

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities and Exchange Act of 1934

Date of Report: (Date of earliest event reported): November 10, 2003 (September 30, 2003)

I-Sector Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

0-21479
(Commission File Number)

76-0515249
(IRS Employer Identification No.)

6401 Southwest Freeway
Houston, Texas 77074
(Address of Registrant's principal executive offices)

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

(Not Applicable)
(Former name or former address, if changed since last report)

ITEM 12. Results of Operations and Financial Condition

The following comments on earnings for the quarter ended September 30, 2003 was released on November 10, 2003:

I-Sector Reports Its Third Quarter Results

HOUSTON--(BUSINESS WIRE)--Nov. 10, 2003--I-Sector Corporation (Nasdaq: [ISEC](#) - [news](#)), announced today its results for its third quarter ended September 30, 2003.

FINANCIAL RESULTS

For the company's third quarter ended September 30, 2003:

- Revenue from continuing operations increased 81% to \$21.0 million compared to \$11.6 million for the corresponding prior year period.
- Net profit for the quarter improved to a profit of \$194,000 from a loss of \$290,000 for the corresponding prior year period.
- Basic earnings per share was a profit of \$0.05 for the quarter compared to a loss of \$0.08 for the corresponding prior year period.
- Fully diluted earnings per share was a profit of \$0.04 for the quarter compared to a loss of \$0.08 for the corresponding prior year period.

Commenting on the results for the second quarter, James H. Long, President and CEO of the company stated, "We are very pleased with the substantial year-over-year and sequential improvement in our results. Demand was better than we had expected, with particularly strong customer demand in our Internetwork Experts subsidiary as well as our Stratasoft subsidiary. 81% growth in revenue, along with an improvement in gross margin, allowed us to record a 106% increase in gross profit, enabling us to post our first quarterly profit since selling off major divisions of the company and restructuring in 2000. We are very pleased with this exceptional performance and pleased to be able to report that we attained profitability earlier than we had anticipated. We were particularly pleased with the substantial growth recorded by our Internetwork Experts subsidiary, which posted over 100% year-over-year growth in revenue, with services revenues growing over 150%, raising gross margin and driving 164% improvement in gross profit. Our Stratasoft subsidiary, which posted over 38% revenue growth, also recorded improved gross margin, which helped drive 75% growth in gross profit. This was truly an exceptional quarter, and I want to take this opportunity to publicly thank our employees, whose competence and diligence made these outstanding results possible. The investments we've made in our business have positioned us well to take advantage of improving market conditions, and we are excited about our prospects for the future, including how we are positioned to benefit from what we see is a rapidly improving market for IP Telephony and Voice over IP technology."

STATUS OF SEC REVIEW OF FILINGS

On August 15, 2003, I-Sector reported that the Securities and Exchange Commission was conducting a routine review by the SEC of its Form 10-K for the year ended December 31, 2002 and its Form 10-Q for the quarter ended March 31, 2003. In October the SEC concluded its review and there was minimal effect on our financial reporting.

OUTLOOK

The following statements are made by the company and are based upon current expectations. These statements are forward-looking, and actual results may differ materially. The weakness in general economic conditions and the slowdown in corporate information technology spending experienced during

the past three years has made firm forecasting of future financial performance more difficult than would otherwise be possible and the visibility for many public technology companies is somewhat limited at this time as compared to the past.

- Our strategy is to produce rapid growth of our subsidiary companies, both through internally generated growth and possibly through selective acquisitions.
- While our third quarter was exceptionally strong, our outlook for the near-term future quarters remains approximately the same as provided in our previous outlook update made on August 20, 2003.
- We expect revenue for our fourth quarter ending December 31, 2003 of approximately \$17 million to \$18 million, an improvement of approximately 55% to 65% as compared to the year earlier period, even though such levels of revenue would be down somewhat as compared to the exceptionally strong third quarter.
- We expect to post a net profit of approximately \$75,000 to \$125,000 for the fourth quarter ending December 31, 2003 as compared to a loss of \$604,000 in the year earlier period, even though such profitability would be down sequentially as compared to the exceptionally strong third quarter.
- For our fourth quarter ending December 31, 2003 we expect the fully-diluted number of shares outstanding to be approximately 4 million, and the per share net profit to be approximately \$0.02 to \$0.03 per share.
- Providing an outlook for any period further out than the near-term quarter is more challenging and is subject to a lesser degree of accuracy than our near-term outlook and an attempt by us to predict results for periods further in the future than the near-term quarter is subject to numerous risks and uncertainties. We caution readers to consider this fact, and to pay particular attention to the statements made in the Safe Harbor Statement below. Based upon our current view of market conditions, input received by us from our customers, our expected sales and marketing efforts and our expected expense structure, our current expectations for our first quarter ending March 31, 2004 are for revenue of approximately \$18 million to \$20 million with net profitability ranging from approximately \$100,000 to \$200,000. Looking further out, we currently expect revenue for our second quarter ending June 30, 2004, to be roughly in the range of approximately \$19 million to \$21 million, with net profitability ranging from approximately \$100,000 to \$250,000.
- The forecasts set forth above are for the current organization and do not include the effect of any future acquisitions. In addition to internally generated growth, we anticipate possibly making selective acquisitions during the next twelve months and beyond that we expect will, if consummated, add additional revenue. There is no guarantee that any other suitable acquisitions will be identified or that any other transactions will be consummated.

Regarding the company's outlook for the future, James H. Long, President and CEO of the company stated, "While the third quarter results were better than had been expected, the revenue production was exceptionally strong, and therefore, while we anticipate substantial year-over-year improvement in the fourth quarter as per our previous forecast, we do not anticipate sequential improvement in the fourth quarter as compared to the exceptional results of the third quarter."

SAFE HARBOR STATEMENT

The statements contained in this document that are not statements of historical fact, including particularly the statements made in the Outlook section, including but not limited to, statements identified by the use

of terms such as “anticipate,” “appear,” “believe,” “could,” “estimate,” “expect,” “hope,” “indicate,” “intend,” “likely,” “may,” “might,” “plan,” “potential,” “project,” “seek,” “should,” “will,” “would,” and other variations or negative expressions of these terms, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The actual results of the future events described in the forward-looking statements in this document could differ materially from those stated in the forward-looking statements due to numerous factors including:

- Market and economic conditions
- Risks associated with entry into new markets
- The company’s ability to attract and retain key management, sales and technical staff
- The company's ability to identify suitable acquisition candidates and successfully integrate acquired companies
- The estimated needs of customers as conveyed to the company and the nature and volume of products and services anticipated to be delivered
- The Company's ability to obtain sufficient volumes of products for resale
- The Company’s ability to finance continued growth
- Unexpected losses related customer credit risk
- Unforeseen costs and results related to acquiring and integrating new businesses
- Catastrophic events
- Uncertainties related to rapid changes in the information technology industry
- Other risks and uncertainties set forth from time to time in I- Sector's public statements and its most recent annual report on Form 10K and other public reports and filings

Recipients of this document are cautioned to consider these risks and uncertainties and to not place undue reliance on these forward-looking statements.

The company expressly disclaims any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change in the company's expectations with regard thereto or any change in events, conditions or circumstances upon which any statement is based.

ABOUT I-SECTOR CORPORATION

I-Sector Corporation, headquartered in Houston, Texas, owns and operates companies that are primarily engaged in the area of information technology. Additional information about I-Sector is available on the Internet at www.I-Sector.com.

Company Contact:

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Investor Relations Contact:

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

| | September 30, <u>2003</u> (Unaudited) | December 31, <u>2002</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,954 | \$ 3,491 |
| Accounts receivable-trade, net of allowance of \$1,965 and \$2,153 | 10,951 | 6,525 |
| Accounts receivable - affiliates | 38 | 99 |
| Accounts receivable - other | 30 | 57 |
| Notes receivable | 655 | 898 |
| Inventory | 1,543 | 781 |
| Cost and estimated earnings in excess of billings | 1,370 | 709 |
| Income taxes receivable | - | 488 |
| Other current assets | <u>465</u> | <u>356</u> |
| Total current assets | 17,006 | 13,404 |
| Property and equipment, net | 1,221 | 1,115 |
| Patent licenses, net of amortization of \$236 and \$148 | 879 | 955 |
| Other intangible assets, net of amortization of \$546 and \$356 | 487 | 207 |
| Other assets | <u>232</u> | <u>70</u> |
| Total | \$ <u><u>19,825</u></u> | \$ <u><u>15,751</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long term debt | \$ 525 | \$ 157 |
| Accounts payable | 8,801 | 4,844 |
| Billings in excess of cost and estimated earnings | 105 | 75 |
| Accrued expenses | 3,157 | 1,803 |
| Net liabilities related to discontinued operations | 600 | 904 |
| Deferred revenue | <u>157</u> | <u>81</u> |
| Total current liabilities | 13,345 | 7,864 |
| Long term debt, net of current maturities | 203 | 247 |
| 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, 4,518,955 and 4,441,325 shares issued at September 30, 2003 and December 31, 2002 | 45 | 44 |
| Additional paid-in capital | 10,473 | 10,379 |
| Deferred compensation | 78 | - |
| Treasury stock, 811,800 shares, at cost | (1,373) | (1,373) |
| Retained deficit | <u>(2,946)</u> | <u>(1,410)</u> |
| Total stockholders' equity | 6,277 | 7,640 |
| Total | \$ <u><u>19,825</u></u> | \$ <u><u>15,751</u></u> |

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

| | <u>Three Months Ended September 30,</u> | |
|-----------------------------------------------------------------------------|-----------------------------------------|------------------|
| | <u>2003</u> | <u>2002</u> |
| Revenues: | | |
| Products | \$ 16,302 | \$ 8,326 |
| Services | 2,264 | 1,538 |
| Custom projects | <u>2,415</u> | <u>1,743</u> |
| Total revenues | <u>20,981</u> | <u>11,607</u> |
| Cost of sales and services: | | |
| Products | 14,066 | 7,435 |
| Services | 1,396 | 1,064 |
| Custom projects | <u>728</u> | <u>781</u> |
| Total cost of sales and services | <u>16,190</u> | <u>9,280</u> |
| Gross profit | 4,791 | 2,327 |
| Selling, general and administrative expenses | <u>4,621</u> | <u>2,619</u> |
| Operating income (loss) | 170 | (292) |
| Interest and other income (expense) | <u>(11)</u> | <u>3</u> |
| Income (loss) from continuing operations before benefit for income taxes | 159 | (289) |
| Benefit for income taxes | <u>(12)</u> | <u>-</u> |
| Net income (loss) from continuing operations | 171 | (289) |
| Discontinued operations: | | |
| Gain (loss) on disposal of discontinued operations, net of taxes | <u>23</u> | <u>(1)</u> |
| Net income (loss) | <u>\$ 194</u> | <u>\$ (290)</u> |
| Net income (loss) per share: | | |
| Basic: | | |
| Net income (loss) from continuing operations | \$ 0.04 | \$ (0.08) |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$ 0.05</u> | <u>\$ (0.08)</u> |
| Diluted: | | |
| Net income (loss) from continuing operations | \$ 0.03 | \$ (0.08) |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$ 0.04</u> | <u>\$ (0.08)</u> |
| Shares used in computing net income (loss) per share: | | |
| Basic | <u>3,703,206</u> | <u>3,629,525</u> |
| Diluted | <u>3,974,298</u> | <u>3,629,525</u> |

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

| | <u>Nine Months Ended September 30,</u> | |
|--------------------------------------------------------------------|----------------------------------------|-----------------------|
| | <u>2003</u> | <u>2002</u> |
| Revenues: | | |
| Products | \$ 35,655 | \$ 21,284 |
| Services | 5,282 | 4,220 |
| Custom projects | <u>5,995</u> | <u>5,571</u> |
| Total revenue | 46,932 | 31,075 |
| Cost of sales and services: | | |
| Products | 31,181 | 18,964 |
| Services | 3,852 | 3,355 |
| Custom projects | <u>2,104</u> | <u>2,488</u> |
| Total cost of sales and services | <u>37,137</u> | <u>24,807</u> |
| Gross profit | 9,795 | 6,268 |
| Selling, general and administrative expenses | <u>11,556</u> | <u>7,255</u> |
| Operating loss | (1,761) | (987) |
| Interest and other income | <u>93</u> | <u>1</u> |
| Loss from continuing operations before benefit for income taxes | (1,668) | (986) |
| Benefit for income taxes | <u>(93)</u> | <u>(1,189)</u> |
| Net (loss) income from continuing operations | (1,575) | 203 |
| Discontinued operations: | | |
| Gain on disposal of discontinued operations, net of taxes | <u>39</u> | <u>17</u> |
| Net (loss) income | \$ <u><u>(1,536)</u></u> | \$ <u><u>220</u></u> |
| Net (loss) income per share: | | |
| Basic: | | |
| Net (loss) income from continuing operations | \$ (0.43) | \$ 0.05 |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | <u>0.01</u> |
| Net (loss) income per share | \$ <u><u>(0.42)</u></u> | \$ <u><u>0.06</u></u> |
| Diluted: | | |
| Net (loss) income from continuing operations | \$ (0.43) | \$ 0.05 |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | <u>0.01</u> |
| Net (loss) income per share | \$ <u><u>(0.42)</u></u> | \$ <u><u>0.06</u></u> |
| Shares used in computing net income (loss) per share: | | |
| Basic | <u>3,643,346</u> | <u>3,736,704</u> |
| Diluted | <u>3,643,346</u> | <u>3,783,345</u> |

Three Months Ended September 30, 2003 Compared To Three Months Ended September 30, 2002

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, 2003 and 2002. The discussion below relates only to our continuing operations, unless otherwise noted.

| | <u>Three months ended September 30,</u> | | | |
|----------------------------------------------------|-----------------------------------------|--------------|------------------|--------------|
| | <u>2003</u> | | <u>2002</u> | |
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Revenues: | | | | |
| INX | \$ 17,346 | 82.7 | \$ 8,584 | 74.0 |
| Stratasoft | 2,415 | 11.5 | 1,743 | 15.0 |
| Valerent | 1,392 | 6.6 | 1,291 | 11.1 |
| Eliminations | <u>(172)</u> | <u>(0.8)</u> | <u>(11)</u> | <u>(0.1)</u> |
| Total revenue | 20,981 | 100.0 | 11,607 | 100.0 |
| Gross profit: | | | | |
| INX | 2,793 | 16.1 | 1,057 | 12.3 |
| Stratasoft | 1,687 | 69.9 | 962 | 55.2 |
| Valerent | 312 | 22.4 | 308 | 23.9 |
| Eliminations | <u>(1)</u> | <u>0.0</u> | <u>0</u> | <u>0.0</u> |
| Total gross profit | 4,791 | 22.8 | 2,327 | 20.0 |
| Selling, general and administrative expenses: | | | | |
| INX | 2,126 | 12.3 | 966 | 11.3 |
| Stratasoft | 1,754 | 72.6 | 914 | 52.4 |
| Valerent | 455 | 32.7 | 569 | 44.1 |
| Corporate | 287 | N/A | 170 | N/A |
| Eliminations | <u>(1)</u> | <u>0.0</u> | <u>0</u> | <u>0.0</u> |
| Total selling, general and administrative expenses | 4,621 | 22.0 | 2,619 | 22.6 |
| Operating income (loss): | | | | |
| INX | 667 | 3.8 | 91 | 1.1 |
| Stratasoft | (67) | (27.7) | 48 | 2.8 |
| Valerent | (143) | (10.3) | (261) | (20.2) |
| Corporate | <u>(287)</u> | <u>N/A</u> | <u>(170)</u> | <u>N/A</u> |
| Total operating income (loss) | 170 | 0.8 | (292) | (2.5) |
| Interest and other income (expense) | <u>(11)</u> | <u>(0.0)</u> | <u>3</u> | <u>(0.0)</u> |
| Income (loss) before benefit for income taxes | 159 | 0.8 | (289) | (2.5) |
| Benefit for income taxes | <u>(12)</u> | <u>(0.0)</u> | <u>0</u> | <u>0.0</u> |
| Net income (loss) from continuing operations | 171 | 0.8 | (289) | (2.5) |
| Discontinued operations: | | | | |
| Gain on disposal | <u>23</u> | <u>0.1</u> | <u>(1)</u> | <u>(0.0)</u> |
| Net income (loss) | <u>\$ 194</u> | <u>0.9</u> | <u>\$ (290)</u> | <u>(2.5)</u> |
| Net income (loss) per share: | | | | |
| Basic: | | | | |
| Net income (loss) from continuing operations | \$ 0.04 | | \$ (0.08) | |
| Gain on disposal of discontinued operations | | | | |
| Net of taxes | <u>0.01</u> | | <u>0.00</u> | |
| Net income (loss) per share | <u>\$ 0.05</u> | | <u>\$ (0.08)</u> | |
| Diluted: | | | | |
| Net income (loss) from continuing operations | \$ 0.03 | | \$ (0.08) | |
| Gain on disposal of discontinued operations | | | | |
| Net of taxes | <u>0.01</u> | | <u>0.00</u> | |
| Net income (loss) per share | <u>\$ 0.04</u> | | <u>\$ (0.08)</u> | |

Nine Months Ended September 30, 2003 Compared To Nine Months Ended September 30, 2002

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, 2003 and 2002. The discussion below relates only to our continuing operations, unless otherwise noted.

| | Nine months ended September 30, | | | |
|-----------------------------------------------------------|---------------------------------|--------------|----------------|--------------|
| | 2003 | | 2002 | |
| | Amount | % | Amount | % |
| Revenue | | | | |
| INX | \$ 37,520 | 79.9 | \$ 21,727 | 69.9 |
| Stratasoft | 5,995 | 12.8 | 5,571 | 17.9 |
| Valerent | 3,781 | 8.1 | 3,983 | 12.8 |
| Eliminations | <u>(364)</u> | <u>(0.8)</u> | <u>(206)</u> | <u>(0.6)</u> |
| Total revenue | 46,932 | 100.0 | 31,075 | 100.0 |
| Gross profit: | | | | |
| INX | 5,004 | 13.3 | 2,249 | 10.4 |
| Stratasoft | 3,891 | 64.9 | 3,083 | 55.3 |
| Valerent | 902 | 23.9 | 936 | 23.5 |
| Eliminations | <u>(2)</u> | <u>0.0</u> | <u>0</u> | <u>0.0</u> |
| Total gross profit | 9,795 | 20.9 | 6,268 | 20.2 |
| Selling, general and administrative expenses: | | | | |
| INX | 4,518 | 12.0 | 2,446 | 11.3 |
| Stratasoft | 4,694 | 78.3 | 2,600 | 46.7 |
| Valerent | 1,551 | 41.0 | 1,723 | 43.3 |
| Corporate | 795 | N/A | 486 | N/A |
| Eliminations | <u>(2)</u> | <u>0.0</u> | <u>0</u> | <u>0.0</u> |
| Total selling, general and administrative Expenses | 11,556 | 24.6 | 7,255 | 23.3 |
| Operating (loss) income: | | | | |
| INX | 486 | 1.3 | (197) | (0.9) |
| Stratasoft | (803) | (13.4) | 483 | 8.7 |
| Valerent | (649) | (17.2) | (787) | (19.8) |
| Corporate | <u>(795)</u> | <u>N/A</u> | <u>(486)</u> | <u>N/A</u> |
| Total operating loss | (1,761) | (3.8) | (987) | (3.2) |
| Interest and other income | <u>93</u> | <u>0.2</u> | <u>1</u> | <u>(0.0)</u> |
| Loss before benefit for income taxes | (1,668) | (3.6) | (986) | (3.2) |
| Benefit for income taxes | <u>(93)</u> | <u>(0.2)</u> | <u>(1,189)</u> | <u>(3.8)</u> |
| Net (loss) income from continuing operations | (1,575) | (3.4) | 203 | 0.6 |
| Discontinued operations: | | | | |
| Gain on disposal | <u>39</u> | <u>0.1</u> | <u>17</u> | <u>0.1</u> |
| Net (loss) income | <u>\$ (1,536)</u> | <u>(3.3)</u> | <u>\$ 220</u> | <u>0.7</u> |
| Net (loss) income per share: | | | | |
| Basic: | | | | |
| Net (loss) income from continuing operations | \$ (0.43) | | \$ 0.05 | |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | | <u>0.01</u> | |
| Net (loss) income per share | <u>\$ (0.42)</u> | | <u>\$ 0.06</u> | |
| Diluted: | | | | |
| Net (loss) income from continuing operations | \$ (0.43) | | \$ 0.05 | |
| Gain on disposal of discontinued operations, net of taxes | <u>0.01</u> | | <u>0.01</u> | |
| Net (loss) income per share | <u>\$ (0.42)</u> | | <u>\$ 0.06</u> | |

SIGNATURE

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 hereunto duly authorized.

Date: November 12, 2003

I-SECTOR CORPORATION

By: /s/ JAMES H. LONG

James H. Long
Chief Executive Officer, Chief
Financial Officer, President and
Chairman of the Board