

# Taglich Brothers, Inc.

## The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Report - Update

**I-Sector Corp**

**Rating: Hold**

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August 28, 2002

**ISEC \$1.95 (NASDAQ)**

	<u>FY1999A</u>	<u>FY2000A</u>	<u>FY2001A</u>	<u>FY2002E</u>	<u>FY2003E</u>
Revenues(Thousands)	\$17,984	\$17,087	\$23,620	\$41,628	\$48,080
Earnings per share	\$(0.20)	\$(0.01)	\$(0.95)	\$(0.01)	\$0.02

52-Week Range	\$2.50 -\$0.45	Fiscal Year Ends	December
Shares Out-fully dil (thousands)	3,733	Revenues/Share (TTM)	\$8.65
Approximate Float (thousands)	1,082	Price/Sales(TTM)	0.23X
Insider Holdings	71%	Price/Sales(2003)E	0.16X
Tangible Book value/Share	\$1.95	Price/Earnings(TTM)	NM
Price/ Tangible Book	1.0X	Price/Earnings(2003)E	97.5X

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

### Key Investment Considerations:

- *We are maintaining our Hold rating on I-Sector Corp (ISEC) and establishing an 18-month price target of \$2.50 per share based on our P/S and discounted cash flow analysis. Our price target decreased from \$3.05 per share due to lowered earnings expectations and decreased valuation assumptions.*
- *Our Hold rating is based on lowered earnings expectations, continued Industry softness, and downward trending equity prices and valuations.*
- *ISEC reported 2Q02 revenues of \$10.3 million and a net loss from continuing operations of \$307 thousand or \$(0.08) per share. The Company benefited from an increase in sales to international customers resulting from a larger trend of increased outsourced call center activity in international markets, particularly in India.*
- *We are fine tuning fiscal 2002 and 2003 estimates due to recent operating trends, management's public guidance, lackluster Industry dynamics, and decreased shares outstanding.*
- *The competitive landscape remains challenging. IT and Communications spending has decreased sharply over the recent past due to macroeconomic trends. We believe that a rebound remains doubtful in the short-term.*
- *Our 2002 forecast calls for revenues of \$41.628 million and a net loss from continuing operations of \$0.036 million or \$(0.01) per share (inclusive of tax benefit of \$1.189 million). Our previous forecast called for revenues of \$40.699 million and net income from continuing operations of \$0.112 million or \$0.03 per share.*
- *Our 2003 forecast calls for revenues of \$48.08 million and net income of \$0.081 million or \$0.02 per share. Our previous forecast called for revenues of \$53.252 million and net income of \$0.536 million or \$0.13 per share.*

\* Please view our disclaimer located page 5

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### ***Recent Results- 2<sup>nd</sup> Quarter 2002***

On August 15, 2002, ISEC reported 2Q02 revenues of \$10.3 million and a net loss from continuing operations of \$307 thousand or \$(0.08) per share. In 2Q01, the Company reported a net loss from continuing operations of \$737 thousand or \$(0.26) per share, on revenues of \$5.4 million. The increase in year-over-year revenues was due to an expanded sales and marketing effort. Also, the Company benefited from an increase in sales to international customers as a result of a larger trend of increased outsourced call center activity in international markets, particularly in India. ISEC's subsidiary, Stratasoft, markets its products to a worldwide clientele. International sales comprised 43.2% of the subsidiary's sales.

On the expense side, the Company reduced its SG&A expenses on a year-over-year and sequential basis. ISEC had been increasing costs over the past few quarters to expand its sales and marketing efforts and increase revenues. The expansion now appears to be more controlled. We believe that in this poor technology and communications spending environment there are decreasing marginal returns on incremental sales and marketing dollars. We have considered the decrease in expenses in our estimates for future quarters.

2Q02 net loss was in line with Taglich Brothers' estimates, while revenues were slightly above expectations. Our estimates called for revenues of \$10.0 million and a net loss from continuing operations of \$297 thousand or \$(0.08) per share.

At the end of the quarter, cash and cash equivalents stood at \$1.62 million while working capital stood at approximately \$6.30 million. Going forward, the Company should be able to satisfy its capital requirements from existing cash balances, working capital, and its credit facility (ISEC has \$3.663 million available under its \$4 million credit facility, which was increased on June 19, 2002, from \$2.5 million).

### ***Competitive Landscape***

The competitive landscape remains challenging. Technology and communications spending has decreased sharply over the recent past due to the impact of macroeconomic trends. Companies with exposure to the IT and Communications Industries have seen significant turmoil in their businesses and many have posted lower earnings, warned about future expectations, and suffered lower equity valuations. Industry peers include Avaya (AV), Aegis Communications (AGIS), Avnet (AVT), eGain Communication (EGAN), eOn Communications Corporation (EONC), Genesys (GNSY), and KANA (KANA).

We believe that a rebound remains doubtful in the short-term. Near-term uncertainties are negatively impacting capital spending decisions. Expectations have been revised downward. However, a modest recovery is still seen in the next 18-months:

- In an August report, WR Hambrecht & Co stated that a recovery in technology spending will take place in the middle of 2003 and that overall growth in 2003 is likely to remain in the single digits. In the near-term, spending will remain sluggish for the next few quarters; and
- Goldman Sachs, in an August report, believed that technology spending in 2003 will be in the low single digits as opposed to their previous forecast of 4% to 6%.

ISEC has made significant investments in sales and marketing by hiring talented sales people with proven track records and solid books-of-business. These investments are driving increases in revenues, improvements in operating margins, and resulting in an increase in potential new purchase orders once macroeconomic factors reverse course. This strategy enables the Company to grow revenues in a period of uncertainty and potentially improve its future bottom line. When a recovery takes shape, ISEC will be well positioned to grow profitability at a faster rate than if it did not employ this strategy.

## **Projections & Outlook**

**We are fine-tuning our fiscal 2002 and 2003 estimates based on recent operating trends, Management's public guidance, lackluster Industry dynamics, and decreased shares outstanding** (Recently, the Company repurchased 220,000 of its shares in a private transaction at a price of \$0.846 per share).

For fiscal 2002, we are estimating revenues of \$41.628 million and a net loss from continuing operations of \$0.036 million or \$(0.01) per share (inclusive of a tax benefit of \$1.189 million). Excluding the tax benefit we are forecasting a net loss from operations of \$1.225 million. We had previously forecasted revenues of \$40.699 million and net income from continuing operations of \$0.112 million or \$0.03 per share (inclusive of a tax benefit of \$1.182 million). Excluding the tax benefit, we forecasted a net loss from operations of \$1.07 million.

For fiscal 2003, we are forecasting revenues of \$48.08 million, EBITDA of \$0.861 million, and net income from continuing operations of \$0.081 million or \$0.02 per share. Our previous forecast called for revenues of \$53.252 million, EBITDA of \$1.125 million, and net income from continuing operations of \$0.536 million or \$0.13 per share.

Estimated Revenue Mix (\$ thousands)

<b>Segment</b>	<b>FY2000A</b>	<b>FY2001A</b>	<b>FY2002E</b>	<b>FY2003E</b>
Allstar	6,946	5,668	5,222	5,438
INX	1,874	10,775	29,323	34,917
Stratasoft	6,660	7,257	7,278	7,725
<b>Overall</b>	<b>17,087</b>	<b>23,620</b>	<b>41,628</b>	<b>48,080</b>

We believe that the Company will become EBITDA positive in the first quarter of 2003 and reach profitability in the third quarter of fiscal 2003. Previously, we had forecasted ISEC to become EBITDA positive in the first quarter of 2003 and reach profitability in the second quarter of 2003.

## **Risks**

### *Economic and Industry Risk*

The fortunes of companies are directly tied to economic activity as the direction of the economy is an important factor in technology and capital spending. There are indications that an economic recovery may have stalled. On Tuesday, August 13, 2002, the Federal Reserve acknowledged that the economy is softer than it would like and stated that economic weakness is now the greatest risk to the economy. On Monday, August 19, 2001, the Conference Board announced that the leading economic indicator fell 0.4% in July. If there are further economic uncertainties, spending may be adversely impacted and our revenue and profitability projections may need to be adjusted. ISEC's Management believes that there may be a double dip recession, which may negatively impact spending and ISEC's financial results.

### *International Concerns*

**International sales accounted for approximately 43.2% of the Stratasoft's sales.** Sales of products are made to customers in Southern Asia, Africa, the U.K., and Canada. The economies of certain third world countries have been plagued by serious economic and military issues. These issues may adversely impact ISEC's international operations and financial results.

### *Technological advances*

The Company operates in Industries, which are rapidly advancing. This may adversely impact ISEC's financial results and equity values.

#### *Reliance on Customers*

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

#### *Shares Outstanding*

ISEC has a limited number of shares outstanding; therefore any change in the top-line could dramatically impact EPS results.

#### *Cash concerns*

In the event that operations suffer a setback due to an unforeseen expense or macroeconomic issue, the Company's minimal cash balances may restrict its financial liquidity and may impact the Company's financial results and growth prospects.

#### *Liquidity*

Shares of ISEC 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 ISEC. The Company has approximately 1 million shares in the float. On average, 3,045 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 competitive, operating, financial market, governmental, regulatory, country, and event risks. These risks may cause actual results to differ from expected results.

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

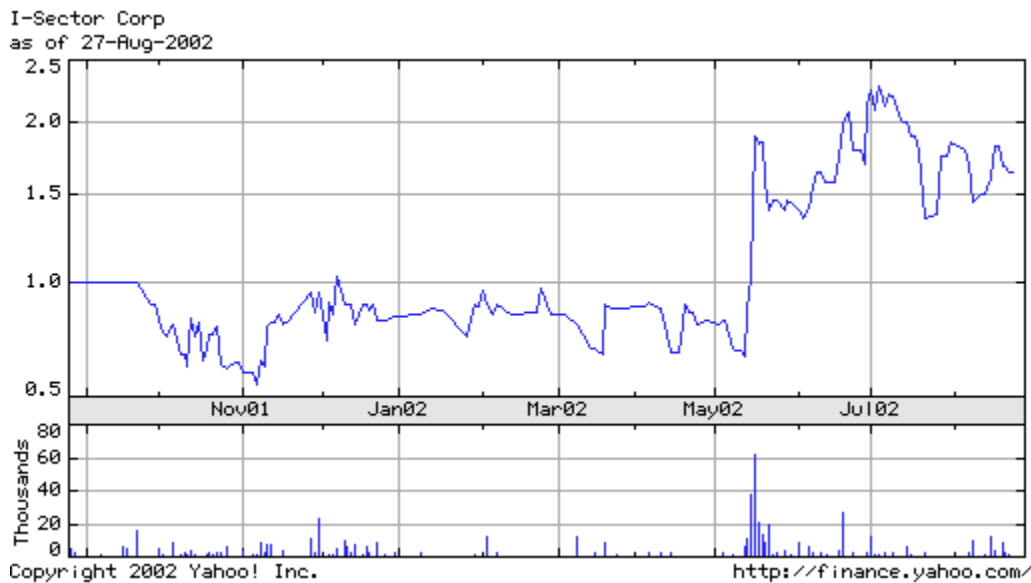
**We are maintaining our Hold rating on the shares of I-Sector (ISEC) and establishing an 18-month price target of \$2.50 per share.** Our price target is based on averaging the following valuations and discounting the two values by 30% to give consideration to concerns associated with the Company's micro-capitalization and other risks:

- Applying a conservative price-to-sales (P/S) multiple of 0.46X to our 2003 revenue estimate of \$12.49 per share. Shares are currently trading at 0.23X TTM revenues;
- Our discounted cash flow analysis using EBITDA as a proxy for cash flows. Our assumptions include a discount rate of 14% and a terminal value multiple of 7.56X.

Our price target has decreased from \$3.05 per share due to lowered earnings expectations and decreased multiples.

Our Hold rating is based on:

- Lowered earnings expectations;
- Continued Industry softness; and
- Downward trending equity prices and valuations.



Public Companies mentioned in this report:

- Aegis Communications (OTC BB: AGIS)
- Avaya (NYSE: AV)
- Avnet (NYSE: AVT)
- eGain Communication (NASDAQ: EGAN)
- eOn Communications Corporation (NASDAQ:EONC)
- Genesys (NASDAQ:GNSY)
- KANA (NASDAQ: KANA)

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

	F1999A	F2000A	F2001A	F2002E	F2003E
Total Revenues	\$ 17,984	\$ 17,087	\$ 23,620	\$ 41,628	\$ 48,080
Costs of Goods Sold	<u>11,806</u>	<u>12,968</u>	<u>17,325</u>	<u>33,823</u>	<u>38,509</u>
<b>Gross Profit</b>	6,178	4,119	6,295	7,805	9,571
<i>Gross Margins</i>	34.35%	24.11%	26.65%	18.75%	19.91%
S,G&A	<u>6,207</u>	<u>9,479</u>	<u>10,573</u>	<u>9,018</u>	<u>9,470</u>
<b>Operating Income</b>	(29)	(5,360)	(4,278)	(1,213)	101
<i>Operating Margin</i>	-0.16%	-31.37%	-18.11%	-2.91%	0.21%
Interest Expense(Income)-net	<u>(23)</u>	<u>(239)</u>	<u>(316)</u>	<u>12</u>	<u>20</u>
<b>Pre-Tax Income</b>	(6)	(5,121)	(3,962)	(1,225)	81
<i>Pre-Tax Margins</i>	-0.03%	-29.97%	-16.77%	-2.94%	0.17%
Taxes (Benefit)	<u>20</u>	<u>(1,493)</u>	<u>(87)</u>	<u>(1,189)</u>	<u>-</u>
<i>Tax Rate</i>	-333%	29.15%	2.20%	97.06%	0.00%
<b>Net Income-continuing ops</b>	<u>\$ (26)</u>	<u>\$ (3,628)</u>	<u>\$ (3,875)</u>	<u>\$ (36)</u>	<u>\$ 81</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ (0.01)</u>	<u>\$ (0.89)</u>	<u>\$ (0.99)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
Avg Shares Out-fully diluted	<u>4,168</u>	<u>4,060</u>	<u>3,911</u>	<u>3,771</u>	<u>3,850</u>
Income (loss) from discontinued	319	195	(167)	(18)	-
Gain (loss) on Disposal	(1,138)	3,390	337	-	-
<b>Net Income</b>	<u>\$ (845)</u>	<u>\$ (43)</u>	<u>\$ (3,705)</u>	<u>\$ (18)</u>	<u>\$ 81</u>
<b>EPS-fully diluted</b>	<u>\$ (0.20)</u>	<u>\$ (0.01)</u>	<u>\$ (0.95)</u>	<u>\$ (0.00)</u>	<u>\$ 0.02</u>
Avg Shares Out-fully diluted	<u>4,168</u>	<u>4,060</u>	<u>3,911</u>	<u>3,750</u>	<u>3,850</u>
Percent of Revenue					
Costs of Goods Sold	65.65%	75.89%	73.35%	81.25%	80.09%
SG&A	34.51%	55.47%	44.76%	21.66%	19.70%
Net Margin	-4.70%	-0.25%	-15.69%	-0.04%	0.17%
YEAR / YEAR GROWTH					
Total Revenues	16.72%	-4.99%	38.23%	76.24%	15.50%

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

	Q1(3/00)A	Q2(6/00)A	Q3(9/00)A	Q4(12/00)A	FY2000A
Total Revenues	\$ 5,663	\$ 3,913	\$ 3,839	\$ 3,672	\$ 17,087
Costs of Goods Sold	<u>3,358</u>	<u>3,263</u>	<u>3,064</u>	<u>3,283</u>	<u>12,968</u>
<b>Gross Profit</b>	2,305	650	775	389	<b>4,119</b>
<i>Gross Margins</i>	40.70%	16.61%	20.19%	10.59%	<b>24.11%</b>
S,G&A	<u>2,205</u>	<u>1,881</u>	<u>3,144</u>	<u>2,249</u>	<u><b>9,479</b></u>
<b>Operating Income</b>	100	(1,231)	(2,369)	(1,860)	<b>(5,360)</b>
<i>Operating Margin</i>	1.77%	-31.46%	-61.71%	-50.65%	<b>-31.37%</b>
Interest Expense(Income)-net	<u>15</u>	<u>(50)</u>	<u>(100)</u>	<u>(104)</u>	<u><b>(239)</b></u>
<b>Pre-Tax Income</b>	85	(1,181)	(2,269)	(1,756)	<b>(5,121)</b>
<i>Pre-Tax Margins</i>	1.50%	-30.18%	-59.10%	-47.82%	<b>-29.97%</b>
Taxes (Benefit)	<u>27</u>	<u>(391)</u>	<u>(690)</u>	<u>(439)</u>	<u><b>(1,493)</b></u>
<i>Tax Rate</i>	31.76%	33.11%	30.41%	25.00%	<b>29.15%</b>
<b>Net Income-continuing ops</b>	<u>\$ 58</u>	<u>\$ (790)</u>	<u>\$ (1,579)</u>	<u>\$ (1,317)</u>	<u>\$ (3,628)</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.01</u>	<u>\$ (0.20)</u>	<u>\$ (0.39)</u>	<u>\$ (0.33)</u>	<u>\$ (0.89)</u>
Avg Shares Out-fully diluted	<u>4,287</u>	<u>4,049</u>	<u>4,049</u>	<u>4,048</u>	<u><b>4,060</b></u>
Income (loss) from discontinued	286	9	(36)	(64)	<b>195</b>
Gain (loss) on Disposal	4,872	(387)	(1,095)	-	<b>3,390</b>
<b>Net Income</b>	<u>\$ 5,216</u>	<u>\$ (1,168)</u>	<u>\$ (2,710)</u>	<u>\$ (1,381)</u>	<u>\$ (43)</u>
<b>EPS-fully diluted</b>	<u>\$ 1.22</u>	<u>\$ (0.29)</u>	<u>\$ (0.67)</u>	<u>\$ (0.34)</u>	<u>\$ (0.01)</u>
Avg Shares Out-fully diluted	<u>4,287</u>	<u>4,049</u>	<u>4,049</u>	<u>4,048</u>	<u><b>4,060</b></u>
Percent of Revenue					
Costs of Goods Sold	59.30%	83.39%	79.81%	89.41%	75.89%
SG&A	38.94%	48.07%	81.90%	61.25%	55.47%
Net Margin	92.11%	-29.85%	-70.59%	-37.61%	-0.25%
YEAR / YEAR GROWTH					
Total Revenues	31.15%	-13.35%	-21.97%	-32.26%	-4.99%

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

	Q1(3/01)A	Q2(6/01)A	Q3(9/01)A	Q4(12/01)A	FY2001A
Total Revenues	\$ 4,601	\$ 5,399	\$ 6,241	\$ 7,379	\$ <b>23,620</b>
Costs of Goods Sold	<u>3,507</u>	<u>4,119</u>	<u>4,533</u>	<u>5,166</u>	<u>17,325</u>
<b>Gross Profit</b>	1,094	1,280	1,708	2,213	<b>6,295</b>
<i>Gross Margins</i>	23.78%	23.71%	27.37%	29.99%	<b>26.65%</b>
S,G&A	<u>2,819</u>	<u>2,544</u>	<u>2,517</u>	<u>2,693</u>	<u><b>10,573</b></u>
<b>Operating Income</b>	(1,725)	(1,264)	(809)	(480)	<b>(4,278)</b>
<i>Operating Margin</i>	-37.49%	-23.41%	-12.96%	-6.50%	<b>-18.11%</b>
Interest Expense(Income)-net	<u>(96)</u>	<u>(61)</u>	<u>(116)</u>	<u>(43)</u>	<u><b>(316)</b></u>
<b>Pre-Tax Income</b>	(1,629)	(1,203)	(693)	(437)	<b>(3,962)</b>
<i>Pre-Tax Margins</i>	-35.41%	-22.28%	-11.10%	-5.92%	<b>-16.77%</b>
Taxes (Benefit)	<u>37</u>	<u>(159)</u>	<u>21</u>	<u>14</u>	<u><b>(87)</b></u>
<i>Tax Rate</i>	-2.27%	13.22%	-3.03%	-3.20%	<b>2.20%</b>
<b>Net Income-continuing ops</b>	<u>\$ (1,666)</u>	<u>\$ (1,044)</u>	<u>\$ (714)</u>	<u>\$ (451)</u>	<u>\$ (3,875)</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ (0.42)</u>	<u>\$ (0.27)</u>	<u>\$ (0.19)</u>	<u>\$ (0.12)</u>	<u>\$ (0.99)</u>
Avg Shares Out-fully diluted	<u>3,946</u>	<u>3,906</u>	<u>3,854</u>	<u>3,854</u>	<u><b>3,911</b></u>
Income (loss) from discontinued	(71)	(41)	(41)	(14)	<b>(167)</b>
Gain (loss) on Disposal	-	348	-	(11)	<b>337</b>
<b>Net Income</b>	<u>\$ (1,737)</u>	<u>\$ (737)</u>	<u>\$ (755)</u>	<u>\$ (476)</u>	<u>\$ (3,705)</u>
<b>EPS-fully diluted</b>	<u>\$ (0.44)</u>	<u>\$ (0.19)</u>	<u>\$ (0.20)</u>	<u>\$ (0.12)</u>	<u>\$ (0.95)</u>
Avg Shares Out-fully diluted	<u>3,946</u>	<u>3,906</u>	<u>3,854</u>	<u>3,854</u>	<u><b>3,911</b></u>
Percent of Revenue					
Costs of Goods Sold	76.22%	76.29%	72.63%	70.01%	73.35%
SG&A	61.27%	47.12%	40.33%	36.50%	44.76%
Net Margin	-37.75%	-13.65%	-12.10%	-6.45%	-15.69%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	-18.75%	37.98%	62.57%	100.95%	38.23%

I-Sector Corp.  
Quarterly Income Statement Model  
For Year Ended December 31, 2002  
(in thousands)

	Q1(3/02)A	Q2(6/02)A	Q3(9/02)E	Q4(12/02)E	F2002E
Total Revenues	\$ 9,208	\$ 10,260	\$ 10,900	\$ 11,260	\$ 41,628
Costs of Goods Sold	<u>6,974</u>	<u>8,553</u>	<u>9,062</u>	<u>9,234</u>	<u>33,823</u>
<b>Gross Profit</b>	2,234	1,707	1,838	2,026	<b>7,805</b>
<i>Gross Margins</i>	24.26%	16.64%	16.86%	18.00%	<b>18.75%</b>
S,G&A	<u>2,622</u>	<u>2,014</u>	<u>2,130</u>	<u>2,252</u>	<u>9,018</u>
<b>Operating Income</b>	(388)	(307)	(292)	(226)	<b>(1,213)</b>
<i>Operating Margin</i>	-4.21%	-2.99%	-2.68%	-2.00%	<b>-2.91%</b>
<i>EBITDA</i>	(249)	(122)	(107)	(41)	<b>(519)</b>
Interest Expense(Income)-net	<u>(5)</u>	<u>7</u>	<u>5</u>	<u>5</u>	<u>12</u>
<b>Pre-Tax Income</b>	(383)	(314)	(297)	(231)	<b>(1,225)</b>
<i>Pre-Tax Margins</i>	-4.16%	-3.06%	-2.73%	-2.05%	<b>-2.94%</b>
Taxes (Benefit)	<u>(1,182)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(1,189)</u>
<i>Tax Rate</i>	308.62%	2.23%	0.00%	0.00%	<b>97.06%</b>
<b>Net Income-continuing ops</b>	<u>\$ 799</u>	<u>\$ (307)</u>	<u>\$ (297)</u>	<u>\$ (231)</u>	<u>\$ (36)</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.21</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ (0.01)</u>
Avg Shares Out-fully diluted	<u>3,850</u>	<u>3,733</u>	<u>3,750</u>	<u>3,750</u>	<u>3,771</u>
Gain (loss) on Disposal	6	12	-		<b>18</b>
<b>Net Income</b>	<u>\$ 805</u>	<u>\$ (295)</u>	<u>\$ (297)</u>	<u>\$ (231)</u>	<u>\$ (18)</u>
<b>EPS-fully diluted</b>	<u>\$ 0.21</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ (0.00)</u>
Avg Shares Out-fully diluted	<u>3,850</u>	<u>3,733</u>	<u>3,750</u>	<u>3,750</u>	<u>3,750</u>
Percent of Revenue					
Costs of Goods Sold	75.74%	83.36%	83.14%	82.00%	81.25%
SG&A	28.48%	19.63%	19.54%	20.00%	21.66%
Net Margin	8.74%	-2.88%	-2.73%	-2.05%	-0.04%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	100.13%	90.04%	74.65%	52.60%	76.24%

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

	Q1(3/03)E	Q2(6/03)E	Q3(9/03)E	Q4(12/03)E	<b>F2003E</b>
Total Revenues	\$ 11,385	\$ 11,605	\$ 12,325	\$ 12,765	\$ <b>48,080</b>
Costs of Goods Sold	<u>9,164</u>	<u>9,311</u>	<u>9,866</u>	<u>10,168</u>	<u>38,509</u>
<b>Gross Profit</b>	2,221	2,294	2,459	2,597	<b>9,571</b>
<i>Gross Margins</i>	19.51%	19.76%	19.95%	20.35%	<b>19.91%</b>
S,G&A	<u>2,277</u>	<u>2,321</u>	<u>2,447</u>	<u>2,425</u>	<u><b>9,470</b></u>
<b>Operating Income</b>	(56)	(27)	13	172	<b>101</b>
<i>Operating Margin</i>	-0.49%	-0.24%	0.10%	1.35%	<b>0.21%</b>
<i>EBITDA</i>	134	163	203	362	<b>861</b>
Interest Expense(Income)-net	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u><b>20</b></u>
<b>Pre-Tax Income</b>	(61)	(32)	8	167	<b>81</b>
<i>Pre-Tax Margins</i>	-0.54%	-0.28%	0.06%	1.31%	<b>0.17%</b>
Taxes (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>-</b></u>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
<b>Net Income-continuing ops</b>	<u>\$ (61)</u>	<u>\$ (32)</u>	<u>\$ 8</u>	<u>\$ 167</u>	<u>\$ 81</u>
<b>EPS-fully diluted- cont ops</b>	<u><b>\$ (0.02)</b></u>	<u><b>\$ (0.01)</b></u>	<u><b>\$ 0.00</b></u>	<u><b>\$ 0.04</b></u>	<u><b>\$ 0.02</b></u>
Avg Shares Out-fully diluted	<u>3,750</u>	<u>3,750</u>	<u>3,850</u>	<u>3,850</u>	<u><b>3,850</b></u>
Percent of Revenue					
Costs of Goods Sold	80.49%	80.24%	80.05%	79.65%	80.09%
SG&A	20.00%	20.00%	19.85%	19.00%	19.70%
Net Margin	-0.54%	-0.28%	0.06%	1.31%	0.17%
YEAR / YEAR GROWTH					
Total Revenues	23.64%	13.11%	13.07%	13.37%	15.50%

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

	F2000A	F2001A	1Q2002A	2Q2002A
<b>Assets</b>				
Current Assets				
Cash & Equivalents	\$ 8,346	\$ 3,434	\$ 1,736	\$ 1,616
Net Receivables	4,917	4,742	6,294	7,103
Inventory	774	587	591	723
Prepaid Expense & Other	<u>1,096</u>	<u>2,148</u>	<u>3,821</u>	<u>2,546</u>
<b>Total Current Assets</b>	15,133	10,911	12,442	11,988
Plant, Property, & Equipment-net	1,579	1,226	1,273	1,233
Intangibles	326	1,356	1,307	1,258
Other	<u>104</u>	<u>55</u>	<u>43</u>	<u>54</u>
<b>Total Assets</b>	<u>\$ 17,142</u>	<u>\$ 13,548</u>	<u>\$ 15,065</u>	<u>\$ 14,533</u>
<b>Liabilities &amp; Shareholders' Equity</b>				
Current Liabilities				
Current portion of LTD	\$ -	\$ 213	\$ 233	\$ 237
Notes Payable	-	-	-	
Accounts Payable	1,892	1,772	2,672	2,749
Accrued Expenses & Other	2,138	2,163	2,172	2,171
Discontinued ops liabilities	869	654	519	438
Deferred revenue	<u>136</u>	<u>126</u>	<u>96</u>	<u>98</u>
<b>Total Current Liabilities</b>	5,035	4,928	5,692	5,693
<b>LTD</b>	-	410	358	306
<b>Deferred Liabilities</b>	195	195	195	195
<b>Total Shareholders' Equity</b>	<u>11,912</u>	<u>8,015</u>	<u>8,820</u>	<u>8,339</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 17,142</u>	<u>\$ 13,548</u>	<u>\$ 15,065</u>	<u>\$ 14,533</u>
SHARES OUT	4,042	3,850	3,850	3,629