) from discontinued	(167)	-	-	-	-
Gain (loss) on Disposal	337	262	210	38	-
Minority Interest	-	-	-	(117)	(50)
Share exchange	-	-	-	-	(5,700)
<b>Net Income</b>	<b>\$ (3,705)</b>	<b>\$ (384)</b>	<b>\$ (1,836)</b>	<b>\$ 1,530</b>	<b>\$ (3,700)</b>
<b>EPS-fully diluted</b>	<b>\$ (0.95)</b>	<b>\$ (0.10)</b>	<b>\$ (0.50)</b>	<b>\$ 0.31</b>	<b>\$ (0.56)</b>
Avg Shares Out-fully diluted	<u>3,911</u>	<u>3,711</u>	<u>3,691</u>	<u>5,004</u>	<u>6,529</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	73.35%	80.32%	79.52%	78.56%	77.76%
SG&A	44.76%	25.28%	24.23%	19.61%	20.12%
Net Margin	-15.69%	-0.91%	-2.95%	1.64%	-3.46%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	38.23%	77.90%	47.91%	49.74%	14.97%

I-Sector Corp.  
Quarterly Income Statement Model  
For Year Ended December 31, 2003  
(in thousands)

	Q1(3/03)A	Q2(6/03)A	Q3(9/03)A	Q4(12/03)A	F2003A
Total Revenues	\$ 10,080	\$ 15,870	\$ 20,981	\$ 15,221	\$ 62,152
Costs of Goods Sold	<u>7,805</u>	<u>13,141</u>	<u>16,190</u>	<u>12,289</u>	<u>49,425</u>
<b>Gross Profit</b>	2,275	2,729	4,791	2,932	<b>12,727</b>
<i>Gross Margins</i>	22.57%	17.20%	22.83%	19.26%	<b>20.48%</b>
S,G&A	<u>3,376</u>	<u>3,562</u>	<u>4,621</u>	<u>3,502</u>	<u>15,061</u>
<b>Operating Income</b>	(1,101)	(833)	170	(570)	<b>(2,334)</b>
<i>Operating Margin</i>	-10.92%	-5.25%	0.81%	-3.74%	<b>-3.76%</b>
<i>EBITDA</i>	(951)	(624)	359	(354)	<b>(1,570)</b>
Interest Expense(Income)-net	<u>(10)</u>	<u>(96)</u>	<u>11</u>	<u>(12)</u>	<u>(107)</u>
<b>Pre-Tax Income</b>	(1,091)	(737)	159	(558)	<b>(2,227)</b>
<i>Pre-Tax Margins</i>	-10.82%	-4.64%	0.76%	-3.67%	<b>-3.58%</b>
Taxes (Benefit)	<u>-</u>	<u>(81)</u>	<u>(12)</u>	<u>(88)</u>	<u>(181)</u>
<i>Tax Rate</i>	0.00%	10.99%	-7.55%	15.77%	<b>8.13%</b>
<b>Net Income-continuing ops</b>	<u>\$ (1,091)</u>	<u>\$ (656)</u>	<u>\$ 171</u>	<u>\$ (470)</u>	<u>\$ (2,046)</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ (0.30)</u>	<u>\$ (0.18)</u>	<u>\$ 0.03</u>	<u>\$ (0.12)</u>	<u>\$ (0.56)</u>
Avg Shares Out-fully diluted	<u>3,650</u>	<u>3,650</u>	<u>3,974</u>	<u>3,800</u>	<u>3,691</u>
Gain (loss) on Disposal	-	16	23	171	<b>210</b>
<b>Net Income</b>	<u>\$ (1,091)</u>	<u>\$ (640)</u>	<u>\$ 194</u>	<u>\$ (299)</u>	<u>\$ (1,836)</u>
<b>EPS-fully diluted</b>	<u>\$ (0.30)</u>	<u>\$ (0.18)</u>	<u>\$ 0.04</u>	<u>\$ (0.08)</u>	<u>\$ (0.50)</u>
Avg Shares Out-fully diluted	<u>3,650</u>	<u>3,636</u>	<u>3,974</u>	<u>3,800</u>	<u>3,691</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	77.43%	82.80%	77.17%	80.74%	79.52%
SG&A	33.49%	22.44%	22.02%	23.01%	24.23%
Net Margin	-10.82%	-4.03%	0.92%	-1.96%	-2.95%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	9.47%	54.68%	80.76%	39.06%	47.91%

I-Sector Corp.  
Quarterly Income Statement Model  
For Year Ended December 31, 2004  
(in thousands)

	Q1(3/04)A	Q2(6/04)A	Q3(9/04)A	Q4(12/04)A	F2004A
Total Revenues	\$ 14,275	\$ 21,887	\$ 32,612	\$ 24,295	\$ 93,069
Costs of Goods Sold	<u>10,739</u>	<u>17,588</u>	<u>26,503</u>	<u>18,287</u>	<u>73,117</u>
<b>Gross Profit</b>	3,536	4,299	6,109	6,008	<b>19,952</b>
<i>Gross Margins</i>	24.77%	19.64%	18.73%	24.73%	<b>21.44%</b>
S,G&A	<u>3,499</u>	<u>4,236</u>	<u>5,456</u>	<u>5,063</u>	<u>18,254</u>
<b>Operating Income</b>	37	63	653	945	<b>1,698</b>
<i>Operating Margin</i>	0.26%	0.29%	2.00%	3.89%	<b>1.82%</b>
<i>EBITDA</i>	238	269	868	1,241	<b>2,616</b>
Interest Expense(Income)-net	<u>(19)</u>	<u>26</u>	<u>(17)</u>	<u>118</u>	<u>108</u>
<b>Pre-Tax Income</b>	56	37	670	827	<b>1,590</b>
<i>Pre-Tax Margins</i>	0.39%	0.17%	2.05%	3.40%	<b>1.71%</b>
Taxes (Benefit)	<u>5</u>	<u>(7)</u>	<u>2</u>	<u>(19)</u>	<u>(19)</u>
<i>Tax Rate</i>	8.93%	-18.92%	0.30%	-2.30%	<b>-1.19%</b>
<b>Net Income-continuing ops</b>	<u>\$ 51</u>	<u>\$ 44</u>	<u>\$ 668</u>	<u>\$ 846</u>	<u>\$ 1,609</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.12</u>	<u>\$ 0.15</u>	<u>\$ 0.32</u>
Avg Shares Out-fully diluted	<u>4,544</u>	<u>5,544</u>	<u>5,549</u>	<u>5,556</u>	<u>5,004</u>
Gain (loss) on Disposal	(12)	13	-	37	38
Minority Interest		(6)	(50)	(61)	(117)
<b>Net Income</b>	<u>\$ 39</u>	<u>\$ 51</u>	<u>\$ 618</u>	<u>\$ 822</u>	<u>\$ 1,530</u>
<b>EPS-fully diluted</b>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ 0.31</u>
Avg Shares Out-fully diluted	<u>4,544</u>	<u>5,544</u>	<u>5,549</u>	<u>5,556</u>	<u>5,004</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	75.23%	80.36%	81.27%	75.27%	78.56%
SG&A	24.51%	19.35%	16.73%	20.84%	19.61%
Net Margin	0.27%	0.23%	1.90%	3.38%	1.64%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	41.62%	37.91%	55.44%	59.62%	49.74%

I-Sector Corp.  
Quarterly Income Statement Model  
For Year Ended December 31, 2005  
(in thousands)

	Q1(3/05)E	Q2(6/05)E	Q3(9/05)E	Q4(12/05)E	F2005E
Total Revenues	\$ 24,450	\$ 25,400	\$ 28,150	\$ 29,000	\$ 107,000
Costs of Goods Sold	<u>19,082</u>	<u>19,772</u>	<u>21,864</u>	<u>22,483</u>	<u>83,200</u>
<b>Gross Profit</b>	5,368	5,629	6,286	6,518	<b>23,800</b>
<i>Gross Margins</i>	21.96%	22.16%	22.33%	22.47%	22.24%
S,G&A	<u>5,215</u>	<u>5,258</u>	<u>5,489</u>	<u>5,568</u>	<u>21,530</u>
<b>Operating Income</b>	153	371	797	950	<b>2,270</b>
<i>Operating Margin</i>	<b>0.63%</b>	<b>1.46%</b>	<b>2.83%</b>	<b>3.27%</b>	<b>2.12%</b>
<i>EBITDA</i>	388	606	1,032	1,185	<b>3,210</b>
Interest Expense(Income)-net	<u>50</u>	<u>50</u>	<u>60</u>	<u>60</u>	<u>220</u>
<b>Pre-Tax Income</b>	103	321	737	890	<b>2,050</b>
<i>Pre-Tax Margins</i>	<b>0.42%</b>	<b>1.26%</b>	<b>2.62%</b>	<b>3.07%</b>	<b>1.92%</b>
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%
<b>Net Income-continuing ops</b>	<u>\$ 103</u>	<u>\$ 321</u>	<u>\$ 737</u>	<u>\$ 890</u>	<u>\$ 2,050</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.11</u>	<u>\$ 0.13</u>	<u>\$ 0.31</u>
Avg Shares Out-fully diluted	<u>5,701</u>	<u>6,716</u>	<u>6,800</u>	<u>6,900</u>	<u>6,529</u>
Minority Interest	(50)	-	-	-	(50)
Share exchange	(5,700)				(5,700)
<b>Net Income</b>	<u>\$ (5,647)</u>	<u>\$ 321</u>	<u>\$ 737</u>	<u>\$ 890</u>	<u>\$ (3,700)</u>
<b>EPS-fully diluted</b>	<u>\$ (0.99)</u>	<u>\$ 0.05</u>	<u>\$ 0.11</u>	<u>\$ 0.13</u>	<u>\$ (0.57)</u>
Avg Shares Out-fully diluted	<u>5,701</u>	<u>6,716</u>	<u>6,800</u>	<u>6,900</u>	<u>6,529</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	78.04%	77.84%	77.67%	77.53%	77.76%
SG&A	21.33%	20.70%	19.50%	19.20%	20.12%
Net Margin	-23.10%	1.26%	2.62%	3.07%	-3.46%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	71.28%	16.05%	-13.68%	19.37%	14.97%

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

	F2003A	1Q(3/04)A	2Q(6/04)A	3Q(6/04)A	F2004A
<b>Assets</b>					
Current Assets					
Cash & Equivalents	\$ 2,172	\$ 1,724	\$ 7,220	\$ 4,424	\$ 4,773
Net Receivables	10,478	10,512	14,506	28,633	29,508
Inventory	1,038	1,315	1,949	1,420	1,778
Prepaid Expense & Other	2,395	2,752	2,204	2,120	1,973
<b>Total Current Assets</b>	<u>16,083</u>	<u>16,303</u>	<u>25,879</u>	<u>36,597</u>	<u>38,032</u>
Plant, Property, & Equipment-net	1,271	1,270	1,448	1,789	1,787
Intangibles	1,601	1,205	1,331	1,222	1,320
Other	252	928	253	330	-
<b>Total Assets</b>	<u>\$ 19,207</u>	<u>\$ 19,706</u>	<u>\$ 28,911</u>	<u>\$ 39,938</u>	<u>\$ 41,139</u>
<b>Liabilities &amp; Shareholders' Equity</b>					
Current Liabilities					
Current portion of LTD	\$ 1,784	\$ 1,299	\$ 94	\$ 6,210	\$ 8,220
Accounts Payable	6,524	7,142	9,801	12,175	10,675
Accrued Expenses & Other	2,938	3,116	2,960	4,652	4,234
Discontinued ops liabilities	557	642	642	642	625
Deferred revenue	556	736	733	1,053	1,135
<b>Total Current Liabilities</b>	<u>12,359</u>	<u>12,935</u>	<u>14,230</u>	<u>24,732</u>	<u>24,889</u>
<b>LTD</b>	229	204	178	157	122
<b>Minority interest</b>	-	-	168	218	279
<b>Total Shareholders' Equity</b>	<u>6,619</u>	<u>6,567</u>	<u>14,335</u>	<u>14,831</u>	<u>15,849</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 19,207</u>	<u>\$ 19,706</u>	<u>\$ 28,911</u>	<u>\$ 39,938</u>	<u>\$ 41,139</u>