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 $8.14 (AMEX)

June 1, 2005

	FY2002A	FY2003A	FY2004A	FY2005E	FY2006E
Revenues (Thousands)	$42,021	$62,152	$93,069	$134,289	$159,313
Earnings per share	$(0.10)	$(0.50)	$0.31	$0.29*	$0.50

52-Week Range	$10.11 – 4.48	Fiscal Year Ends	December
Shares Outstanding (000)'s	5,455	Revs/Share (TTM)	$19.50
Approximate Float (000's shares)	2,300	Price/Sales(TTM)	0.4X
Insider Holdings	57%	Price/Sales(2006)E	0.4X
Tangible Book Value/Share	$2.60	Price/Earnings(TTM)	35.4X
Price/Tangible book	3.1X	Price/Earnings(2006)E	16.3X

** excluding non-cash charges*

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 reiterating our Buy rating on the shares of ISR and increasing our 12-month price target to $10.00 from $8.70 per share. We believe that the shares of ISR offer a compelling investment opportunity for technology investors focused on IP Telephony.

On May 13, 2005, ISR reported first quarter revenues of $27.768 million and a net loss of $6.508 million or $(1.25) per share. Excluding one-time, non-cash charges recognized during the first quarter of 2005, the Company's net loss would have been $0.213 million or $(0.04) per share. In the 1Q04, the Company reported revenues of $14.275 million and net income of $0.039 million or $0.01 per share.

On May 26, 2005, I-Sector announced that it acquired Network Architechs Corp., an Albuquerque, New Mexico-based Cisco-centric IP Telephony and network infrastructure solution provider throughout New Mexico and West Texas with approximately $20 million in annual revenues. NA is the largest Gold Certified Cisco partner in New Mexico and West Texas.

During the quarter, the Company improved its balance sheet as a result of collecting overdue funds from the E-Rate program. As of March 31, 2005, the Company's accounts receivables and current portion of long-term debt stood at $26.921 million and $0.195 million, respectively. During the quarter, approximately $12 million of the past due balance was collected.

**** Please view our disclaimer located on page 15.***

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174
(800) 383-8464 Fax (631) 757-1333
www.taglichbrothers.com

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. During the first quarter of 2005, INX, Stratasoft, and Valerent accounted for 88.8%, 5.2%, and 6.1%, respectively, of overall consolidated revenue.

InterNetwork Experts

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.

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 worth in excess of $4 million to provide support services for a 120-site Cisco-centric converged network.

Stratasoft

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.

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

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 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

Acquisition
On May 26, 2005, I-Sector announced that it acquired Network Architechs Corp. (NA). The acquisition, expected to be accretive to 2005 EPS, is part of ISR's strategy to expand nationally. ISR paid $2.0 million in cash and 308,166 common shares.

Investors should note that ISR will pay up to an additional $0.525 million in cash one year from closing and up to 225,000 additional shares of common stock up to three years from closing if certain financial benchmarks (operating profit attributable to the former NA's Albuquerque, New Mexico and El Paso, Texas branches during a twelve-month period ending May 31) are attained.

NA is an Albuquerque, New Mexico-based leading Cisco-centric IP Telephony and network infrastructure solution provider throughout New Mexico and West Texas and has approximately $20 million in annual revenues. NA is the largest Gold Certified Cisco partner in New Mexico and West Texas.

Contracts
Subsequent to the announcement of the acquisition of NA, ISR announced that INX's Western region offices (Network Architechs Corp.) received two new contracts worth $0.7 million. The first contract was for the delivery of an IP communications solution to Petro Stopping Centers. The other was a contract from a Federal customer (one of the Department of Energy's laboratory) for an IP network storage solution.

On May 16, 2005, I-Sector announced that its INX subsidiary was awarded two contracts totaling $8 million by the Austin Independent School District of Austin, Texas. The first contract calls for the Company to provide Cisco hardware and installation services for a multi-campus network infrastructure upgrade. The $5.9 million bond funded program is scheduled to begin in June 2005. The second contract calls for the Company to provide network infrastructure upgrades. The $2.1 million E-rate funded contract is scheduled to begin in July 2005.

On April 19, 2005, I-Sector announced that its INX subsidiary was awarded two IP communication contracts by the U.S. Army. The first contract, valued at $1.7 million, is for the one-year extension and expansion of an existing support service contract and the second contract, valued at $1.85 million, is a new one-year contract for additional support engineers.

Repurchase Plan
On March 31, 2005, the Board of Directors authorized the repurchase of up to 200,000 shares of the Company's common stock. Under the repurchase plan, any shares repurchased must be purchased on or before July 31, 2005, in open market or privately negotiated.

Share Exchange
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, the number of shares used to computing diluted earnings per share increased by approximately 1.16 million shares to approximately 6.72 million shares outstanding.

Recent Results

On May 13, 2005, I-Sector Corp reported results for its first quarter of 2005, ended March 31, 2005. ISR reported revenues of $27.768 million and a net loss of $6.508 million or $(1.25) per share. Excluding one-time, non-cash charges recognized during the first quarter of 2005, the Company's net loss would have been $0.213 million or $(0.04) per share. In the 1Q04, the Company reported revenues of $14.275 million and net income of $0.039 million or $0.01 per share.

During the quarter, the Company recognized:

- A one-time, non-cash charge to SG&A 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.
- A non-cash change in the application of accounting method by recording the cumulative effect of the change amounting to $0.566 million. Had the change in accounting method not been made, net income would have increased by $0.087 million, or $0.02 per share.

In comparison, Taglich Brothers' estimates called for revenues of $24.450 million and a net loss of $5.647 million or $(0.99) per share. Excluding an anticipated one-time, non-cash charge of $5.7 million related to INX, our bottom line estimate called for net income of $0.053 million or $0.01 per share.

During the quarter, INX, Stratasoft, and Valerent accounted for 88.8%, 5.2%, and 6.1%, respectively, of overall consolidated revenue. The following charts illustrate the details of the Company's revenues in the first quarter of 2004 and 2005.

Fiscal 1Q04A and 1Q05A Revenue Analysis ($ 000's)

	1Q04A	1Q05A
INX	10,974	24,661
Stratasoft	2,137	1,441
Valerent	1,365	1,687

Source: SEC filings

The strong revenue growth was led by the INX subsidiary and Valerent, offset by Stratasoft. INX revenues increased 125%, led by growth in product revenues of 130%. Service revenue grew 65% year-over-year; however, service revenue was lower as compared to the fourth quarter of 2004.

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 for IP telephony.

The following charts illustrate some key revenue components:

Fiscal 1Q04A and 1Q05A Revenue Analysis ($ 000's)

	1Q04A	1Q05A
Product	10,194	23,534
Service	1,944	2,793
Custom Projects	2,137	1,441

Source: SEC filings

INX Revenue Mix ($ 000's)

	1Q04A	1Q05A
INX Product	10,061	23,153
INX Service	913	1,508

Source: SEC filings

Historical INX Service Revenue Growth and Margin Mix

	1Q04A	2Q04A	3Q04A	4Q04A	1Q05A
$	913	1,625	1,516	2,226	1,508
Gross Margin	35.5%	29.5%	27.5%	39.4%	21.5%

Valerent Revenue Mix ($ 000's)

	1Q04A	1Q05A
Valerent Product	334	402
Valerent Service	1,031	1,285

Source: SEC filings

According to the Company, the increase in INX product revenue was attributed to higher adoption of IP telephony technology by customers requiring equipment upgrades for implementation and INX's performance of the DISD contract. The growth service revenue was attributed to an increase in product sales and higher post-sale support services revenue.

Investors should note that INX service revenue did not increase a much as product revenue. Management attributed the trend primarily to 1) a disproportionate amount of INX contracts that were received late in the quarter, and 2) reduced services revenue associated with a services contract for work in Iraq that was delayed for a portion of the quarter. The delay in the Iraq contract also caused a decrease in INX's service gross margins.

INX Gross Margin Analysis

Offering	1Q04A	1Q05A
Product	16.7%	14.4%
Service	35.5%	21.5%
Overall	18.3%	14.8%

Source: SEC filings

SG&A increased noticeably from $3.499 million to $10.784 million. This increase was primarily as a result of a transaction, in which ISR recorded a one-time, non-cash charge to SG&A of approximately $5.7 million as a 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 recorded other expenses of approximately $0.18 million that were directly related to the exchange.

Excluding the above charge, SG&A expenses increased to about $5.0 million. The increase was in support of the Company's growth. As a percentage of sales, SG&A dropped to 18.3%% from 24.5%. The following charts illustrate SG&A expenses on a subsidiary level.

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

Subsidiary	1Q04A	1Q05A
INX	1,884	2,947
Stratasoft	1,020	1,234
Valerent	390	540

Source: SEC filings

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

Subsidiary	1Q04A	1Q05A
INX	17.2%	12.0%
Stratasoft	47.7%	85.6%
Valerent	28.6%	32.0%

Source: SEC filings

Balance Sheet

At the end of the first quarter, ISR had cash and cash equivalents of $7.185 million, working capital of approximately $12.453 million, long-term debt of $0.094 million, and stockholders' equity of $16.612 million. 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.

During the quarter, the Company improved its balance sheet as a result of collecting overdue funds from the E-Rate program from the DISD project. As of March 31, 2005, the Company's accounts receivables and current portion of long-term debt stood at $26.921 million and $0.195 million, respectively. 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.

Total net accounts receivable included approximately $16.0 million of net E-Rate funded accounts receivable. During the quarter, approximately $12 million of the past due balance was collected.

Credit Facility

As of March 31, 2005, the Company had outstanding borrowings of $11.996 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 March 31, 2005, approximately $11.996 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. Many Fortune 500 companies have deployed some level IP communications within their infrastructure.

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.

The top hardware vendors in the IP communications market are Alcatel (NYSE: ALA), Avaya (NYSE: AV), Cisco (NASDAQ: CSCO), Mitel, NEC (NASDAQ: NIPNY), Nortel Networks (NYSE: NT), and Siemens (NYSE: SI). Currently, Cisco is believed to be the leading hardware provider in the market, followed closely by Avaya and Nortel. 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 communications services and solutions that support the entire life-cycle of IP communications. ISR's relationship with CSCO is believed to be strong. In fact, ISR is a Cisco Gold Certified Partner. ISR has also been recognized with numerous awards and certifications by Cisco Systems through the years. 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.

Projections

We are adjusting estimates for 2005 due to recent operating and margin trends, recent developments including the March 2005 share exchange and the May acquisition of NA, and the outlook for the Company and its markets through 2005. We are also introducing 2006 estimates based on these same trends, developments, and outlook.

Our revised 2005 forecast calls for revenues of $134.3 million and net income of $2.0 million or $0.29 per diluted share. Our previous 2005 forecast called for revenues of $106.9 million and net income of $2.1 million or $0.31 per diluted share. Investors may note that these bottom line estimates exclude non-cash charge to earnings (i.e. approximately $5.7 million in the first quarter of 2005 as result of the re-measurement of InterNetwork Experts stock options).

Our 2006 estimates call for revenues of $159.3 million and net income of $3.6 million and EPS of $0.50 per share

Our current model incorporates:

- Revenue gains of 44% and 19% in 2005 and 2006, respectively. Our projection for revenue growth takes into consideration the acquisition of Network Architechs, recently received contracts, 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 and mix:

Projected Revenue by Segment ($ 000's)

	2004A	2005E	2006E
Valerent	6,942	6,937	7,244
INX	77,926	119,111	143,068
Stratasoft	8,996	8,241	9,000

Source: SEC filings and Taglich Brothers estimates

Projected INX Revenue Mix ($ 000's)

	2004A	2005E	2006E
Product	71,646	109,153	128,068
Service	6,280	9,958	15,000

Source: SEC filings and Taglich Brothers estimates

- A gradual 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 gross margin estimates:

Projected Margin Analysis

Margin	2004A	2005E	2006E
Gross	21.4%	19.6%	20.3%
Operating	1.8%	1.6%	2.4%
Net	1.6%	1.5%	2.3%

Source: SEC filings and Taglich Brothers estimates

Projected INX Gross Margins ($ 000's)

	2004A	2005E	2006E
Product	15.1%	14.5%	15.0%
Service	33.4%	37.1%	42.0%

- Increased EBITDA and EBITDA margins. We are projecting 2005 and 2006 EBITDA margins of 2.3% and 3.0%, respectively. The following table illustrates EBITDA estimates:

EBITDA Projections

Year	EBITDA ($ millions)
2003A	-1.6
2004A	2.6
2005E	3.0
2006E	4.8

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 $2.5 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, share exchange, and acquisition. We are projecting 6.7 million and 7.2 million in 2005 and 2006, respectively, as compared to 5 million in 2004.

Although it is anticipated that ISR will pursue growth through further acquisitions, there is no assurance that acquisitions will occur. Therefore, if and when acquisitions are finalized, we will adjust our estimates accordingly. The Company expects that it will make additional 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.

Risks

Acquisition Risk
The Company makes selected acquisitions a part of its business strategy, including the recent acquisition of Network Architechs. 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 polices, 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.

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 $0.313 million in vendor incentives recognized. Vendor incentives of $0.622 million and $0.664 million were recognized during the three-month periods ended March 31, 2004 and 2005, respectively.

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. Recently, the National Association for Business Economics, revised its growth expectations for 2005 to 3.4% from 3.6%.

Payment Issues
In recent quarters, ISR's balance sheet was negatively impacted by payment delays involving a major project. This problem was cause by administrative issues with the funding mechanism (E-Rate program) of the DISD project. After December 31, 2004, significant payments were made on past due accounts and the Company resumed product shipments for the previously suspended projects. During the quarter, approximately $12 million of the past due balance was collected.

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 operates in the Technology Sector, which is rapidly advancing. Furthermore, the IP Telephony Industry is a relatively new industry within the Technology Sector. 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.

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.

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 eight 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 23,000 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

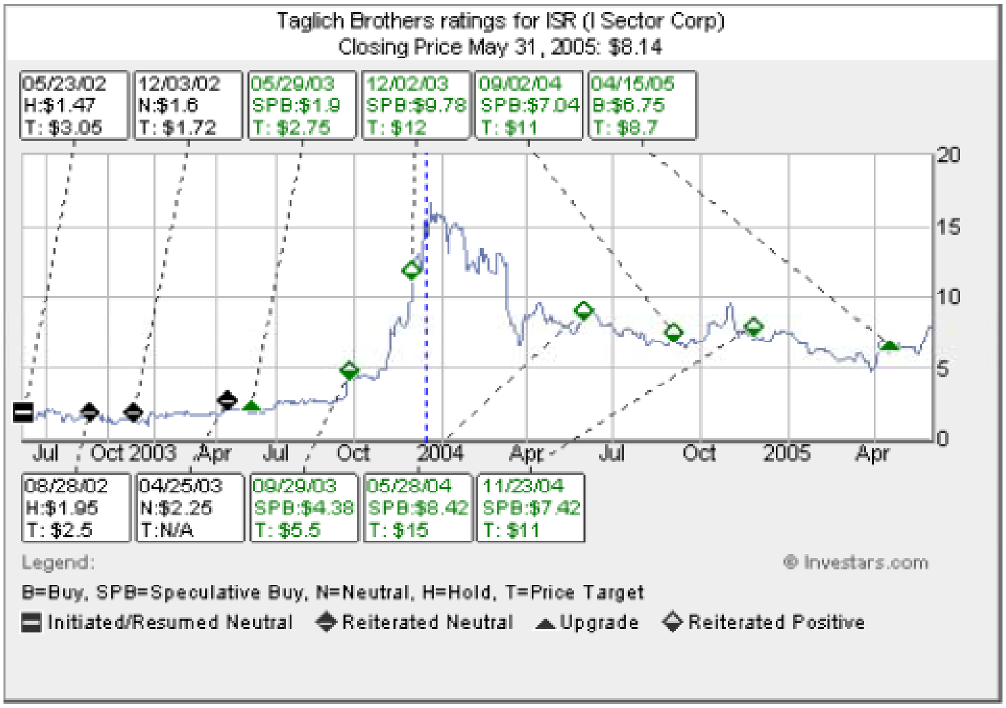
Based on market trends and Company dynamics, we believe that ISR has a bright long-term future in the IP communications market as a provider of design, implementation, and support solutions. We believe that ISR's growth will be continue to be bolstered by competitive advantages it holds as compared to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

Therefore, we are maintaining our Buy rating and increasing our 12-month price target to $10.00 from $8.70 per share. Our rating is based on the following reasoning:

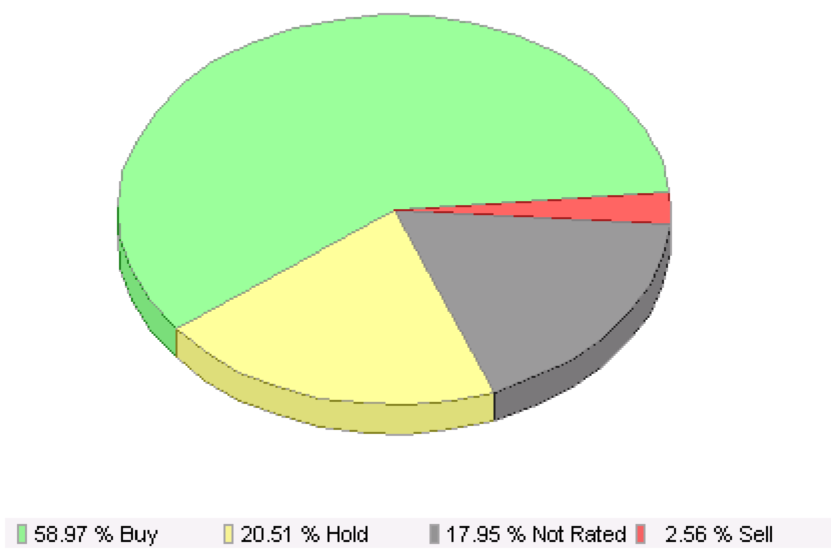
- Historical growth;
- Company's strategy for continued growth;
- Management and employee talent and relationship with Cisco;
- IP Telephony market potential;
- Acquisition strategy;
- Track record of success and recent milestones; and
- Attractive valuation.

Our price target is based on a discounted cash flow analysis utilizing our EBITDA estimates through 2006, a discount rate of rate of 15%, and a terminal value multiple of 20X. Additionally, we discounted the resulting value per share by 10% to account for micro cap and other risks.

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.

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)

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. All research issued by Taglich Brothers, Inc. is based on public information. Taglich Brothers, Inc. has an Investment Banking relationship with the company. In May 2004, Taglich Brothers, Inc. assisted in the placement of a portion of equity securities. Since April 2001, the company pays a monthly monetary fee of $1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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)

	F2002A	F2003A	F2004A	F2005E	F2006E
Total Revenues	$ 42,021	$ 62,152	$ 93,069	$ 134,289	$ 159,313
Costs of Goods Sold	33,752	49,425	73,117	107,967	127,026
Gross Profit	8,269	12,727	19,952	26,323	32,287
Gross Margins	*19.68%*	*20.48%*	*21.44%*	19.60%	20.27%
S,G&A	10,625	15,061	18,254	24,215	28,676
Operating Income	(2,356)	(2,334)	1,698	2,107	3,611
Operating Margin	*-5.61%*	*-3.76%*	*1.82%*	*1.57%*	*2.27%*
INX Compensation Expense	-	-	-	*5,700*	-
EBITDA	*(1,760)*	*(1,586)*	*2,616*	*3,047*	*4,811*
Interest Expense(Income)-net	(115)	(107)	108	28	-
Pre-Tax Income	(2,241)	(2,227)	1,590	(3,715)	3,611
Pre-Tax Margins	*-5.33%*	*-3.58%*	*1.71%*	*-2.77%*	*2.27%*
Taxes (Benefit)	(1,595)	(181)	(19)	-	-
Tax Rate	*71.17%*	*8.13%*	*-1.19%*	*0.00%*	*0.00%*
Net Income-continuing ops	$ (646)	$ (2,046)	$ 1,609	$ (3,715)	$ 3,611
EPS-fully diluted- cont ops	$ (0.17)	$ (0.56)	$ 0.32	$ (0.55)	$ 0.50
Avg Shares Out-fully diluted	3,711	3,691	5,004	6,731	7,200
Income (loss) from discontinued	-	-	-	-	-
Gain (loss) on Disposal	262	210	*38*	-	-
Minority Interest	-	-	*(117)*	*(23)*	-
Accounting change	-	-	-	*(566)*	-
Net Income	$ (384)	$ (1,836)	$ 1,530	$ (4,304)	$ 3,611
EPS-fully diluted	$ (0.10)	$ (0.50)	$ 0.31	$ (0.64)	$ 0.50
Avg Shares Out-fully diluted	3,711	3,691	5,004	6,731	7,200
Percent of Revenue				1.48%	
Costs of Goods Sold	80.32%	79.52%	78.56%	80.40%	79.73%
SG&A	25.28%	24.23%	19.61%	18.03%	18.00%
Net Margin	-0.91%	-2.95%	1.64%	-3.20%	2.27%
YEAR / YEAR GROWTH					
Total Revenues	77.90%	47.91%	49.74%	44.29%	18.63%

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	**7,805**	**13,141**	**16,190**	**12,289**	**49,425**
Gross Profit	2,275	2,729	4,791	2,932	**12,727**
Gross Margins	22.57%	17.20%	22.83%	19.26%	***20.48%***
S,G&A	3,376	3,562	4,621	3,502	**15,061**
Operating Income	(1,101)	(833)	170	(570)	**(2,334)**
Operating Margin	*-10.92%*	*-5.25%*	*0.81%*	*-3.74%*	***-3.76%***
EBITDA	*(951)*	*(624)*	*359*	*(354)*	***(1,570)***
Interest Expense(Income)-net	(10)	(96)	11	(12)	**(107)**
Pre-Tax Income	(1,091)	(737)	159	(558)	**(2,227)**
Pre-Tax Margins	*-10.82%*	*-4.64%*	*0.76%*	*-3.67%*	***-3.58%***
Taxes (Benefit)	-	(81)	(12)	(88)	**(181)**
Tax Rate	*0.00%*	*10.99%*	*-7.55%*	*15.77%*	***8.13%***
Net Income-continuing ops	**$ (1,091)**	**$ (656)**	**$ 171**	**$ (470)**	**$ (2,046)**
EPS-fully diluted- cont ops	**$ (0.30)**	**$ (0.18)**	**$ 0.03**	**$ (0.12)**	**$ (0.56)**
Avg Shares Out-fully diluted	3,650	3,650	3,974	3,800	**3,691**
Gain (loss) on Disposal	-	16	23	171	**210**
Net Income	$ (1,091)	$ (640)	$ 194	$ (299)	**$ (1,836)**
EPS-fully diluted	**$ (0.30)**	**$ (0.18)**	**$ 0.04**	**$ (0.08)**	**$ (0.50)**
Avg Shares Out-fully diluted	3,650	3,636	3,974	3,800	**3,691**
Percent of Revenue					
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%
YEAR / YEAR GROWTH					
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	**10,739**	**17,588**	**26,503**	**18,287**	**73,117**
Gross Profit	3,536	4,299	6,109	6,008	**19,952**
Gross Margins	24.77%	19.64%	18.73%	24.73%	***21.44%***
S,G&A	3,499	4,236	5,456	5,063	**18,254**
Operating Income	37	63	653	945	**1,698**
Operating Margin	*0.26%*	*0.29%*	*2.00%*	*3.89%*	***1.82%***
EBITDA	*238*	*269*	*868*	*1,241*	***2,616***
Interest Expense(Income)-net	(19)	26	(17)	118	**108**
Pre-Tax Income	56	37	670	827	**1,590**
Pre-Tax Margins	*0.39%*	*0.17%*	*2.05%*	*3.40%*	***1.71%***
Taxes (Benefit)	5	(7)	2	(19)	**(19)**
Tax Rate	*8.93%*	*-18.92%*	*0.30%*	*-2.30%*	***-1.19%***
Net Income-continuing ops	**$ 51**	**$ 44**	**$ 668**	**$ 846**	**$ 1,609**
EPS-fully diluted- cont ops	**$ 0.01**	**$ 0.01**	**$ 0.12**	**$ 0.15**	**$ 0.32**
Avg Shares Out-fully diluted	4,544	5,544	5,549	5,556	**5,004**
Gain (loss) on Disposal	*(12)*	*13*	-	*37*	***38***
Minority Interest		(6)	(50)	(61)	***(117)***
Net Income	**$ 39**	**$ 51**	**$ 618**	**$ 822**	**$ 1,530**
EPS-fully diluted	**$ 0.01**	**$ 0.01**	**$ 0.11**	**$ 0.15**	**$ 0.31**
Avg Shares Out-fully diluted	4,544	5,544	5,549	5,556	**5,004**
Percent of Revenue					
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%
YEAR / YEAR GROWTH					
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)A	Q2(6/05)E	Q3(9/05)E	Q4(12/05)E	**F2005E**
Total Revenues	$ 27,768	$ 32,850	$ 38,150	$ 35,500	**$ 134,289**
Costs of Goods Sold	**22,856**	**26,275**	**30,540**	**28,275**	**107,967**
Gross Profit	4,912	6,576	7,610	7,225	**26,323**
Gross Margins	17.69%	20.02%	19.95%	20.35%	19.60%
S,G&A	5,084	6,077	6,753	6,301	**24,215**
Operating Income	(172)	498	857	924	**2,107**
Operating Margin	***-0.62%***	***1.52%***	***2.25%***	***2.60%***	***1.57%***
INX Compensation Expense	5,700	-	-	-	***5,700***
EBITDA	*66*	*748*	*1,137*	*1,204*	***3,047***
Interest Expense(Income)-net	(47)	25	25	25	**28**
Pre-Tax Income	(5,919)	473	832	899	**(3,715)**
Pre-Tax Margins	***-21.32%***	***1.44%***	***2.18%***	***2.53%***	***-2.77%***
Taxes (Benefit)	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	***0.00%***
Net Income-continuing ops	**$ (5,919)**	**$ 473**	**$ 832**	**$ 899**	**$ (3,715)**
EPS-fully diluted- cont ops	**$ (1.04)**	**$ 0.07**	**$ 0.12**	**$ 0.13**	**$ (0.55)**
Avg Shares Out-fully diluted	5,701	7,024	7,100	7,100	**6,731**
Minority Interest	(23)	-	-	-	*(23)*
Accounting change	(566)	-	-	-	*(566)*
Net Income	**$ (6,508)**	**$ 473**	**$ 832**	**$ 899**	**$ (4,304)**
EPS-fully diluted	**$ (1.25)**	**$ 0.07**	**$ 0.12**	**$ 0.13**	**$ (0.64)**
Avg Shares Out-fully diluted	**5,211**	**7,024**	**7,100**	**7,100**	**6,731**

Percent of Revenue					
Costs of Goods Sold	82.31%	79.98%	80.05%	79.65%	80.40%
SG&A	18.31%	18.50%	17.70%	17.75%	18.03%
Net Margin	-23.44%	1.44%	2.18%	2.53%	-3.20%
YEAR / YEAR GROWTH					
Total Revenues	94.52%	50.09%	16.98%	46.12%	44.29%

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

	F2004A	F1Q05A
Assets		
Current Assets		
Cash & Equivalents	$ 4,773	$ 7,185
Net Receivables	30,127	26,921
Inventory	1,159	849
Prepaid Expense & Other	1,973	1,303
Total Current Assets	38,032	36,258
Plant, Property, & Equipment-net	1,787	1,778
Intangibles	1,113	2,415
Other	207	60
Total Assets	$ 41,139	$ 40,511
Liabilities & Shareholders' Equity		
Current Liabilities		
Current portion of LTD	$ 8,220	$ 101
Accounts Payable	10,675	15,926
Other	5,994	7,778
Total Current Liabilities	24,889	23,805
LTD	122	94
Minority interest	279	-
Total Shareholders' Equity	15,849	16,612
Total Liabilities & Equity	$ 41,139	$ 40,511