<DOCUMENT>
<TYPE>10-Q
<SEQUENCE>1
<FILENAME>0001.txt
<DESCRIPTION>QUARTERLY REPORT
<TEXT>

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ___________

Commission file number: 0-21479

I-SECTOR CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE	76-0515249
(State of incorporation)	(I.R.S. Employer Identification No.)
6401 SOUTHWEST FREEWAY	
HOUSTON, TEXAS	77074
Address of principal executive offices)	(Zip code)

Registrant's telephone number including area code: (713) 795-2000

Allstar Systems, Inc.

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ____ No ____

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title	Outstanding
Common Stock, $.01 par value per share	As of November 14, 2000 4,049,525 shares outstanding

<PAGE>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

I-SECTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value amounts)

	September 30, 2000	December 31 1999
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,762	$ 4,647
Accounts receivable, net	5,630	37,726
Accounts receivable - affiliates	467	423

Inventory	962	7,442
Deferred taxes	2,400	836
Other current assets	181	384
	-------	-------
Total current assets	18,402	51,458
Property and equipment	1,252	2,280
Other assets	149	178
	-------	-------
Total	$ 19,803	$ 53,916
	=======	=======
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$	$ 15,869
Accounts payable	1,786	21,687
Accrued expenses	2,138	3,896
Net liabilities related to discontinued operations	1,051	199
Income taxes payable	1,383	
Deferred service revenue	97	240
	-------	-------
Total current liabilities	6,455	41,891
Deferred credit - stock warrants	195	195
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued		
Common stock:		
$.01 par value, 15,000,000 shares authorized, 4,441,325 and 4,442,325 shares issued at September 30, 2000 and December 31, 1999	44	44
Additional paid in capital	10,037	10,037
Unearned equity compensation	(1)	(1)
Treasury stock (391,800 and 381,800 shares, at cost) at September 30, 2000 and December 31, 1999	(986)	(972)
Retained earnings	4,059	2,722
	-------	-------
Total stockholders' equity	13,153	11,830
	-------	-------
Total	$ 19,803	$ 53,916
	=======	=======

See notes to consolidated financial statements

<PAGE>

I-SECTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30, 2000	1999
Total revenue	$ 4,173	$ 4,920
Cost of sales and services	3,314	3,038
Gross profit	859	1,882
Selling, general and administrative expenses	3,282	1,725
Operating (loss) income	(2,423)	157
Interest expense (income), including other income	(100)	(19)
(Loss) income from continuing operations before (benefit) provision for income taxes	(2,323)	176
(Benefit) provision for income taxes	(708)	60
Net (loss) income from continuing operations	(1,615)	116
Discontinued Operations:		
Net income from discontinued operations, net of taxes		216
Loss on disposal, net of taxes	(1,095)	
Net (loss) income	$ (2,710)	$ 332
Net (loss) income per share:		
Basic and diluted:		
Net (loss) income from continuing operations	$ (0.40)	$ 0.03
Net income from discontinued operations		0.05
Loss on disposal, net of taxes	(0.27)	
Net (loss) income per share	$ (0.67)	$ 0.08

	=======	=======
Weighted average shares outstanding:		
Basic and diluted	4,048,525	4,169,125
	==========	==========

See notes to consolidated financial statements

<PAGE>

I-SECTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)
(Unaudited)

	Nine Months Ended September 30,	
	2000	1999
Total revenue	$ 14,386	$ 13,754
Cost of sales and services	10,407	8,792
Gross profit	3,979	4,962
Selling, general and administrative expenses	7,544	5,033
Operating loss	(3,565)	(71)
Interest expense (income), net of other income	(135)	(4)
Loss from continuing operations before benefit for income taxes	(3,430)	(67)
Benefit for income taxes	(1,075)	(3)
Net loss from continuing operations	(2,355)	(64)
Discontinued Operations:		
Net income (loss) from discontinued operations, net of taxes	300	(28)
Gain on disposal, net of taxes	3,392	
Net income (loss)	$ 1,337	$ (92)

Net income (loss) per share:
Basic and diluted:

Net loss from continuing operations	$ (0.58)	$ (0.01)
Net income (loss) on discontinued operations	0.07	(0.01)
Gain on disposal, net of taxes	0.84	
Net income (loss) per share	$ 0.33	$ (0.02)
Weighted average shares outstanding:		
Basic and diluted	4,048,672	4,169,023

See notes to consolidated financial statements

<PAGE>

I-SECTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2000	1999
Net loss from continuing operations	$ (2,355)	$ (64)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	376	453
Deferred tax provision	(2,233)	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	32,096	2,415
Accounts receivable - affiliates	(44)	(83)
Inventory	(82)	(1,505)
Other current assets	181	213
Other assets	29	
Accounts payable	(19,901)	3,258
Accrued expenses	(1,758)	(4)
Income taxes payable	(521)	
Deferred service revenue	(143)	(61)

Net cash provided by continuing operating activities	5,645	4,622
Net operating activities from discontinued activities	14,407	325
Net cash provided by operating activities	20,052	4,947
Cash flows from investing activities:		
Proceeds from sale of fixed assets	279	
Capital expenditures	(333)	(477)
Net cash used in investing activities:	(54)	(477)
Cash flows from financing activities:		
Purchase of treasury stock	(14)	
Net decrease in notes payable	(15,869)	(3,220)
Net cash used in financing activities:	(15,883)	(3,220)
Net increase in cash and cash equivalents	4,115	1,250
Cash and cash equivalents at beginning of period	4,647	2,538
Cash and cash equivalents at end of period	$ 8,762	$ 3,788
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 375	$ 754
Cash paid for taxes	$ 1,009	$ 0

See notes to consolidated financial statements

<PAGE>

I-SECTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I-Sector Corporation and subsidiaries ("I-Sector"), formerly Allstar Systems, Inc., has historically been engaged in the sale and service of computer and telecommunication hardware and software products in the United States. During 1995, I-Sector formed and incorporated Stratasoft, Inc., ("Stratasoft") a wholly owned subsidiary, to create and market software related to the integration of computer and telephone technologies. In January 1997, I-Sector formed IT Staffing Inc. ("IT Staffing"), a wholly owned subsidiary, to provide temporary and permanent placement services of information technology professionals. In March 1998, I-Sector formed Allstar Systems Rio Grande, Inc., a wholly owned subsidiary, to engage in the sale and service of computer products in western Texas and New Mexico. In July 2000, the shareholders approved the name change from Allstar Systems, Inc. to I-Sector Corporation in order to better communicate the business purpose and mission of the Company, that of owning, operating or investing in companies which are expected to benefit from the manner in which the Internet is changing commerce and communications. Recently, in July 2000 I-Sector formed and incorporated two new wholly owned corporations, Synergy Helpdesk Solutions, Inc. ("Synergy") and Allstar Computer Service, Inc. ("ACS") and contributed certain operating assets associated with its previously reported IT Services segment to such corporations. Also in July 2000, I-Sector formed and incorporated a new wholly owned subsidiary, Internetworking Sciences Corporation ("INX") to meet the needs of customers in the area of large-scale network infrastructure requirements that are Cisco centric. Subsequent to September 30, 2000, INX acquired certain assets of Internetwork Experts, Inc. along with the right to use that name and changed its name to Internetwork Experts, Inc. ("INX").

The condensed consolidated financial statements presented herein as of and for the three and nine months ended September 30, 2000 are unaudited; however, all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods covered have been made and are of a normal, recurring nature. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of the interim periods are not necessarily indicative of results for the full year. The consolidated balance sheet at December 31, 1999 is derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. Although management believes the disclosures are adequate, certain information and disclosure normally included in the notes to the financial statements has been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission.

Reclassifications - Certain amounts in the consolidated financial statements presented herein have been reclassified to conform to current year presentation.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the reporting period. Actual results could differ from these estimates.

Accounting Pronouncements - In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities- ("SFAS No. 133"). SFAS No. 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Management does not believe the adoption of SFAS No. 133 will have a material impact on its financial position and the results of operations and cash flows..

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company is required to adopt SAB 101, as amended, in the fourth quarter of fiscal 2000. The Company does not expect the adoption of SAB 101 to have a material effect on its financial position or results of operations.

<PAGE>

2. DISCONTINUED OPERATIONS

On March 16, 2000, I-Sector entered into an agreement to sell certain assets of and the ongoing operations of its Computer Products Division. The sale transaction closed on May 19, 2000, after stockholder approval was obtained and other required conditions of closing were satisfied. Under the terms of the agreement, I-Sector received a cash purchase price at closing of approximately $16,440, including $1,952 attributable to inventory and $279 attributable to equipment, plus the contingent right to receive up to $500 in proceeds from an escrow account established to satisfy the Company's liability for any breaches of the Company's representations and warranties under the agreement. The cash purchase price was subject to certain post-closing adjustments that resulted in a credit to the purchaser of approximately $384. The transaction was recognized for financial reporting purposes in the quarter ended March 31, 2000 and pretax income from the discontinued operations of the Computer Products Division (net of taxes of $156) was $302 for the three months ended March 31, 2000. In the quarter ended March 31, 2000, a gain on disposal of $5,091 (net of taxes of $2,625) was recognized, which included an estimated loss of $604 (net of taxes of $311) for the operating results from the measurement date, March 16, 2000 to the closing date of the sale, as well as a loss on the equipment sold of $352 (net of taxes of $181) and estimates for the impairment of assets caused by the disposal decision of $2,593 (net of taxes of $1,336). During the quarter ended June 30, 2000, I-Sector revised its estimates relating to the impairment of assets and recognized a loss on disposal of $387 (net of taxes of $199). During the quarter ended September 30, 2000, I-Sector again revised its estimates relating to the impairment of assets and recognized a loss on disposal of $969 (net of taxes of $500). I-Sector retained accounts receivable attributable to the Computer Products Division, which, at September 30, 2000, was approximately $1,293, net of reserves. I-Sector also retained fixed assets of $255 and liabilities related to the Computer Products Division. Fixed assets that were not sold are being redeployed in the continuing operations. The balance sheet caption "Net liabilities related to discontinued operations" at September 30, 2000 includes $984,000 of estimated expenses relating to the disposal. Revenue for the Computer Products Division for the three and nine month periods ending September 30, 2000 through the date of disposition was $120 and $49,333, respectively and $44,611 and $132,826 for the same periods in 1999. The Company allocates interest expense to its various divisions on a proportional basis based on accounts receivable. Interest expense allocated to the Computer Products Division for the nine months ended September 30, 1999 and 2000 and for the period from April 1, 2000 to May 19, 2000 was $566, $237 and $62, respectively. In connection with the sale of the Computer Products Division, I-Sector also sold the El Paso portion of the IT Services business. The El Paso branch office portion of the IT Services business accounted for revenue of $1,305 and $942 and an operating loss of $244 and $720 in the nine months ended September 30, 1999 and 2000, respectively. The El Paso services business has been included through the close date of May 19, 2000 in the continuing operations (as a part of the Corporate segment) for the nine months ended September 30, 2000.

On November 2, 1999, I-Sector approved a plan to sell or close its Telecom division. This was the measurement date. The sale was finalized on March 16, 2000. Under the terms of the sale I-Sector received $250 cash and the ability to obtain restricted stock in the purchaser contingent upon the performance of the acquired operations during a period ending six months after the closing date. Additionally, the purchaser assumed all telephone equipment warranty obligations of I-Sector up to a maximum of $30. Any excess warranty costs incurred by the purchaser will be billed to I-Sector at an agreed upon rate. Loss from discontinued operations (net of tax benefit of $354) was $687 for the nine months ended September 30, 1999. A disposal loss, including an estimate of the operating results from the measurement date, November 2, 1999 to the closing date of the sale, as well as estimates for impairment of assets caused by the disposal decision were recognized at December 31, 1999. During the nine months ended September 30, 2000, I-Sector revised its estimate of the loss on disposal and recorded an additional loss (net of tax benefit of $65) of $127. I-Sector has retained accounts receivable of approximately $218, net of reserves, at September 30, 2000, related to the Telecom Division. The Revenue for the Telecom Division for the three and nine month periods ending September 30, 2000 through the date of disposition, March 16, 2000, was $0 and $752, respectively, and $704 and $3,164 for the same periods in 1999.

3. INCENTIVE STOCK PLANS

In September 1996 I-Sector adopted the 1996 Incentive Stock Plan (the "Incentive Plan"') and the 1996 Non-Employee Director Stock Option Plan (the "Director Plan"). Under the Incentive Plan, I-Sector's Compensation Committee may grant up to 442,500 shares of common stock, which have been reserved for issuance to certain key employees of I-Sector. The Incentive Plan provides for the granting of incentive awards in the form of stock options, restricted stock, phantom stock, stock bonuses and cash bonuses in accordance with the provisions of the plan. Additionally, no shares may be granted after the tenth anniversary of the Incentive Plan's adoption. I-Sector has reserved for issuance, under the Director Plan, 100,000 shares of common stock, subject to certain antidilution adjustments.

<PAGE>

Historically the Director Plan provided for a one-time option by newly elected directors to purchase up to 5,000 shares of common stock, after which each director was entitled to receive an option to purchase up to 2,000 common shares upon each date of reelection to I-Sector's Board of Directors. On May 2, 2000, the I-Sector Board of Directors amended the Non-Employee Director Stock Option Plan to provide for the issuance of options to purchase 5,000 shares of common stock to each Non-employee Director upon his election as a director. In addition, the Board of Directors authorized the issuance of 5,000 shares to each of the Non-employee Directors, who was serving as a director at that date, as additional compensation for prior periods, each such additional option to be issued at the time of that Director's next election as an I-Sector director.

Options granted under the Director Plan and the Incentive Plan have an exercise price equal to the fair market value on the date of grant and generally expire ten years after the grant date. The Incentive Plan stock option grants will vest ratably over the five-year period from the date of issuance.

In May 2000, I-Sector adopted the 2000 Stock Incentive Plan (the "2000 Incentive Plan"). Under the 2000 Incentive Plan, I-Sector's Compensation Committee may grant up to the greater of 400,000 shares of common stock or 10% of the number of shares of common stock issued and outstanding on the first day of the then preceding calendar quarter. The 2000 Incentive Plan provides for the granting of incentive awards in the form of stock options, stock appreciation rights, restricted stock, performance units and performance shares, other stock-based awards and cash bonuses in accordance with the provisions of the plan. All employees, including officers, and consultants and non-employee directors are eligible to participate in the 2000 Stock Incentive Plan. Generally, the Compensation Committee has the discretion to determine the exercise price of each stock option under the 2000 Incentive Plan, and they must be exercised within ten years of the grant date, except those classified as Incentive Stock Option ("ISO") grants to a 10% or greater stockholder. ISO options grants to a 10% or greater stockholder must be exercised within five years of the grant date. The exercise price of each ISO option grant may not be less than 100% of the fair market value of a share of common stock on the date of grant (110% in the case of a 10% or greater stockholder).

The number of options outstanding and the exercise price under each of the three Plans were as follows at September 30, 2000:

Exercise Price	Director Plan	1996 Incentive Plan	2000 Incentive Plan
$1.063		190,012	
$1.375		4,500	
$1.500	28,000	192,640	14,100
$1.563		17,020	
$1.750	9,000	1,900	
$2.188			5,000
$2.266			35,800
$2.313			32,471
$2.938			400
$6.000		8,000	0
	---------	---------	---------
Total granted	37,000	414,072	87,771
	=========	=========	=========

In addition, incentive awards in the form of restricted stock were granted for 14,286 shares that would have vested ratably over the two-year period ending July 7, 1999, and 50,000 shares, which would have vested ratably over the five-year period ending May 20, 2004. During the quarter ended June 30, 1999 I-Sector exchanged restricted stock awards for 62,086 shares for stock option grants on 126,172 shares at an exercise price of $1.06 per share. The stock option grants vest over the same period as the exchanged restricted stock awards. As of September 30, 2000, I-Sector had restricted stock awards outstanding for 1,200 shares.

4. SEGMENT INFORMATION

I-Sector has six reportable segments: ACS, Synergy, INX, IT Staffing, Stratasoft and Corporate. Corporate includes the operations of the Company's El Paso service operations which were sold on May 19, 2000, and service operations relating to computer installations for a certain customer. The installations for this customer ceased when the Computer Products Division was sold on May 19, 2000. The combined ACS, Synergy and IT Staffing, plus the El Paso service business and the service operations related to that certain customer were previously reported as the IT Services segment prior to the quarter ended June

<PAGE>

30, 2000. ACS provides customers with on-site and carry-in computer repair, application support and operating system and network migration services. Synergy provides customers with turnkey outsourced IT helpdesk solutions, technical staff augmentation for IT helpdesk operations and helpdesk solutions consulting services. IT Staffing provides IT professionals to work on temporary assignments, recruiting services and placements. INX provides professional services in the area of large-scale network infrastructure requirements that are Cisco centric. Stratasoft, reported prior to the quarter ended June 30, 2000, as the CTI Software segment, produces software products that facilitate telephony and computer integration primarily for telemarketing and call center applications. The accounting policies of the business segments are the same as those for I-Sector. I-Sector evaluates performance of each segment based on operating income. Management only views accounts receivable, and not total assets, by segment in their decision-making. Intersegment sales and transfers are not significant and are shown in the Elimination column in the following table. The tables below show the results of the six reportable segments:

For the quarter ended September 30, 2000:

<TABLE>
<CAPTION>

	ACS	Synergy	INX	IT Staffing	Stratasoft	Corporate	Elimination	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total revenue	$ 571	$ 841	$ 700	$ 334	$ 1,779	$ (41)	$ (11)	$ 4,173
Cost of sales and services	511	735	735	250	1,015	79	(11)	3,314
	------	------	------	------	------	------	------	-----
Gross profit (loss)	60	106	(35)	84	764	(120)	0	859
Selling, general and administrative expenses	330	360	327	138	1,139	988	0	3,282
	------	------	------	------	------	------	------	-----
Operating loss	$ (270)	$ (254)	$ (362)	$ (54)	$ (375)	$(1,108)	$ 0	2,423)
	======	======	======	======	======	======	======	
Interest expense (income), net of								

other income								(100)
Loss before benefit for income tax								(2,323)
Benefit for income tax								(708)
Net loss from continuing operations								(1,615)
Net loss on disposal, net of taxes								(1,095)
Net loss								$(2,710)
Accounts receivable, net	$ 700	$ 1,016	$ 266	$ 279	$ 803	$ 1,055	$ 0	$ 4,119
Accounts receivable retained from discontinued operations, net								1,511
Total accounts receivable, net								$ 5,630
For the quarter ended September 30, 1999:								
Total revenue	$ 926	$ 1,838	$ 0	$ 269	$ 1,329	$ 558	$ 0	$ 4,920
Cost of sales and services	586	1,163	0	189	623	477	0	3,038
Gross profit	340	675	0	80	706	81	0	1,882
Selling, general and administrative expenses	276	548	0	113	524	264	0	1,725
Operating income (loss)	$ 64	$ 127	$ 0	$ (33)	$ 182	$ (183)	$ 0	157
Interest expense (income), net of other income								(19)
Income before benefit for income tax								176
Provision for income tax								60
Net income from continuing operations								116
Net income from discontinued operations, net of tax								216

Net income								$ 332
Accounts receivable, net	$ 1,571	$ 704	$ 0	$ 133	$ 916	$ 693	$ 0	$ 4,017
Accounts receivable retained from discontinued operations, net								28,461
Total accounts receivable, net								$32,478

</TABLE>

For the nine months ended September 30, 2000:

<TABLE>

<CAPTION>

	ACS	Synergy	INX	IT Staffing	Stratasoft	Corporate	Elimination	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total revenue	$ 1,955	$ 3,725	$ 700	$ 970	$ 5,424	$ 1,623	$ (11)	$14,386
Cost of sales and services	1,551	2,899	735	722	2,841	1,670	(11)	10,407
Gross profit (loss)	404	826	(35)	248	2,583	(47)	0	3,979
Selling, general and administrative expenses	864	1,474	327	312	2,947	1,620	0	7,544
Operating income (loss)	$ (460)	$ (648)	$ (362)	$ (64)	$ (364)	$(1,667)	$ 0	(3,565)
Interest expense (income), net of other income								(135)
Loss before benefit for income tax								(3,430)
Benefit for income tax								(1,075)
Net loss from continuing operations								(2,355)
Net income from discontinued operations, net of tax								300

Net gain on disposal, net of taxes								3,392
Net income								$ 1,337
Accounts receivable, net	$ 700	$ 1,016	$ 266	$ 279	$ 803	$ 1,055	$ 0	$ 4,337
Accounts receivable retained from discontinued operations, net								1,293
Total accounts receivable, net								$ 5,630
For the nine months ended September 30, 1999:								
Total revenue	$ 2,741	$ 5,836	$ 0	$ 775	$ 2,924	$ 1,478	$ 0	$13,754
Cost of sales and services	1,856	3,960	0	497	1,367	1,112	0	8,792
Gross profit	885	1,876	0	278	1,557	366	0	4,962
Selling, general and administrative expenses	828	1,764	0	365	1,469	607	0	5,033
Operating income (loss)	$ 57	$ 112	$ 0	$ (87)	$ 88	$ (241)	$ 0	
(71)								
Interest expense (income), net of other income								
(4)								
Loss before benefit for income tax								
(67)								
Benefit for income tax								
(3)								
Net loss from continuing operations								
(64)								
Net loss from discontinued operations, net of tax								
(28)								
Net loss								$
(92)								
Accounts receivable, net	$ 1,571	$ 704	$ 0	$ 133	$ 916	$ 693	$ 0	4,017

Accounts receivable retained from discontinued operations, net	28,461

Total accounts receivable, net	$32,478
	======

<FN>
I-Sector has previously allocated the cost of its corporate department to its operating subsidiaries. Beginning in the quarter ended September 30, 2000 that department is included in the Corporate segment.
</FN>
</TABLE>

5.EARNINGS PER SHARE

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares outstanding during each period and the assumed exercise of dilutive stock options and warrants less the number of treasury shares assumed to be purchased from the proceeds using the average market price of the Company's common stock for each of the periods presented.

The potentially dilutive options totaling 148,733 and 214,360 shares for the three and nine months ended September 30, 2000 and 67,559 shares for the three and nine months ended September 30, 1999, respectively, calculated under the treasury stock method, were not used in the calculation of diluted earnings per share since the effect of potentially dilutive securities in computing a loss per share on continuing operations is antidilutive.

There were warrants to purchase 176,750 shares of common stock for the nine months ended September 30, 2000 and 1999 which were not included in computing the effect of dilutive securities because the inclusion would have been antidilutive.

6.LITIGATION

On February 1, 2000, a competitor brought a suit against I-Sector Corporation's wholly owned subsidiary Stratasoft, Inc. in the United States District Court for the Northern District of Georgia. The plaintiff alleges infringement of certain patents owned by the competitor and is seeking unspecified monetary damages. I-Sector believes that this suit is without merit and intends to vigorously defend such action.

On May 16, 2000, Jack B. Corey ("Corey") filed suit against the Company in JACK B. COREY V. ALLSTAR SYSTEMS, INC., Cause No. 2000-24796, in the District Court of Harris County, Texas, 113th Judicial District, seeking to enjoin the sale of its computer product division and certain other assets to Amherst Technologies, and for unspecified damages. On May 17, 2000, a state court denied Corey's Application for Temporary Restraining Order and on May 22, 2000, a second state court denied his Application for a Temporary Injunction and for Expedited Discovery as moot. The present pleadings lack specificity as to Corey's claim for damages and it is unclear at this time whether Corey will pursue such a claim. However, the Company strongly denies that it engaged in any improper conduct with regard to the asset sale and intends to vigorously defend any claim that might be pursued by Corey.

I-Sector is party to litigation and claims which management believes are normal in the course of its operations; while the results of such litigation and claims cannot be predicted with certainty, I-Sector believes the final outcome of such matters will not have a materially adverse effect on its results of operations or financial position.

7. SUBSEQUENT EVENT

On October 27, 2000, INX acquired certain assets and liabilities of Internetwork Experts, Inc., a Dallas professional services firm that was also focused on the architecture, design, implementation and support of high-end network infrastructure for service providers and large enterprises. The transaction is being accounted for as a purchase of certain of the assets of Internetwork Experts by INX. The combined entity is a wholly owned subsidiary of I-Sector Corporation. INS subsequently went through a legal name change to Internetwork Experts, Inc. ("INX"). The seller received a cash purchase price of $200,000 plus a right to further payments contingent upon attaining certain Cisco designations within 6 months and upon performance of the acquired operations.

<PAGE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

I-SECTOR CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is qualified in its entirety by, and should be read in conjunction with, the Company's consolidated financial statements, including the notes thereto included elsewhere in this Form 10-Q and the Company's Form 10-K, previously filed with the Securities and Exchange Commission.

Overview

I-Sector Corporation ("I-Sector") historically engaged in the business of providing its customers with solutions to their information and communications technology needs. Historically, our revenue was derived through four primary areas of business, IT Services, CTI Software, Computer Products and Telecom Systems, each of which had historically been reported as a segment. We recently sold our Telecom Systems and Computer Products businesses. After the sale of these businesses, we separated what was the IT Services business into three separate businesses, each of which is a wholly owned subsidiary corporation. One of these subsidiary companies is IT Staffing, Inc. ("IT Staffing"), which had already been operated as a wholly owned subsidiary since its inception in January, 1997. In July, 2000 we contributed the remaining components of the former IT Services business to two newly formed wholly owned corporations, Allstar Computer Services, Inc. ("ACS") and Synergy Helpdesk Solutions, Inc. ("Synergy"). Also in July, 2000 we formed another wholly owned company, Internetworking Sciences Corporation ("INX"), which operates in the IT services business sector. Subsequent to Sepember 30, 2000, INX acquired certain assets of Internetwork Expert, Inc., along with the right to use its name, and began operating as Internetwork Expert, Inc. (INX). Our CTI Software business was not affected by the recent sale of the Computer Products and Telecom Systems business units, however we are now referring to this segment by its corporate name, "Stratasoft" rather than "CTI Software" as we have in the past. We market our services businesses in Texas from four locations in the Houston, Dallas-Fort Worth, Austin and San Antonio metropolitan areas. Stratasoft markets its products worldwide through a direct sales force and an authorized dealer network.

On March 16, 2000 we entered into separate agreements whereby (i) we sold certain key assets of, and the ongoing business operations of, our Telecom Systems business and (ii) we agreed to sell the ongoing business operations of our Computer Products business, together with certain key assets of our IT Services business located in El Paso, Texas. We retained accounts receivable and inventory related to the businesses that were sold.

A disposal loss (net of taxes), including an estimate of the operating results from the measurement date, November 2, 1999 to the closing date of the sale of Telecom Systems was recognized at December 31, 1999. The sale of Computer Products closed on May 19, 2000 after stockholder approval was obtained and other conditions to closing were satisfied. The terms of the agreement included cash consideration of $16.4 million, plus the possibility of receiving a future payment of up to $500,000 from an escrow account. The terms of the agreement also included possible future cash payments contingent upon future performance of the operations being sold. We recognized a gain of approximately $3.7 million, net of taxes, on the sale. We retained the other assets of our IT Services business, which provides a variety of services related to the use of information technology, and, as discussed above, contributed those assets to newly formed wholly owned subsidiaries. By operating through these highly focused wholly owned subsidiaries, we believe that we will offer better customer service and improve our financial performance. We also retained our Stratasoft business, which develops and markets telecommunications software. During the quarter ended September 30, 2000, Stratasoft produced 42.6% of total revenue while ACS, IT Staffing and Synergy contributed 13.7%, 8.0% and 20.2% of revenue, respectively. INX, our newly formed subsidiary, contributed 16.8% of our revenue. Our Corporate segment, which includes operations that are not on-going because of the sale of the Computer Products Division, comprised the remaining (0.1)% of revenue.

We believe the sale of our Computer Products Division provided sufficient cash to initiate a fundamental change in our business strategy that will allow us to deploy our liquid capital in endeavors that we believe will ultimately result in improved stockholder value. We believe we will produce more rapid growth, and better financial performance, by the separation of our various information technology services into focused, specialized companies with each led by a separate management team with personal financial incentives tied to their company's financial performance. Additionally, we plan to continue to expand our Stratasoft business through our wholly owned subsidiary, Stratasoft, Inc.

<PAGE>

We also intend to pursue starting, acquiring or investing in, including taking significant stakes in, other companies that we expect to benefit from the manner in which the Internet is changing commerce and communications. Targeted businesses are expected to include B2B E-Commerce product or services sales companies, companies providing IT services related to network, Web development and other Internet related IT services, and companies involved in the enabling of E-Commerce and E-Business.

ACS provides customers with on-site and carry-in computer repair, application support and operating system and network migration services. Synergy provides customers with turnkey outsourced IT helpdesk solutions, technical staff augmentation for IT helpdesk operations and helpdesk solutions consulting services. IT Staffing continues its established business placing IT professionals on temporary assignments and permanent placements. INX focuses on the design, deployment and support of networking infrastructure. INX provides professional services for customers that have large-scale network infrastructure requirements that are Cisco centric. The areas of practice for INX include network design, implementation, turnkey support, security audits and firewall design, network infrastructure management and network infrastructure consulting services.

Our ability to attract and retain qualified professional and technical personnel is critical to the success of all of our services businesses. The most significant portion of the costs associated with the delivery of services is personnel costs. Therefore, in order to be successful, our billable rates must be in excess of the personnel costs and our margin is dependent upon maintaining high utilization of our service personnel. In addition, the competition for high quality personnel has generally intensified, causing both our and other service provider's personnel costs to increase. In markets where we do not maintain branch offices, we often subcontract for necessary technical personnel.

Our cost of services for each of our service businesses is primarily comprised of labor. Labor has a more fixed nature such that higher levels of service revenue produces higher gross margin while lower levels of service revenue produces less gross margin. Management of labor cost is important in order to prevent erosion of gross margin.

Stratasoft develops and markets proprietary software that integrates business telephone systems and networked computer systems. Stratasoft's basic products are sometimes customized to suit a customer's particular needs and are sometimes bundled with computer hardware supplied by us at the customer's request. Stratasoft products include software for call center management, both in-bound and out-bound, as well as interactive voice response software.

A significant portion of our selling, general and administrative expenses in all of our businesses relate to personnel costs, some of which are variable and others of which are relatively fixed. Our variable personnel costs are substantially comprised of sales commissions, which are typically calculated based upon our gross profit on a particular sales transaction and thus generally fluctuate with our overall gross profit. The remainder of selling, general and administrative expenses are relatively more fixed and, while still somewhat variable, do not vary with increases in revenue as directly as do sales commissions.

Special notice regarding forward-looking statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to future events or our future financial performance including, but not limited to, statements contained in Item 2. - "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned that any statement that is not a statement of historical fact, including but not limited to, statements which may be identified by words including, but not limited to, "anticipate," "appear," "believe," "could," "estimate," "expect," "hope," "indicate," "intend," "likely," "may," "might," "plan," "potential," "seek," "should," "will," "would," and other variations or negative expressions thereof, are predictions or estimations and are subject to known and unknown risks and uncertainties. Numerous factors, including factors which we have little or no control over, may affect the company's actual results and may cause actual results to differ materially from those expressed in the forward-looking statements contained herein. In evaluating such statements, readers should consider the various factors identified in the company's annual report on Form 10-K, as filed with the Securities and Exchange Commission including matters set forth in Item 1.- "Factors Which May Affect The Future Results Of Operations," which could cause actual events, performance or results to differ materially from those indicated by such statements.

<PAGE>

Three Months Ended September 30, 2000 Compared To Three Months Ended September 30, 1999 (Dollars in thousands)

The following table sets forth, for the periods indicated, certain financial data derived from our unaudited consolidated statements of operations for the three months ended September 30, 2000 and 1999. The discussion below relates only to our continuing operations, unless otherwise noted.

	Three months ended September 30,			
	2000		1999	
	Amount	%	Amount	%
Revenue				
ACS	$ 571	13.7	$ 926	18.8
Synergy	841	20.2	1,838	37.4
INX	700	16.8	0	0.0
IT Staffing	334	8.0	269	5.5
Stratasoft	1,779	42.6	1,329	27.0
Corporate	(41)	(0.1)	558	11.3
Elimination	(11)	(0.2)	0	0.0
Total revenue	4,173	100.0	4,920	100.0
Gross profit (loss):				
ACS	60	10.5	340	36.7
Synergy	106	12.6	675	36.7
INX	(35)	(5.0)	0	0.0
IT Staffing	84	25.1	80	29.7
Stratasoft	764	42.9	706	53.1
Corporate	(120)	292.7)	81	14.5

Elimination	0	0.0	0	0.0
Total gross profit	859	20.6	1,882	38.3
Selling, general and administrative expenses:				
ACS	330	57.8	276	29.8
Synergy	360	42.8	548	29.8
INX	327	46.7	0	0.0
IT Staffing	138	41.3	113	42.0
Stratasoft	1,139	64.0	524	39.4
Corporate	988	241.0	264	47.3
Total selling, general and administrative Expenses	3,282	78.6	1,725	35.1
Operating income (loss):				
ACS	(270)	(47.3)	64	6.9
Synergy	(254)	(30.2)	127	6.9
INX	(362)	(51.7)	0	0.0
IT Staffing	(54)	(16.2)	(33)	(12.3)
Stratasoft	(375)	(21.1)	182	13.7
Corporate	(1,108)	(270.2)	(183)	(32.8)
Total operating loss	(2,423)	(58.1)	157	3.2
Interest expense (income) net of other income	(100)	(2.4)	(19)	(0.4)
Loss before benefit for income taxes	(2,323)	(55.7)	176	3.6
Benefit for income taxes	(708)	(17.0)	60	1.2
Net loss from continuing operations	(1,615)	(38.7)	116	2.4
Discontinued operations:				
Net loss from discontinued operations			216	4.4
Loss on disposal	(1,095)	(26.2)	0	0.0
Net loss	$ (2,710)	(64.9)	$ 332	6.7

I-Sector has previously allocated the cost of its corporate department to its operating subsidiaries. Beginning in the quarter ended September 30, 2000 that department is included in the Corporate segment.

<PAGE>

TOTAL REVENUE. Total revenue decreased by $747 (15.2%) to $4,173 in 2000 from $4,920 in 1999.

ACS revenue decreased by $355 (38.3%) to $571 in 2000 from $926 in 1999. As a percentage of total revenue ACS revenue decreased to 13.7% in 2000 from 18.8% in 1999. The decrease in ACS revenue was primarily attributable to issues related to the reorganization of our former IT Services Division into wholly-owned subsidiaries, each of which have a particular market focus, and one of which is ACS, together with the loss of revenue from certain customers and the loss of certain categories of revenue after the sale of the Computer Products Division.

Synergy revenue decreased by $997 (54.2%) to $841 in 2000 from $1,838 in 1999. As a percentage of total revenue Synergy revenue decreased to 20.2% in 2000 from 37.4% in 1999. The decrease in Synergy revenue was primarily attributable to issues related to the reorganization of our former IT Services Division into wholly-owned subsidiaries, each of which have a particular market focus, and one of which is Synergy, together with the loss of revenue from certain customers and the loss of certain categories of revenue after the sale of the Computer Products Division.

INX revenue was $700 for the quarter and represent 16.8% of total revenue. INX was newly formed in July, 2000 to meet the needs of customers in the area of large-scale network infrastructure requirements that are Cisco centric. INX exerted intense efforts to introduce itself to the market in Dallas and Houston and form customer relationships. Subsequent to the third quarter, INX acquired an established service business in Dallas. The purchase included an established customer list, seven engineers and two sales staff members.

IT Staffing revenue increased by $65 (24.2%) to $334 in 2000 from $269 in 1999. As a percentage of total revenue IT Staffing revenue increased to 8.0% in 2000 from 5.5% in 1999. Of the various components of our former IT Services division, IT Staffing revenue was least affected by the sale of the Computer Products Division. The increased revenue is a result of increased selling efforts and new customer relationships.

Stratasoft revenue increased by $450 (33.9%) to $1,779 in 2000 from $1,329 in 1999. Stratasoft revenue, as a percentage of total revenue, increased to 42.6% in 2000 from 27.0% in 1999. The increase in Stratasoft revenue was due to better recognition of Stratasoft products in the market place, the expansion of the sales staff and dealer network and to increased advertising and marketing efforts.

The Corporate segment includes both costs related to the operation of the corporate entity that are not allocated to any subsidiary company, plus certain operations which are not on-going because of the sale of the Computer Products Division and including prior period installation revenue that was related to a certain customer of our Computer Products Division and revenue from our former El Paso branch office, which ceased because of the sale of the Computer Products Division. As these operations have ceased or are winding up we expected an insignificant amount of revenue in the quarter ending September 30, 2000. Corporate revenue decreased by $599 (107.3%) to $(41) in 2000 from $558 in 1999. Revenue in 2000 is negative because of credits issued to customers. As a percentage of total revenue Corporate revenue decreased to (0.1)% in 2000 from 11.3% in 1999. The El Paso branch office service business had revenue of $1 and $416 in the quarters ended September 30, 2000 and 1999, respectively. Installation revenue for the certain customer of the Computer Products Division (also discontinued effective May 19, 2000) contributed revenue of $(40) and $141 in the quarters ended September 30, 2000 and 1999, respectively.

GROSS PROFIT. Gross profit decreased by $1,023 (54.4%) to $859 in 2000 from $1,882 in 1999. Gross margin decreased to 20.6% in 2000 from 38.3% in 1999.

ACS gross profit decreased by $280 (82.4%) to $60 in 2000 from $340 in 1999. Gross margin for ACS decreased to 10.5% in 2000 from 36.7% in 2000. ACS cost of service consists primarily of labor cost. Labor has a more fixed nature such that higher levels of service revenue produces higher levels of gross margin while lower levels of service revenue produces lower gross margin. In periods when service revenue decreases, it becomes more important to manage labor cost in order to prevent erosion of gross margin. Subsequent to the separation of the IT Services segment into wholly owned subsidiary companies in July 2000, ACS experienced lower labor utilization related to lower revenue. In addition to the billable technical staff utilization issue, ACS had a single large project during the quarter on which gross profit margin was about 12% below normal levels, which negatively impacted the overall margin..

<PAGE>

Synergy gross profit decreased by $569 (84.3%) to $106 in 2000 from $675 in 1999 as revenue decreased by 54.2%. Gross margin decreased to 12.6% in 2000 from 36.7% in 1999. As with ASC our cost of service is labor intensive. Labor has a more fixed nature such that higher levels of service revenue produces higher gross margin while lower levels of service revenue produces less gross margin. In periods when service revenue decreases, it becomes more important to manage labor cost in order to prevent erosion of gross margin. As with ACS, after the restructuring and separation of the IT Service segment into wholly owned subsidiary companies, Synergy experienced lower labor utilization related to lower revenue.

INX gross loss was $35 and 5.0% of revenue. Since INX was formed in July, 2000, there is no history for comparison. As a newly formed start-up operation, it had to have billable technical staff in place in order to be able to market their services, but was unable to utilize that technical staff sufficiently to cover their labor cost.

IT Staffing gross profit increased by $4 (5.0%) to $84 in 2000 from $80 in 1999 as revenue increased by 24.2%. Gross margin decreased to 25.1% in 2000 from 29.7% in 1999. The increase in gross profit was primarily due to an increase in the revenue. The decrease in gross margin percentages was primarily due to a contract with a major customer which limits the rates for that particular customer, which more than offset a positive impact related to higher levels of higher margin placement fees for permanent placements as compared to the year earlier period.

Stratasoft gross profit increased by $58 (8.2%) to $764 in 2000 from $706 in 1999 as revenue increased by 33.9%. Gross margin for Stratasoft decreased to 42.9% in 2000 from 53.1% in 1999. The decreased gross margin was primarily due to inventory markdowns along with increased travel costs for technical staff traveling internationally for project installations. Gross margin was also negatively impacted by the mix of sales, with a higher proportion of total systems sales, which include a hardware component, as compared to software only sales, which do not have a hardware cost of goods component.

Corporate gross profit decreased by $201 (248.1%) to a loss of $120 in 2000 from a gross profit of $81 in 1999 as revenue decreased by 107.3%. Gross margin decreased to (292.7%) in 2000 from 14.5% in 1999. The El Paso service business that was sold on May 19, 2000 produced gross profit of $19 in 2000 as compared to a gross profit of $71 in the same quarter in 1999. We experienced certain costs related to winding up our service operations in the El Paso branch office that negatively impacted gross profit. Augmenting those results, the gross margin on installations for the customer that was lost in the Computer Products Division sale produced a gross loss of $57 in 2000 as compared to a gross profit of $9 in 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by $1,557 (90.3%) to $3,282 in 2000 from $1,725 in 1999. As a percentage of revenue, these expenses increased by 43.5%, to 78.6% of revenue in 2000 from 35.1% of revenue in 1999. Overall, our spending was up primarily related to organizing the new subsidiary companies, hiring new members of management for these new companies, and expanding the sales marketing staff in the new companies. In addition, legal fees related to both collection efforts and litigation were higher than historical levels and higher than expected. Selling, general and administrative expenses include $142 and $120 of depreciation in the quarters ended September 30, 2000 and 1999, respectively. During the third quarter, we identified issues related to the collectability of certain accounts receivable accounts and realized a higher than normal bad debt expense for the quarter in the amount of $500. Corporate selling, general and administrative expenses increased by $724 (274.2%) to $988 in 2000 from $264 in

1999 primarily due to the administrative costs associated with billing and collecting of the installation revenue to wind up services for the customer lost in the sale of the Computer Products Division and because costs related to the maintenance of the corporate organization, including executive management compensation, corporate-level insurance, legal, director and investor relations expenses, which were previously allocated out to the operating segments, are now included in the Corporate segment beginning in the third quarter. Of this increase in Corporate selling, general and administrative expense, $160 was primarily bad debt expense related to the certain customer for which installation revenue ceased because of the sale of the Computer Products Division.

OPERATING LOSS FROM CONTINUING OPERATIONS. Our operating loss increased by $2,580 (1,643.3%) to a loss of $2,423 in 2000 from a profit of $157 in 1999 due, principally, to the decrease in a Corporate operating loss of $1,108, Synergy operating loss of $254, ACS operating loss of $270, INX operating loss of $362 and Stratasoft increase in selling, general and administrative expense of $615.

<PAGE>

INTEREST EXPENSE (INCOME), NET OF OTHER INCOME. Interest expense (expense), net of other income, decreased by $81 to $(100) in 2000 compared to $(19) in 1999, primarily due to the reduction of notes payable and investment of available cash.

DISCONTINUED OPERATIONS. On November 2, 1999 we approved a plan to sell or close our Telecom Systems Division. A sale of certain assets of the division and its ongoing operations closed on March 16, 2000. As a consequence of these events, the operations of Telecom Systems are reported as discontinued operations. The loss on discontinued operations related to Telecom Systems in the quarter ended September 30, 1999 was $281, net of a tax benefit of $145. For the quarter ended September 30, 2000 the loss on disposal related to Telecom Systems was $127, net of a tax benefit of $65, which was primarily the result of increased charges related to the carrying value of accounts receivable accounts and inventory.

On March 16, 2000 we entered into an agreement to sell certain assets of, and the ongoing operation of, our Computer Products Division. The sale transaction closed on May 19, 2000. As a consequence of these events, the operations of Computer Products are reported as discontinued operations. The sale transaction was reported in the quarter ended March 31, 2000. For the quarter ended September 30, 2000 the loss on disposal related to Computer Products was $969, net of tax benefit of $500, which was primarily the result of increased charges related to the carrying value of accounts receivable accounts and inventory together with increased expense accruals related to winding down the operations of Computer Products..

NET LOSS. Net loss on continuing operations, after a benefit for income taxes totaling $708 (reflecting an effective tax rate of 30.5% in 2000 compared to 33.0% in 1999), increased by $1,731 to $1,615 in 2000 compared to a profit of $116 in 1999. The Company also had a net loss from discontinued operations of $216, net of taxes of $114, in the quarter ended September 30, 1999. Additionally, a loss on disposal of $1,095 (net of taxes of $566) was recognized in the quarter ended September 30, 2000.

<PAGE>

Nine Months Ended September 30, 2000 Compared To Nine Months Ended September 30, 1999
(Dollars in thousands)

The following table sets forth, for the periods indicated, certain financial data derived from our unaudited consolidated statements of operations for the nine months ended September 30, 2000 and 1999. Likewise the discussion below relates only to our continuing operations, unless otherwise noted.

	Nine months ended September 30,			
	2000		1999	
	Amount	%	Amount	%
Revenue				
ACS	$ 1,955	13.6	$ 2,741	19.9
Synergy	3,725	25.9	5,836	42.4
INX	700	4.9	0	0.0
IT Staffing	970	6.7	775	5.6
Stratasoft	5,424	37.7	2,924	21.3
Corporate	1,623	11.3	1,478	10.8
Elimination	(11)	(0.1)	0	0.0
Total revenue	14,386	100.0	13,754	100.0
Gross profit:				
ACS	404	20.7	885	32.3
Synergy	826	22.2	1,876	32.1
INX	(35)	(5.0)	0	0.0
IT Staffing	248	25.6	278	35.9
Stratasoft	2,583	47.6	1,557	53.2

Corporate	(47)	(2.9)	366	24.8
Elimination	0	0.0	0	0.0
Total gross profit	3,979	27.7	4,962	36.1
Selling, general and administrative expenses:				
ACS	864	44.2	828	30.2
Synergy	1,474	39.6	1,764	30.2
INX	327	46.7	0	0.0
IT Staffing	312	32.2	365	47.1
Stratasoft	2,947	54.3	1,469	50.2
Corporate	1,619	99.8	607	41.1
Total selling, general and administrative Expenses	7,543	52.4	5,033	36.6
Operating income (loss):				
ACS	(460)	(23.5)	57	(2.1)
Synergy	(648)	(17.4)	112	(0.1)
INX	(362)	(51.7)	0	0.0
IT Staffing	(64)	(6.6)	(87)	(11.2)
Stratasoft	(364)	(6.7)	88	3.0
Corporate	(1,666)	(102.6)	(241)	(16.3)
Total operating loss	(3,565)	(24.8)	(71)	(0.5)
Interest expense, net of interest income	(135)	(0.1)	(4)	0.0
Loss before benefit for income taxes	(3,430)	(23.8)	(67)	(0.5)
Benefit for income taxes	(1,075)	(7.5)	(3)	(0.0)
Net loss from continuing operations	(2,355)	(16.4)	(64)	(0.5)
Discontinued operations:				
Net income (loss) from discontinued operations	300	2.1	(28)	0.2
Gain on disposal	3,392	23.6	0	0.0
Net income (loss)	$ 1,337	9.3	$ (92)	(0.7)

I-Sector has previously allocated the cost of its corporate department to its operating subsidiaries. Beginning in the quarter ended September 30, 2000 that department is included in the Corporate segment.

<PAGE>

TOTAL REVENUE. Total revenue increased by $632 (4.6%) to $14,386 in 2000 from $13,754 in 1999.

ACS revenue decreased by $786 (28.7%) to $1,955 in 2000 from $2,741 in 1999. As a percentage of total revenue ACS revenue decreased to 13.6% in 2000 from 19.9% in 1999. The decrease in ACS revenue was attributable to issues related to the reorganization our former IT Services Division into wholly-owned subsidiaries, each of which have a particular market focus, and one of which is ACS, together with the loss of revenue from certain customers and the loss of certain categories of revenue after the sale of the Computer Products Division.

Synergy revenue decreased by $2,111 (36.2%) to $3,725 in 2000 from $5,836 in 1999. As a percentage of total revenue Synergy revenue decreased to 25.9% in 2000 from 42.4% in 1999. The decrease in Synergy revenue was attributable to issues related to the reorganization our former IT Services Division into wholly-owned subsidiaries, each of which have a particular market focus, and one of which is Synergy together with the loss of revenue from certain customers and the loss of certain categories of revenue after the sale of the Computer Products Division.

INX revenue was $700 and 4.9% of total revenue for the nine month period. INX was newly formed in July, 2000 to meet the needs of customers in the area of large-scale network infrastructure requirements that are Cisco centric. INX exerted an intense effort to introduce itself to the market in Dallas and Houston and form customer relationships. Subsequent to the third quarter, INX acquired an established network professional services business in Dallas. The purchase included an established customer list, seven engineers and two sales staff members.

IT Staffing revenue increased by $195 (25.2%) to $970 in 2000 from $775 in 1999. As a percentage of total revenue IT Staffing revenue increased to 6.7% in 2000 from 5.6% in 1999. IT Staffing revenue was least affected by the sale of the Computer Products Division. The increased revenue is a result of increased selling efforts and new customer relationships.

Stratasoft revenue increased by $2,500 (85.5%) to $5,424 in 2000 from $2,924 in 1999. Stratasoft revenue, as a percentage of total revenue, increased to 37.7% in 2000 compared to 21.3% in the same nine month period of 1999. The increase in Stratasoft revenue was due to both better recognition of Stratasoft products in the market place, to the expansion of the sales staff and dealer network, and to increased advertising and marketing efforts.

The Corporate segment includes both costs related to the operation of the corporate entity that are not allocated to any subsidiary company plus certain operations which are not on-going because of the sale of the Computer Products

Division, including prior period installations revenue that were related to a certain customer of our Computer Products Division and revenue from our former El Paso branch office, which was eliminated as part of the sale of the Computer Products Division. As these operations have ceased or are winding up we expect an insignificant amount of revenue in the quarter ending December 31, 2000. Corporate revenue increased by $145 (9.8%) to $1,623 in 2000 from $1,478 in 1999. As a percentage of total revenue Corporate revenue increased to 11.3% in 2000 from 10.8% in 1999. The El Paso branch office service business had revenue of $951 and $1,305 in the nine months ended September 30, 2000 and 1999, respectively. The El Paso service business has been included in the Corporate segment of the continuing operations for the nine months ended September 30, 2000 through the sale of these assets which occurred on May 19, 2000. Installation revenue for the certain customer of the Computer Products Division (also discontinued effective May 19, 2000) contributed revenue of $754 and $173 in the nine months ended September 30, 2000 and 1999, respectively.

GROSS PROFIT. Gross profit decreased by $983 (19.8%) to $3,979 in 2000 from $4,962 in 1999. Gross margin decreased to 27.7% in 2000 from 36.1% in 1999.

ACS gross profit decreased by $481 (54.4%) to $404 in 2000 from $885 in 1999 as revenue decreased by 28.7%. ACS cost of service is labor intensive. Labor has a more fixed nature such that higher levels of service revenue produces higher levels of gross margin while lower levels of service revenue produces lower gross margin. In periods when service revenue decreases, it becomes more important to manage labor cost in order to prevent erosion of gross margin. Subsequent to the separation of our former IT Services Division into wholly owned subsidiary companies in July 2000, ACS experienced lower labor utilization related to lower revenue. In addition, gross profit was impacted by increased employee benefit costs for technical staff related to changing from a partially self-funded health insurance plan to a fully funded plan.

Synergy gross profit decreased by $1,050 (56.0%) to $826 in 2000 from $1,876 in 1999 as revenue decreased by 36.2%. As with ASC, our cost of service is labor intensive. Labor has a more fixed nature such that higher levels of

<PAGE>

service revenue produces higher gross margin while lower levels of service revenue produces less gross margin. In periods when service revenue decreases, it becomes more important for management of labor cost in order to prevent erosion of gross margin. Subsequent to the separation of our former IT Services Division into wholly owned subsidiary companies in July 2000, Synergy experienced lower labor utilization related to lower revenue. In addition, gross profit was impacted by increased employee benefit costs for technical staff related to changing from a partially self-funded health insurance plan to a fully funded plan.

INX gross loss was $35 and 5.0% of revenue. Since INX was formed in July, 2000, there is no history for comparison. Additionally, as a newly formed start-up operation, it had to have billable technical staff in place in order to be able to market their services, but was unable to utilize that technical staff sufficiently to cover their labor cost.

IT Staffing gross profit decreased by $30 (10.8%) to $248 in 2000 from $278 in 1999 as revenue increased by 25.2%. The decrease in gross profit is primarily due to a contract with a major customer, which limits the rates for that particular customer. In addition, gross profit was impacted by increased employee benefit costs for technical staff related to changing from a partially self-funded plan to a fully funded plan.

Stratasoft gross profit increased by $1,026 (65.9%) to $2,583 in 2000 from $1,557 in 1999. Gross margin for Stratasoft decreased to 47.6% in 2000 from 53.2% in 1999 but were in line with expectations for this business. The decreased gross margin was primarily due to inventory markdowns along with increased travel costs for technical staff traveling internationally for project installations. Gross margin was also negatively impacted by the mix of sales, with a higher proportion of total systems sales, which include a hardware component, as compared to software only sales, which do not have a hardware cost of goods component.

Corporate gross profit decreased by $413 (112.8%) to a loss of $47 in 2000 from profit of $366 in 1999 as revenue increased by 9.8%. Corporate gross margin decreased to (2.9)% in 2000 from 24.8% in 1999. The El Paso service business, which was sold on May 19, 2000, produced a gross loss of $7 in 2000 as compared to a gross profit of $339 in the same nine months in 1999, a decrease in profits of $346. We experienced certain costs related to winding up our service operations in the El Paso branch office that negatively impacted gross profit. The El Paso service business' gross profit was also impacted by the same costs of changing from a partially self-funded employee health insurance plan to a fully funded plan. Augmenting those results the gross margin on installations for the customer that was lost in the Computer Products Division sale produced gross profit of $42 in 2000 as compared to $27 in 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by $2,511 (49.9%) to $7,544 in 2000 from $5,033 in 1999. As a percentage of revenue, these expenses increased by 15.8%, to 52.4% of revenue in 2000 from 36.6% of revenue in 1999. Selling, general and administrative expenses include $425 and $362 of depreciation in the nine month periods ended September 30, 2000 and 1999, respectively. Overall, our spending was up primarily related to organizing the new subsidiary companies, hiring new members of management for these new companies and expanding the sales and marketing staff in the new companies. Additionally, legal fees relating to both litigation and collection efforts, travel expenses and administrative compensation for Stratasoft were higher than historical levels and higher than expected. Selling, general and administrative expenses for the Corporate segment increased by $1,012 (166.7%) to $1,619 in 2000 as compared to $607 in the same nine month period of 1999 primarily because of the administrative costs associated with billing and collecting of the installation revenue to wind up services for the customer lost in the sale of the Computer Products Division. Additionally, costs related to the maintenance of the corporate organization, including executive management compensation, corporate-level insurance, legal, director and investor relations expenses, which were previously allocated out to the operating segments, are now included in the Corporate segment beginning in the third quarter. Consolidated selling, general and administrative expenses were also $132 higher in the nine month period of 2000 as compared to the same period of 1999 due to costs related to changing our employee health insurance plan from a partially self-funded plan to a fully funded plan. During the quarter ended September 30, 2000, we identified issues related to the collectability of certain accounts receivable accounts and realized a higher than normal bad debt expense for the nine month period of 2000 in the approximate amount of $900 higher as compared to the same period of 1999.

OPERATING LOSS FROM CONTINUING OPERATIONS. Our operating loss increased by $3,494 (4921.1%) to $3,565 in 2000 from $71 in 1999 due, principally, to losses experienced of $1,667 in 2000 in the Corporate segment attributable to the loss of focus of the El Paso Service business that was sold in May 19, 2000. Additionally, Synergy experienced a loss in the nine-month period of $648 in 2000 as compared to income of $112 in the same period of 1999 due to reduced revenue and gross profit while being internally focused on reorganization. Augmenting the El Paso loss, a $256 loss was experienced relating to an installation contract with a customer from whom the revenue ceased with the sale of the CPD division and $621 relating to corporate overhead. ACS experienced the

<PAGE>

same type of losses as Synergy with $460 in 2000 as compared to income of $57 in the same nine-month period of 1999. INX, as a start up company experienced a loss of $362. Stratasoft had a loss of $364 for the nine month period in 2000 as compared to a income of $88 in the same period of 1999, a decrease of $452 attributable primarily to an increase in legal expense, travel expenses and increased sales staff.

INTEREST EXPENSE (INCOME), NET OF OTHER INCOME. Interest expense (income), net of other income, decreased by $131 to $(135) in 2000 compared to $4 in 1999. The decrease in expense is attributable to both the reduction of notes payable subsequent to the sale of the Computer Products Division and the investment of available cash.

DISCONTINUED OPERATIONS. On November 2, 1999 we approved a plan to sell or close our Telecom Systems Division. A sale of certain assets of the division and its ongoing operations closed on March 16, 2000. As a consequence of these events, the operations of Telecom Systems are reported as discontinued operations. The company experienced a loss on disposal of $344 (net of taxes of $177) in the nine months ended September 30, 2000 from this discontinued operation. The loss on discontinued operations related to Telecom Systems in the nine months ended September 30, 1999 was $687, net of a tax benefit of $354.

On March 16, 2000 we entered into an agreement to sell certain assets of, and the ongoing operation of, our Computer Products Division. The sale transaction closed on May 19, 2000. As a consequence of these events, the operations of Computer Products are reported as discontinued operations. For the nine months ended September 30, 2000 the company experienced net income on the discontinued operations of the Computer Products Division of $301 (net of taxes of $156) In addition, we experienced a gain on disposal of $3,736 (net of taxes of $1,925) related to the transaction. The income from discontinued operations related to Computer Products in the nine months ended September 30, 1999 was $660, net of taxes of $340.

NET INCOME. Net income increased $1,429 to $1,337 in 2000 as compared to a loss of $92 for the same nine-month period in 1999. Net loss on continuing operations, after a benefit for income taxes totaling $1,075 (reflecting an effective tax rate of 31.4% in 2000 compared to 4.5% in 1999), decreased by $2,290 to a loss of $2,354 in 2000 compared to $64 in 1999. Net income on discontinued operations was $300 (net of tax of $156) as compared to a lost of $28 (net of tax benefit of $12) in 1999. Additionally, a gain on disposal of $3,392, net of taxes of $1,748 was recognized in the nine months ended September 30, 2000.

Liquidity and Capital Resources

Our working capital was $11,947 and $9,567 at September 30, 2000 and December 31, 1999, respectively. As of September 30, 2000, we had outstanding borrowings of $244 and we had excess available borrowing base of $571 under our Deutsche Financial Services credit facility. We used the proceeds from the sale of our Computer Products Division and certain assets of IT services business located in El Paso, Texas to repay $9,300 in debt, which represented all of our secured debt, to Deutsche Financial Services ("DFS"). We expect to satisfy our capital requirements from our existing cash balances, collection of our accounts receivables and borrowings under our credit facilities.

Cash Flow

Operating activities provided net cash totaling $20,052 during the nine months ended September 30, 2000. Operating activities provided net cash during the period primarily because of cash provided by a decrease in accounts receivable ($32,096) as well as proceeds from the sale of the Computer Products Division of ($16,161) offset by a decrease in accounts payable ($19,901) and accrued expenses ($1,758). The decrease in accounts payable was primarily the result of normal payment of payables, which had swelled due to the higher level of sales in the fourth quarter of 1999. The decrease in accrued liabilities results from lower accruals for personnel costs resulting from the sale of the Computer Products Division. The decrease in accounts receivable was primarily the result of lower sales and ultimately a ceasing of sales in our discontinued Computer Product Division and an increased emphasis on collections thereafter.

Investing activities used cash totaling $54 during the nine months ended September 30, 2000 and consisted of proceeds of the sale of fixed assets related to the sale of the Computer Products Division offset by capital expenditures.

Financing activities used cash totaling $15,883 primarily because borrowings were reduced under our credit facility during the nine months ended September 30, 2000.

<PAGE>

Asset Management

We had accounts receivable, net of allowance for doubtful accounts, of $5,630 at September 30, 2000. The number of days' sales outstanding in accounts receivable from our continuing operations was 67.60 days, which is higher than the 60 days outstanding at December 31, 1999.

Current Debt Obligations

Historically, we have satisfied our cash requirements principally through borrowings under our lines of credit and through operations. We maintain a cash position sufficient to pay due obligations and expenses. Should the amount of cash available fall below our immediate needs, we request advances under a credit facility provided by the DFS facility.

On May 19, 2000, the day we closed the sale of our Computer Product Division, we amended our DFS Facility to decrease the total credit available under the facility from $30,000 to $10,000 subject to borrowing base limitations that are generally computed as a percentage of various classes of eligible accounts receivable and qualifying inventory. Credit available under the DFS Facility for floor plan financing of inventory from approved manufacturers (the "Inventory Line") is $5,000. Available credit under the DFS Facility, net of

Inventory Line advances, is $5,000, which is used primarily to carry accounts receivable and for other working capital and general corporate purposes (the "Accounts Line"). Borrowings under the Accounts Line bear interest at the fluctuating prime rate minus 1.0% per annum. Under the Inventory Line, DFS pays our inventory vendors directly, generally in exchange for negotiated financial incentives. Typically, the financial incentives received are such that DFS does not charge us interest until 40 days after the transaction is financed, at which time we are required to either pay the full invoice amount of the inventory purchased from corporate funds or to borrow under the Accounts Line for the amount due to DFS. Inventory Line advances not paid within 40 days after the financing date bear interest at the fluctuating prime rate plus 5.0%. For purposes of calculating interest charges the minimum prime rate under the DFS Facility is 7.0%.

The DFS Facility is collateralized by a security interest in substantially all of our assets, including our accounts receivable, inventory, equipment and bank accounts. Collections of our accounts receivable are required to be applied through a lockbox arrangement to repay indebtedness to DFS; however, DFS has amended the lockbox agreement to make such arrangements contingent upon certain financial ratios. Provided we are in compliance with its debt to tangible net worth covenant, we have discretion over the use and application of the funds collected in the lockbox. If we exceed that financial ratio, DFS may require that lockbox payments be applied to reduce our indebtedness to DFS. If in the future DFS requires that all lockbox payments be applied to reduce our indebtedness, we would be required to seek funding from DFS or other sources to meet substantially all of our cash needs.

Under the DFS Facility we are required to maintain (i) a tangible net worth of $10,000, defined under the agreement as book value of assets (excluding intangibles such as receivables from officers, directors, employees, stockholders and affiliates, net leasehold improvements, goodwill, prepaid expenses, franchise fees and other similar items) less liabilities (ii) a ratio of debt minus subordinated debt to tangible net worth of 4 to 1 and (iii) a ratio of current tangible assets to current liabilities of not less than 1.25 to 1.

We have a $2,000 credit facility with IBM Credit Corporation (the "IBMCC Facility") for the purchase of IBM branded inventory from certain suppliers. Advances under the IBMCC Facility are typically interest free for 30 days after the financing date for transactions in which adequate financial incentives are received by IBMCC from the vendor. Within 30 days after the financing date, the full amount of invoices for inventory financed through IBMCC is required to be paid. Amounts remaining outstanding thereafter bear interest at the fluctuating prime rate (but not less than 6.5%) plus 6.0%. IBMCC retains a security interest in the inventory financed and is immediately terminable by either party.

Both of our borrowing facilities prohibit the payment of dividends unless consented to by the lender.

<PAGE>

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We incur certain market risks related to interest rate variations because we hold floating rate debt. Based upon the average amount of debt outstanding during the nine months ended September 30, 2000, a one-percent increase in interest rates paid by us on our debt would have resulted in an increase in interest expense of approximately $49 for the period.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 1, 2000, a competitor brought a suit against our wholly owned subsidiary Stratasoft, Inc. in ESHARE TECHNOLOGIES, INC. AND INVENTIONS, INC. V STRATASOFT, INC., Cause No. 1 99-CV-2303 for the United States District Court for the Northern District of Georgia Atlanta Division. The plaintiff alleges infringement of certain patents owned by the competitor and is seeking a permanent injunction to prevent Stratasoft, Inc. from manufacturing, selling, offering for sale or using the alleged infringing products covered by patents owned by Eshare Technology, Inc. et al, as well as unspecified monetary damages. The suit is in its early stages of discovery, and therefore we are unable to determine the ultimate costs of this matter. We believe that this suit is without merit and intend to vigorously defend such action

On May 16, 2000, Jack B. Corey ("Corey") filed suit against the Company in JACK B. COREY V. ALLSTAR SYSTEMS, INC., Cause No. 2000-24796, in the District Court of Harris County, Texas, 113th Judicial District, seeking to enjoin the sale of its computer product division and certain other assets to Amherst Technologies, and for unspecified damages. On May 17, 2000, a state court denied Corey's Application for Temporary Restraining Order and on May 22, 2000, a second state court denied his Application for a Temporary Injunction and for Expedited Discovery as moot. The present pleadings lack specificity as to Corey's claim for damages and it is unclear at this time whether Corey will pursue such a claim. However, the Company strongly denies that it engaged in any improper conduct with regard to the sale of its assets and intends to vigorously defend any claim that might be pursued by Corey.

We are party to other litigation and claims which management believes are normal in the course of its operations; while the results of such litigation and claims cannot be predicted with certainty. We believe the final outcome of such matters will not have a materially adverse effect on its results of operations or financial position.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

I-Sector Corporation.

November 14, 2000 By: /s/ JAMES H. LONG

Date James H. Long, Chief Executive Officer,
President and Chairman of the Board
(Principal Financial and Accounting Officer)

</TEXT>
</DOCUMENT>