

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): May 14, 2003 (March 31, 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 5. Other Events

The following announcement of earnings for the quarter ended March 31, 2003 was released on May 15, 2003:

HOUSTON, May 15, 2003 /PRNewswire/ -- I-Sector Corporation (Nasdaq: [ISEC](#) - [news](#)), today announced financial results for its first quarter ended March 31, 2002 and provided an update on its outlook for the future.

FINANCIAL RESULTS

First quarter results were approximately in line with what the company announced in its statement of March 31, 2003, in which revenue of approximately \$9.3 million to \$9.6 million and a net loss in the range of \$900,000 to \$1.1 million were forecast.

For the company's first quarter ended March 31, 2002:

- Revenue from continuing operations increased 9% to \$10.1 million compared to \$9.2 million for the corresponding prior year period.
- The net loss from continuing operations before income taxes was \$1.1 million compared to a net loss from continuing operations before income taxes of \$383,000 for the corresponding prior year period.
- Net loss for the quarter was a loss of \$1.1 million for the current period compared to a net income of \$805,000 for the corresponding prior year period, which contained an income tax benefit of \$1.2 million.
- Earnings per share (basic and diluted) was a net loss of \$0.30 for the quarter compared to a net income per share of \$0.21 for the corresponding prior year period.

Commenting on the results for the first quarter, James H. Long, President and CEO of the company stated, "As we announced on March 31, 2003, our revenue for the first quarter was negatively impacted by softness related to what we believe was an unwillingness of organizations to proceed with capital expenditures during the period leading up to the Iraq conflict. In addition, we recognized costs during the first quarter related to the startup of our Stratasoft India operation, as well as costs associated with expanding our Valerent business unit. The combination of these costs and lower revenue contributed to an increased net loss for the first quarter, as expected."

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 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 of complementary companies.
- We expect revenue for our second quarter ending June 30, 2003 to grow substantially to approximately \$13 million to \$15 million. The substantial sequential improvement in revenue is expected to be primarily related to increased revenue in each of our three subsidiary companies, with the most substantial increases at our Internetwork Experts and Valerent subsidiaries. Each

of our subsidiary companies are seeing a substantial improvement in their customer's willingness to move forward with capital expenditures as compared to during the first quarter, during which we believe many customers held off on purchases during the period leading up to the Iraq conflict. In addition, both Valarent and Stratasoft are expected to benefit from the expansion efforts that each has recently made during the previous two quarters and Internetwork Experts is expected to benefit from its recently announced acquisition of Digital Precision.

- We expect the net loss for the second quarter ending June 30, 2003 to be approximately \$500,000 to \$700,000. The sequential improvement in the net loss as compared to the first quarter is expected to be primarily related to the expected increase in revenue, somewhat offset by continued costs related to the expansion of all three of our subsidiary companies.
- We expect the per share net loss for the second quarter ending June 30, 2003 to be approximately \$0.12 to \$0.17 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. Based upon our current view of market conditions, our expected sales and marketing efforts and our expected expense structure, our current expectations for our third quarter ending September 30, 2003 are for revenue of approximately \$14 million to \$18 million with a net loss of approximately \$200,000 to \$500,000. Looking further out, we currently expect revenue for our fourth quarter ending December 31, 2003, to be roughly in the range of approximately \$15 million to \$20 million, with net profitability ranging between approximately a net loss of \$100,000 to a net profit of \$200,000. During 2004 and beyond we generally expect revenue to continue to increase and our operating profitability to continue to improve. Our expected continued revenue improvements are based upon our previous and ongoing expenditures to expand all three of our subsidiary companies, recent contract wins, as well as an expected improvement in general market conditions.
- 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, "The sales funnel reports generated by the sales staff of our subsidiary companies, which is our best indication of near-term future outlook for sales, shows a marked improvement in activity for all three of our subsidiary companies. The recently announced acquisition of Digital Precision by Internetwork Experts appears to be integrating well and providing the anticipated positive results. The recent expenditures that we have made to expand our Stratasoft and Valarent subsidiaries is driving sales activity, as both of those business units are showing marked improvements in the level of business activity."

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 ability to attract and retain key management, sales and technical staff
- 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, operates or invests in 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:

James H. Long
President and Chief Executive Officer
(713) 795-2000

Investor Relations Contact:

PR Financial Marketing LLC.
Jim Blackman, President
(713) 256-0369
jimblackman@prfinancialmarketing.com

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

	March 31, <u>2003</u>	December 31, <u>2002</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,989	\$ 3,491
Accounts receivable, net	6,027	6,525
Accounts receivable - affiliates	77	99
Accounts receivable - other	32	57
Notes receivable	629	898
Inventory	868	781
Cost and estimated earnings in excess of billings	908	709
Income taxes receivable	488	488
Other current assets	<u>501</u>	<u>356</u>
Total current assets	11,519	13,404
Property and equipment, net	1,173	1,115
Intangible assets	1,114	1,162
Other assets	<u>43</u>	<u>70</u>
Total	<u>\$ 13,849</u>	<u>\$ 15,751</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	\$ 108	\$ 157
Accounts payable	4,064	4,844
Billings in excess of cost and estimated earnings	269	75
Accrued expenses	1,929	1,803
Net liabilities related to discontinued operations	646	904
Deferred service revenue	<u>55</u>	<u>81</u>
Total current liabilities	7,071	7,864
Long term debt	228	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, 4,442,525 and 4,441,325 shares issued at March 31, 2003 and December 31, 2002	44	44
Additional paid in capital	10,380	10,379
Treasury stock (811,800 shares, at cost) at March 31, 2003 and December 31, 2002	(1,373)	(1,373)
Retained earnings	<u>(2,501)</u>	<u>(1,410)</u>
Total stockholders' equity	6,550	7,640
Total	<u>\$ 13,849</u>	<u>\$ 15,751</u>

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

Three Months Ended March 31,

	<u>2003</u>	<u>2002</u>
Total revenue	\$ 10,080	\$ 9,208
Cost of sales and services	<u>7,805</u>	<u>6,974</u>
Gross profit	2,275	2,234
Selling, general and administrative expenses	<u>3,376</u>	<u>2,622</u>
Operating loss	(1,101)	(388)
Interest and other income	<u>10</u>	<u>5</u>
Loss from continuing operations before benefit for income taxes	(1,091)	(383)
Benefit for income taxes	<u>(1,182)</u>	<u>(1,182)</u>
Net income (loss) from continuing operations	(1,091)	799
Discontinued Operations:		
Loss on disposal, net of taxes	<u>6</u>	<u>6</u>
Net loss	\$ <u><u>(1,091)</u></u>	\$ <u><u>805</u></u>
Net income (loss) per share:		
Basic:		
Net loss from continuing operations	\$ (0.30)	\$ 0.21
Loss on disposal, net of taxes	<u>0.00</u>	<u>0.00</u>
Net loss per share	\$ <u><u>(0.30)</u></u>	\$ <u><u>0.21</u></u>
Diluted:		
Net loss from continuing operations	\$ (0.30)	\$ 0.21
Loss on disposal, net of taxes	<u>0.00</u>	<u>0.00</u>
Net loss per share	\$ <u><u>(0.30)</u></u>	\$ <u><u>0.21</u></u>
Weighted average shares outstanding:		
Basic	<u>3,630,285</u>	<u>3,849,525</u>
Diluted	<u>3,630,285</u>	<u>3,849,525</u>

Three Months Ended March 31, 2003 Compared To Three Months Ended March 31, 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 March 31, 2003 and 2002. The discussion below relates only to our continuing operations, unless otherwise noted.

	<u>Three months ended March 31,</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenue				
Valerent	\$ 1,005	10.0	\$ 1,465	15.9
INX	7,138	70.8	5,713	62.0
Stratasoft	2,069	20.5	2,171	23.6
Corporate				
Elimination	<u>(132)</u>	<u>(1.3)</u>	<u>(141)</u>	<u>(1.5)</u>
Total revenue	10,080	100.0	9,208	100.0
Gross profit (loss):				
Valerent	229	22.8	315	21.5
INX	778	10.9	585	10.2
Stratasoft	1,268	61.3	1,334	61.4
Corporate	0	N/A	0	N/A
Elimination	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total gross profit	2,275	22.6	2,234	24.3
Selling, general and administrative expenses:				
Valerent	560	55.7	653	44.6
INX	945	13.2	789	13.8
Stratasoft	1,596	77.1	1,011	46.6
Corporate	<u>275</u>	<u>N/A</u>	<u>169</u>	<u>N/A</u>
Total selling, general and administrative Expenses	3,376	33.5	2,622	28.5
Operating loss:				
Valerent	(331)	(32.9)	(338)	(23.1)
INX	(167)	(2.3)	(204)	(3.6)
Stratasoft	(328)	(15.9)	323	14.9
Corporate	<u>(275)</u>	<u>N/A</u>	<u>(169)</u>	<u>N/A</u>
Total operating loss	(1,101)	(10.9)	(388)	(4.2)
Interest and other income	<u>10</u>	<u>0.1</u>	<u>5</u>	<u>0.0</u>
Loss before benefit for income taxes	(1,091)	(10.8)	(383)	(4.2)
Benefit for income taxes	<u>(0.0)</u>	<u>(0.0)</u>	<u>1,182</u>	<u>12.8</u>
Net (loss) income from continuing operations	(1,091)	(10.8)	799	8.6
Discontinued operations:				
Gain on disposal	<u>0.0</u>	<u>0.0</u>	<u>6</u>	<u>0.1</u>
Net (loss) income	\$ <u>(1,091)</u>	<u>(10.8)</u>	\$ <u>805</u>	<u>8.7</u>
Net (loss) income per share:				
Basic:				
Net (loss) income from continuing operations	\$ (0.30)		\$ 0.21	
Loss on disposal, net of taxes	<u>0.00</u>		<u>0.00</u>	
Net income (loss) per share	\$ <u>(0.30)</u>		\$ <u>0.21</u>	
Diluted:				
Net (loss) income from continuing operations	\$ (0.30)		\$ 0.21	
Loss on disposal, net of taxes	<u>0.00</u>		<u>0.00</u>	
Net income (loss) per share	\$ <u>(0.30)</u>		\$ <u>0.21</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: May 14, 2003

I-SECTOR CORPORATION

By: /s/ JAMES H. LONG

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