

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Research Report – Update

I-Sector Corp.

Rating: Neutral

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December 3, 2002

ISEC \$1.60 (NASDAQ)

	<u>FY1999A</u>	<u>FY2000A</u>	<u>FY2001A</u>	<u>FY2002E</u>	<u>FY2003E</u>
Revenues (Thousands)	\$17,984	\$17,087	\$23,620	\$42,575	\$51,000
Earnings per share	\$(0.20)	\$(0.01)	\$(0.95)	\$(0.02)*	\$(0.12)

52-Week Range	\$2.50 -\$0.45	Fiscal Year Ends	December
Shares Out-fully dil (thousands)	3,630	Revenues/Share (TTM)	\$10.21
Approximate Float (thousands)	1,401	Price/Sales(TTM)	0.16X
Insider Holdings	61.4%	Price/Sales(2003)E	0.12X
Tangible Book value/Share	\$1.94	Price/Earnings(TTM)	NM
Price/ Tangible Book	0.8X	Price/Earnings(2003)E	NM

* Inclusive of a tax benefit of \$1.182 million or \$0.31 per share

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 coverage of I-Sector Corp (ISEC) with a Neutral rating and establishing a 15-month price target of \$1.72 per share based on our P/S analysis. Our price target decreased from \$2.50 per share due to revised estimates and valuation assumptions.

In November 2002, ISEC announced that it was planning a strategic re-focus of its Allstar Solutions subsidiary and hired a new President and CEO for the subsidiary.

ISEC reported 3Q02 revenues of \$11.61 million and a net loss from continuing operations of \$289 thousand or \$(0.08) per share. In 3Q01, the Company reported a net loss from continuing operations of \$714 thousand or \$(0.19) per share, on revenues of \$6.241 million.

During the worst IT environment in history, ISEC is increasing revenues and decreasing losses. ISEC has made significant investments in sales and marketing, these investments have resulted in increased revenues and decreased operating losses.

We are fine-tuning our fiscal 2002 and 2003 estimates based on recent operating trends, Management's public guidance, recent developments, and an improvement in the IT and Communications Industries. We believe that the Company will become EBITDA positive in the third quarter of 2003 and reach profitability in the fourth quarter of fiscal 2003.

According to IDC Dataquest, the IT Industry is having its worst period ever. A modest recovery is seen for 2003. IDC estimates that IT revenues will likely increase a modest 5.8% in 2003.

** Please view our disclaimer located page 7*

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Company Overview

I-Sector Corporation (ISEC) is involved in various aspects of the information and communications technology industries through its three wholly-owned subsidiaries:

- Internetwork Experts, Inc. (INX), formed through the 2000 merger of InterNetworking Sciences (a wholly owned subsidiary of I-Sector Corporation) and Internetwork Experts, is a network infrastructure professional services provider. Its areas of practice include network design, implementation, and management. In October 2001, INX achieved Gold Certification from Cisco Systems (NASDAQ: CSCO).
- Stratasoft, Inc. creates and markets software designed to improve the efficiency of inbound and outbound professional call centers or other types of high volume calling applications.
- Allstar Solutions, Inc., formed through the 2001 merger of the Company's wholly owned subsidiaries (Synergy Helpdesk Solutions and Allstar Computer Products), provides customers with a comprehensive set of IT solutions including: turn-key outsourced IT helpdesk solutions, consulting services, computer repair, application and operating system support, network migration services, network support and management, network design and implementation, and IT project management.

Recent Development

In November 2002, ISEC announced that it was planning a strategic re-focus of its Allstar Solutions subsidiary. According to Management, this is being done because Allstar Solutions' performance has been poor and has lacked focus, direction, and purpose. Along with a re-focused strategy, the subsidiary will also have a new President and CEO, Frank Cano.

Further details of the strategic re-focus will be announced in the near future.

Recent Results

On November 14, 2002, ISEC reported 3Q02 revenues of \$11.61 million and a net loss from continuing operations of \$289 thousand or \$(0.08) per share. In 3Q01, the Company reported a net loss from continuing operations of \$714 thousand or \$(0.19) per share, on revenues of \$6.241 million.

3Q02 net loss was in line with Taglich Brothers' estimates, while revenues were above expectations. Our estimates called for revenues of \$10.9 million and a net loss from continuing operations of \$297 thousand or \$(0.08) per share.

The increase in year-over-year revenues was due to an expanded sales and marketing effort, which resulted in revenue growth at its Stratasoft and INX subsidiaries. Stratasoft revenues increased 3.3% to \$1.74 million and INX revenues increased 198% to \$8.58 million.

The improvement in net loss was primarily due to a larger revenue base and operational improvements at its INX subsidiary. This subsidiary turned profitable during the quarter. Previously, it had operated at a loss.

During the past two fiscal years, 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 resulted in increased revenues and decreased operating losses during the worst industry environment in history.

The following is a segment analysis chart for the third quarter ended September 30, 2002:

3Q02 Segment Analysis (\$ 000's)

	Allstar	INX	Stratasoft
Revenues	1,291	8,584	1,743
Gross Profit	308	1,057	962
Gross Margin	23.9%	12.3%	55.2%
Operating Income	-261	91	48
Operating Margin	-20.2%	1.1%	55.2%
Revenue Growth	-23.2%	198.5%	3.3%

At the end of the quarter, cash and cash equivalents stood at \$3.20 million while working capital stood at approximately \$6.07 million and tangible book value stood at \$7.04 million or \$1.94 per share. Going forward, the Company should be able to satisfy its capital requirements from existing cash balances, working capital, and credit facility (ISEC has \$2.88 million available under its \$4 million credit facility).

Competitive Landscape

According to IDC, the IT Industry is having its worst period ever. Industry revenues contracted 3% per year, over the last two years. This compares to average growth of 12% per annum over the past 20 years. As a result, companies in this Industry have seen significant turmoil in their businesses and many have posted lower earnings, warned about future expectations, and suffered lower equity valuations.

We believe that a significant rebound remains doubtful in the short-term as near-term uncertainties are negatively impacting spending decisions by companies. However, a modest recovery is seen for 2003. IDC Dataquest estimates that IT revenues will likely increase a modest 5.8% in 2003.

Outlook & Projections

We are fine-tuning our fiscal 2002 and 2003 estimates based on recent operating trends and developments, Management's public guidance, recent developments, the Company's strategy, and a slight improvement in the IT and Communications Industries.

- Our 2002 estimates call for revenues of \$42.58 million and a net loss from continuing operations of \$0.08 million or \$(0.02) per share (inclusive of a tax benefit of \$1.2 million). Excluding the tax benefit, we are forecasting a net loss from operations of \$1.3 million. We had previously forecasted revenues of \$41.63 million and a net loss from continuing operations of \$0.04 million or \$(0.01) per share (inclusive of a tax benefit of \$1.19 million); and
- Our 2003 forecast calls for revenues of \$51.00 million and a net loss from continuing operations of \$0.44 million or \$(0.12) per share. Our previous 2003 forecast called for revenues of \$48.08 million and net income from continuing operations of \$0.08 million or \$0.02 per share.

We believe that the Company will become EBITDA positive in the third quarter of 2003 and reach profitability in the fourth quarter of fiscal 2003. Previously, we had forecasted ISEC to become EBITDA positive in the first quarter of 2003 and reach profitability in the third quarter of 2003. The change in forecast is primarily due to increased operating expenses.

Our revenue estimates are based on no revenue growth for Allstar Solutions, continued solid revenue performance for INX, and steady revenue growth for Stratasoft. A segment breakout of our revenue projections follows:

Projected Revenue Mix (\$ thousands)

Segment	FY2000A	FY2001A	FY2002E	FY2003E
Allstar	6,946	5,668	5,033	5,000
INX	1,874	10,775	30,333	38,170
Stratasoft	6,660	7,257	7,415	7,845
Overall	17,087	23,620	42,575	51,000

On the expense side, we are forecasting steady gross margins and improved operating margins due to operating efficiencies and the spreading of fixed costs over a larger revenue base.

Risks

Balance Sheet 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. Additionally, the Company may not be able to secure additional sources of financing.

Economic and Industry Risk

The direction of the economy is an important factor in technology spending. There are indications that an economic recovery may have stalled. Recently, the Conference Board reported that the index of leading economic indicators was unchanged in October after decreasing for four straight months. 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 indication on these and other key metrics may negatively impact the Company's financial results and equity values.

International Concerns

International sales for the nine months of fiscal 2002 accounted for approximately 21.7% of the Stratasoft's sales. Sales of products are made to customers in the U.K., Canada, Southern Asia, and Africa. 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. Other companies may have greater resources and may be better able to respond to industry changes. This may adversely impact ISEC'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.

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 1.4 million shares in the float. On average, 1,818 shares are traded daily.

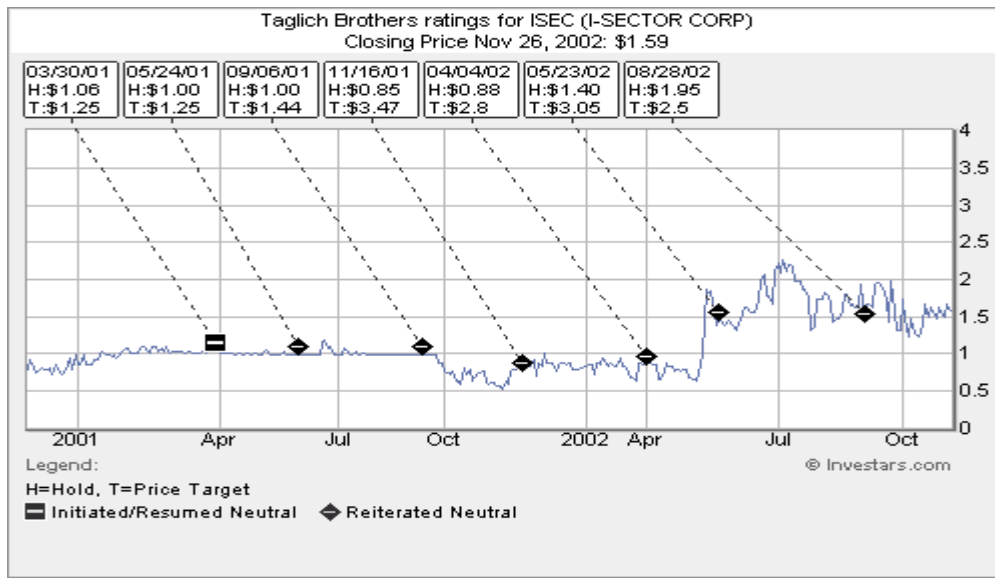
Miscellaneous Risks

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.

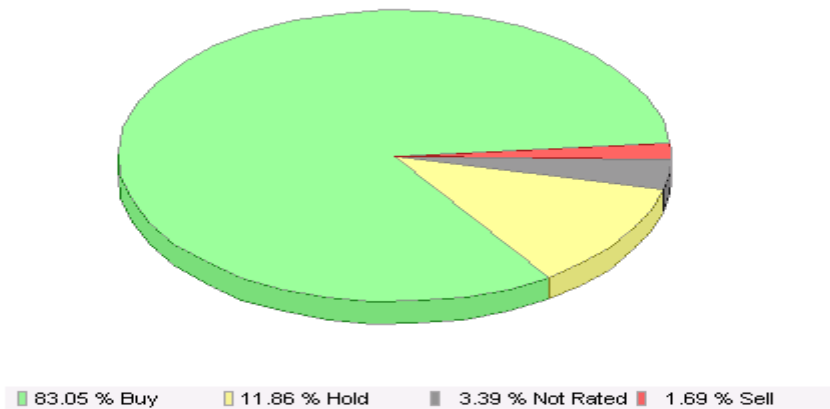
Valuation & Conclusion

We are maintaining coverage of ISEC with a Neutral rating and establishing a 15-month price target of \$1.72 per share. Our price target is based on applying its TTM price-to-sales (P/S) multiple of 0.16X our 2003 revenue estimate of \$13.47 per fully diluted share. Subsequently, we discounted the valuation outcome by 20% to give consideration to concerns associated with the Company's micro-capitalization and other risks.

Our price target has decreased from \$2.50 per share due to revised estimates and valuation assumptions.



Taglich Brothers' Current Rating Distribution



Public Companies mentioned in this report:

Cisco Systems (NASDAQ: CSCO)

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 Short

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.

Not rated

There is too much uncertainty in the Company's finances or business model for us to currently form an investment conclusion.

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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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	\$ 42,575	\$ 51,000
Costs of Goods Sold	<u>11,806</u>	<u>12,968</u>	<u>17,325</u>	<u>33,916</u>	<u>40,671</u>
Gross Profit	6,178	4,119	6,295	8,659	10,329
<i>Gross Margins</i>	34.35%	24.11%	26.65%	20.34%	20.25%
S,G&A	<u>6,207</u>	<u>9,479</u>	<u>10,573</u>	<u>9,925</u>	<u>10,775</u>
Operating Income	(29)	(5,360)	(4,278)	(1,266)	(446)
<i>Operating Margin</i>	-0.16%	-31.37%	-18.11%	-2.97%	0.21%
Interest Expense(Income)-net	<u>(23)</u>	<u>(239)</u>	<u>(316)</u>	<u>(2)</u>	<u>(4)</u>
Pre-Tax Income	(6)	(5,121)	(3,962)	(1,264)	(442)
<i>Pre-Tax Margins</i>	-0.03%	-29.97%	-16.77%	-2.97%	-0.87%
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%	94.08%	0.00%
Net Income-continuing ops	<u>\$ (26)</u>	<u>\$ (3,628)</u>	<u>\$ (3,875)</u>	<u>\$ (75)</u>	<u>\$ (442)</u>
EPS-fully diluted- cont ops	<u>\$ (0.01)</u>	<u>\$ (0.89)</u>	<u>\$ (0.99)</u>	<u>\$ (0.02)</u>	<u>\$ (0.12)</u>
Avg Shares Out-fully diluted	<u>4,168</u>	<u>4,060</u>	<u>3,911</u>	<u>3,711</u>	<u>3,650</u>
Income (loss) from discontinued	319	195	(167)		-
Gain (loss) on Disposal	(1,138)	3,390	337	18	-
Net Income	<u>\$ (845)</u>	<u>\$ (43)</u>	<u>\$ (3,705)</u>	<u>\$ (58)</u>	<u>\$ (442)</u>
EPS-fully diluted	<u>\$ (0.20)</u>	<u>\$ (0.01)</u>	<u>\$ (0.95)</u>	<u>\$ (0.02)</u>	<u>\$ (0.12)</u>
Avg Shares Out-fully diluted	<u>4,168</u>	<u>4,060</u>	<u>3,911</u>	<u>3,711</u>	<u>3,650</u>
Percent of Revenue					
Costs of Goods Sold	65.65%	75.89%	73.35%	79.66%	79.75%
SG&A	34.51%	55.47%	44.76%	23.31%	21.13%
Net Margin	-4.70%	-0.25%	-15.69%	-0.14%	-0.87%
YEAR / YEAR GROWTH					
Total Revenues	16.72%	-4.99%	38.23%	80.25%	19.79%

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>
Gross Profit	2,305	650	775	389	4,119
<i>Gross Margins</i>	40.70%	16.61%	20.19%	10.59%	24.11%
S,G&A	<u>2,205</u>	<u>1,881</u>	<u>3,144</u>	<u>2,249</u>	<u>9,479</u>
Operating Income	100	(1,231)	(2,369)	(1,860)	(5,360)
<i>Operating Margin</i>	1.77%	-31.46%	-61.71%	-50.65%	-31.37%
Interest Expense(Income)-net	<u>15</u>	<u>(50)</u>	<u>(100)</u>	<u>(104)</u>	<u>(239)</u>
Pre-Tax Income	85	(1,181)	(2,269)	(1,756)	(5,121)
<i>Pre-Tax Margins</i>	1.50%	-30.18%	-59.10%	-47.82%	-29.97%
Taxes (Benefit)	<u>27</u>	<u>(391)</u>	<u>(690)</u>	<u>(439)</u>	<u>(1,493)</u>
<i>Tax Rate</i>	31.76%	33.11%	30.41%	25.00%	29.15%
Net Income-continuing ops	<u>\$ 58</u>	<u>\$ (790)</u>	<u>\$ (1,579)</u>	<u>\$ (1,317)</u>	<u>\$ (3,628)</u>
EPS-fully diluted- cont ops	<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>4,060</u>
Income (loss) from discontinued	286	9	(36)	(64)	195
Gain (loss) on Disposal	4,872	(387)	(1,095)	-	3,390
Net Income	<u>\$ 5,216</u>	<u>\$ (1,168)</u>	<u>\$ (2,710)</u>	<u>\$ (1,381)</u>	<u>\$ (43)</u>
EPS-fully diluted	<u>\$ 1.22</u>	<u>\$ (0.29)</u>	<u>\$ (0.67)</u>	<u>\$ (0.34)</u>	<u>\$ (0.01)</u>
Avg Shares Out-fully diluted	<u>4,287</u>	<u>4,049</u>	<u>4,049</u>	<u>4,048</u>	<u>4,060</u>
Percent of Revenue					
Costs of Goods Sold	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	\$ 23,620
Costs of Goods Sold	<u>3,507</u>	<u>4,119</u>	<u>4,533</u>	<u>5,166</u>	<u>17,325</u>
Gross Profit	1,094	1,280	1,708	2,213	6,295
<i>Gross Margins</i>	23.78%	23.71%	27.37%	29.99%	26.65%
S,G&A	<u>2,819</u>	<u>2,544</u>	<u>2,517</u>	<u>2,693</u>	<u>10,573</u>
Operating Income	(1,725)	(1,264)	(809)	(480)	(4,278)
<i>Operating Margin</i>	-37.49%	-23.41%	-12.96%	-6.50%	-18.11%
Interest Expense(Income)-net	<u>(96)</u>	<u>(61)</u>	<u>(116)</u>	<u>(43)</u>	<u>(316)</u>
Pre-Tax Income	(1,629)	(1,203)	(693)	(437)	(3,962)
<i>Pre-Tax Margins</i>	-35.41%	-22.28%	-11.10%	-5.92%	-16.77%
Taxes (Benefit)	<u>37</u>	<u>(159)</u>	<u>21</u>	<u>14</u>	<u>(87)</u>
<i>Tax Rate</i>	-2.27%	13.22%	-3.03%	-3.20%	2.20%
Net Income-continuing ops	<u>\$ (1,666)</u>	<u>\$ (1,044)</u>	<u>\$ (714)</u>	<u>\$ (451)</u>	<u>\$ (3,875)</u>
EPS-fully diluted- cont ops	<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>3,911</u>
Income (loss) from discontinued	(71)	(41)	(41)	(14)	(167)
Gain (loss) on Disposal	-	348	-	(11)	337
Net Income	<u>\$ (1,737)</u>	<u>\$ (737)</u>	<u>\$ (755)</u>	<u>\$ (476)</u>	<u>\$ (3,705)</u>
EPS-fully diluted	<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>3,911</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%
YEAR / YEAR GROWTH					
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)A	Q4(12/02)E	F2002E
Total Revenues	\$ 9,208	\$ 10,260	\$ 11,607	\$ 11,500	\$ 42,575
Costs of Goods Sold	<u>6,974</u>	<u>8,553</u>	<u>9,280</u>	<u>9,109</u>	<u>33,916</u>
Gross Profit	2,234	1,707	2,327	2,391	8,659
<i>Gross Margins</i>	24.26%	16.64%	20.05%	20.79%	20.34%
S,G&A	<u>2,622</u>	<u>2,014</u>	<u>2,619</u>	<u>2,670</u>	<u>9,925</u>
Operating Income	(388)	(307)	(292)	(279)	(1,266)
<i>Operating Margin</i>	-4.21%	-2.99%	-2.52%	-2.42%	-2.97%
<i>EBITDA</i>	(249)	(122)	(191)	(174)	(736)
Interest Expense(Income)-net	<u>(5)</u>	<u>7</u>	<u>(3)</u>	<u>(1)</u>	<u>(2)</u>
Pre-Tax Income	(383)	(314)	(289)	(278)	(1,264)
<i>Pre-Tax Margins</i>	-4.16%	-3.06%	-2.49%	-2.42%	-2.97%
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%	94.08%
Net Income-continuing ops	<u>\$ 799</u>	<u>\$ (307)</u>	<u>\$ (289)</u>	<u>\$ (278)</u>	<u>\$ (75)</u>
EPS-fully diluted- cont ops	<u>\$ 0.21</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>
Avg Shares Out-fully diluted	<u>3,850</u>	<u>3,733</u>	<u>3,630</u>	<u>3,630</u>	<u>3,711</u>
Income (loss) from discontinued	-	-	-	-	-
Gain (loss) on Disposal	6	12	(1)	-	18
Net Income	<u>\$ 805</u>	<u>\$ (295)</u>	<u>\$ (290)</u>	<u>\$ (278)</u>	<u>\$ (58)</u>
EPS-fully diluted	<u>\$ 0.21</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>
Avg Shares Out-fully diluted	<u>3,850</u>	<u>3,733</u>	<u>3,630</u>	<u>3,630</u>	<u>3,711</u>
Percent of Revenue					
Costs of Goods Sold	75.74%	83.36%	79.95%	79.21%	79.66%
SG&A	28.48%	19.63%	22.56%	20.00%	23.31%
Net Margin	8.74%	-2.88%	-2.50%	-2.42%	-0.14%
YEAR / YEAR GROWTH					
Total Revenues	100.13%	90.04%	85.98%	55.85%	80.25%

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	F2003E
Total Revenues	\$ 12,000	\$ 12,500	\$ 13,000	\$ 13,500	\$ 51,000
Costs of Goods Sold	<u>9,569</u>	<u>9,978</u>	<u>10,372</u>	<u>10,752</u>	<u>40,671</u>
Gross Profit	2,431	2,522	2,628	2,748	10,329
<i>Gross Margins</i>	20.26%	20.18%	20.22%	20.36%	20.25%
S,G&A	<u>2,700</u>	<u>2,650</u>	<u>2,700</u>	<u>2,725</u>	<u>10,775</u>
Operating Income	(269)	(128)	(72)	23	(446)
<i>Operating Margin</i>	-2.24%	-1.02%	-0.55%	0.17%	-0.87%
<i>EBITDA</i>	(149)	(8)	48	143	34
Interest Expense(Income)-net	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(4)</u>
Pre-Tax Income	(268)	(127)	(71)	24	(442)
<i>Pre-Tax Margins</i>	-2.23%	-1.01%	-0.55%	0.18%	-0.87%
Taxes (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income	<u>\$ (268)</u>	<u>\$ (127)</u>	<u>\$ (71)</u>	<u>\$ 24</u>	<u>\$ (442)</u>
EPS-fully diluted	<u>\$ (0.07)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.12)</u>
Avg Shares Out-fully diluted	<u>3,650</u>	<u>3,650</u>	<u>3,650</u>	<u>3,785</u>	<u>3,650</u>
Percent of Revenue					
Costs of Goods Sold	79.74%	79.82%	79.78%	79.64%	79.75%
SG&A	20.00%	20.00%	19.85%	19.00%	21.13%
Net Margin	-2.23%	-1.01%	-0.55%	0.18%	-0.87%
YEAR / YEAR GROWTH					
Total Revenues	30.32%	21.83%	12.00%	17.39%	19.79%

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

	F2000A	F2001A	1Q2002A	2Q2002A	3Q2002A
Assets					
Current Assets					
Cash & Equivalents	\$ 8,346	\$ 3,434	\$ 1,736	\$ 1,616	\$ 3,201
Net Receivables	4,917	4,742	6,294	7,103	7,212
Inventory	774	587	591	723	801
Prepaid Expense & Other	<u>1,096</u>	<u>2,148</u>	<u>3,821</u>	<u>2,546</u>	<u>1,878</u>
Total Current Assets	15,133	10,911	12,442	11,988	13,092
Plant, Property, & Equipment-net	1,579	1,226	1,273	1,233	1,181
Intangibles	326	1,356	1,307	1,258	1,210
Other	<u>104</u>	<u>55</u>	<u>43</u>	<u>54</u>	<u>54</u>
Total Assets	<u>\$ 17,142</u>	<u>\$ 13,548</u>	<u>\$ 15,065</u>	<u>\$ 14,533</u>	<u>\$ 15,537</u>
Liabilities & Shareholders' Equity					
Current Liabilities					
Current portion of LTD	\$ -	\$ 213	\$ 233	\$ 237	\$ 205
Accounts Payable	1,892	1,772	2,672	2,749	4,091
Accrued Expenses & Other	2,138	2,163	2,172	2,171	2,393
Discontinued ops liabilities	869	654	519	438	215
Deferred revenue	<u>136</u>	<u>126</u>	<u>96</u>	<u>98</u>	<u>121</u>
Total Current Liabilities	5,035	4,928	5,692	5,693	7,025
LTD	-	410	358	306	267
Deferred Liabilities	195	195	195	195	-
Total Shareholders' Equity	<u>11,912</u>	<u>8,015</u>	<u>8,820</u>	<u>8,339</u>	<u>8,245</u>
Total Liabilities & Equity	<u>\$ 17,142</u>	<u>\$ 13,548</u>	<u>\$ 15,065</u>	<u>\$ 14,533</u>	<u>\$ 15,537</u>
SHARES OUT	4,042	3,850	3,850	3,629	3,629