

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): December 31, 2003 (March 11, 2004)

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. Other Events

The following announcement of earnings for the quarter ended March 31, 2004 was released on May 12, 2004:

HOUSTON--(BUSINESS WIRE)--May 12, 2004--I-Sector Corporation (AMEX:[ISR](#) - [News](#); the "Company") announced today its financial results for its first quarter ended March 31, 2004.

Financial Results

Compared to the corresponding prior year period, for the Company's first quarter ended March 31, 2004:

- Revenue increased 41.6% to \$14.3 million
- Gross margin improved from 22.6% to 24.8%
- Gross profit increased 55.4%
- Net loss of \$1.1 million improved to a profit of \$39,000
- EPS improved from a loss of \$0.30 per share to a profit of \$0.01 per share

Commenting on the results, James H. Long, CEO of the Company, stated, "We are very pleased to be able to announce that the first quarter results exceeded the expectations we had presented at the time of our last earnings release. The quarter's results were favorably influenced, as compared to our prior expectations, by stronger customer demand late in the quarter, which helped push revenue above the high end of our previously announced expectations. We are particularly pleased with the performance of our InterNetwork Experts subsidiary, which produced almost 77% of our first quarter revenue. InterNetwork Experts produced 54% year-over-year revenue growth for the first quarter, with gross margin improving from less than 11% to over 18%. InterNetwork Experts' gross profit improved 158%, and their operating loss of \$167,000 improved to an operating profit of \$119,000. InterNetwork Expert's gross profit and operating profit were also favorably impacted this quarter by significant vendor incentives based on Cisco IP Telephony product sales, sales growth and customer satisfaction ratings. We are also extremely pleased with the fact that InterNetwork Experts was able to produce 91% growth in services revenues while improving service revenue gross margin from negative 8% last year to a positive gross margin of 35%."

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. We caution readers to consider this fact and to pay particular attention to the statements made in the Safe Harbor Statement below. We do not have contracts in hand that will generate the revenue that we expect for the current and upcoming quarters. We base our outlook for the future on our current view of market conditions, input received from our customers and our sales staff, our anticipated sales and marketing efforts, our anticipated vendor pricing for products that we resell, anticipated vendor rebates, and our anticipated expense structure.

- We expect revenue for our second quarter ending June 30, 2004, of approximately \$20 million to \$23 million, which represents growth of approximately 26% to 45% as compared to the corresponding prior year period.
- We expect a net profit of approximately \$150,000 to \$350,000 for our second quarter ending June 30, 2004, which compares to a loss of \$640,000 for the corresponding prior year period, with the variance between the high and low end of such range primarily dependent upon the level of revenue, the mix of low-margin and high-margin components of revenue, and variances in variable expense items.
- Providing an outlook for any period further out than the current quarter is more challenging and is subject to a lesser degree of accuracy than our current outlook. Attempts to predict results for periods further in the future than the current quarter are subject to increased risk and uncertainty as compared

to our attempt to predict the current quarter results and are based upon the limited information available to us at this time. That said, our current expectations for our third quarter ending September 30, 2004, are for revenue of approximately \$21 million to \$26 million, with net profit ranging from approximately \$600,000 to \$900,000. The increase in profitability as compared to our second quarter expectations is expected to result from both the increase in expected revenue as well as our expectation that certain manufacturer incentives with a measurement period ending in the third quarter are not expected to be earned and determinable until then.

- 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 making selective acquisitions during the next twelve months, and beyond that we expect will add additional revenue. There is no guarantee that any suitable acquisitions will be identified or that any acquisition transactions will be consummated.

Regarding the Company's outlook for the future, Mr. Long stated, "We have seen customer demand generally pick up over the past several months. In addition, we are now seeing larger customer transactions, as compared to the past several years, as customers begin to move forward with fully adopting IP Telephony technology and perform network infrastructure upgrades necessary to implement IP Telephony. As we continue to implement larger projects for customers, we expect to continue to see positive relative services revenue growth, and we expect that improving services revenues, together with continued somewhat improved services gross margins, will continue to enhance operating results. Having consummated our recent equity offering, we are working on further increasing our credit facilities to be able to finance substantially higher levels of revenue and moving forward with discussions with acquisition candidates, which we believe can help us to continue to drive market share gains and gain entrance to new geographic markets going forward."

Safe Harbor Statement

The statements contained in this document that are not statements of historical fact (including 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, including capital expenditures by enterprises for communications products and services
- The Company's ability to attract and retain key management, sales and technical staff
- Risks associated with entry into new markets
- The Company's ability to identify suitable acquisition candidates and successfully integrate acquired companies
- Broad market acceptance of Cisco-centric IP telephony products and technology
- The estimated needs of customers as conveyed to the Company and the nature and volume of products and services anticipated to be delivered
- Whether anticipated contracts from which we expect revenues, if any, in fact produce revenues, and whether that revenue, if any, is recognized in the quarters in which we expect it
- The Company's ability to obtain sufficient volumes of products for resale and maintain its relationship with its key supplier, Cisco Systems, Inc.
- The Company's ability to finance continued growth

- Unexpected losses related to customer credit risk
- Catastrophic events
- Uncertainties related to rapid changes in the information and communications technology industries
- Other risks and uncertainties set forth from time to time in the Company's public statements and its most recent Annual Report on Form 10-K for the year 2003

Recipients of this document are cautioned to consider these risks and uncertainties and to not place undue reliance on these forward-looking statements. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent reports on Form 10-K and Form 10-Q, each as it may be amended from time to time. The Company's past results of operations are not necessarily indicative of its operating results for any future periods. 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 (AMEX:[ISR](#) - [News](#)), owns and operates companies that are engaged in the area of information and communications technology, with a particular focus on Cisco-centric network infrastructure and IP telephony solutions. Additional information about I-Sector is available on the Internet at www.I-Sector.com.

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

	Three months ended March 31,	
	----- 2003	2004 -----
Revenue:		
Products	\$ 6,722	\$ 10,194
Services	1,289	1,944
Custom projects	2,069	2,137
	-----	-----
Total revenue	10,080	14,275
	-----	-----
Cost of goods and services:		
Products	5,904	8,491
Services	1,100	1,286
Custom projects	801	962
	-----	-----
Total cost of goods and services	7,805	10,739
	-----	-----
Gross profit	2,275	3,536
Selling, general and administrative expenses	3,376	3,499
	-----	-----
Operating income (loss)	(1,101)	37
Interest and other income, net	(10)	19
	-----	-----
Income (loss) from continuing operations before benefit from income taxes	(1,091)	56
Income taxes	-	5
	-----	-----

Net income (loss) from continuing operations	(1,091)	51
Discontinued operations:		
Loss on disposal of discontinued operations, net of taxes	-	(12)
	-----	-----
Net income (loss)	\$ (1,091)	\$ 39
	-----	-----
Net income (loss) per share		
Basic:		
Net income (loss) from continuing operations	\$ (0.30)	\$ 0.01
Loss on disposal of discontinued operations, net of taxes	-	-
	-----	-----
Net income (loss) per share	\$ (0.30)	\$ 0.01
	-----	-----
Diluted:		
Net income (loss) from continuing operations	\$ (0.30)	\$ 0.01
Loss on disposal of discontinued operations, net of taxes	-	-
	-----	-----
Net income (loss) per share	\$ (0.30)	\$ 0.01
	-----	-----
Shares used in computing net income (loss) per share:		
Basic	3,630,285	3,951,009
	-----	-----
Diluted	3,630,285	4,150,180
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See notes to consolidated financial statements

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

	Three months ended March 31,			
	2003		2004	
	Amount	%	Amount	%
	-----	-----	-----	-----
Revenue:				
INX product	\$ 6,661	66.1	\$10,061	70.5
INX service	477	4.7	913	6.4
	-----	-----	-----	-----
Total INX revenue	7,138	70.8	10,974	76.9
	-----	-----	-----	-----
Stratasoft - Custom projects	2,069	20.5	2,137	15.0
Valerent product	193	1.9	334	2.4
Valerent service	812	8.1	1,031	7.2
	-----	-----	-----	-----
Total Valerent revenue	1,005	10.0	1,365	9.6
Eliminations revenue	(132)	(1.3)	(201)	(1.4)
	-----	-----	-----	-----
Total revenue	10,080	100.0	14,275	100.0
Cost of sales and service:				
INX product	5,844	87.7	8,382	83.3
INX service	516	108.2	589	64.5
	-----	-----	-----	-----
Total INX cost of sales and				

service	6,360	89.1	8,971	81.7
Stratasoft - Custom projects	801	38.7	962	45.0
Valerent product	192	99.5	310	92.8
Valerent service	584	71.9	697	67.6
	-----	-----	-----	-----
Total Valerent cost of sales and service	776	77.2	1,007	73.8
Eliminations of cost of sales and service	(132)	100.0	(201)	100.0
	-----	-----	-----	-----
Total cost of sales and service	7,805	77.4	10,739	75.2
Gross profit:				
INX product	817	12.3	1,679	16.7
INX service	(39)	(8.2)	324	35.5
	-----	-----	-----	-----
Total INX gross profit	778	10.9	2,003	18.3
Stratasoft - Custom projects	1,268	61.3	1,175	55.0
Valerent product	1	0.5	24	7.2
Valerent service	228	28.1	334	32.4
	-----	-----	-----	-----
Total Valerent gross profit	229	22.8	358	26.2
	-----	-----	-----	-----
Total gross profit	2,275	22.6	3,536	24.8
Selling, general and administrative expenses:				
INX	945	13.2	1,884	17.2
Stratasoft	1,596	77.1	1,020	47.7
Valerent	560	55.7	390	28.6
Corporate	275	(NA)	205	(NA)
	-----	-----	-----	-----
Total selling, general and administrative expenses	3,376	33.5	3,499	24.5
Operating income (loss):				
INX	(167)	(2.3)	119	1.1
Stratasoft	(328)	(15.9)	155	7.3
Valerent	(331)	(32.9)	(32)	(2.3)
Corporate	(275)	(NA)	(205)	(NA)
	-----	-----	-----	-----
Total operating income (loss)	(1,101)	(10.9)	37	0.3
Interest and other income (expense), net	(10)	(0.1)	19	0.1
	-----	-----	-----	-----
Income (loss) from continuing operations before benefit for income taxes	(1,091)	(10.8)	56	0.4
Benefit for income taxes	-	0.0	-	0.0
	-----	-----	-----	-----
Net income (loss) from continuing operations	(1,091)	(10.8)	56	0.4
Discontinued operations:				
Gain (loss) on disposal, net of taxes	-	0.0	(17)	(0.1)
	-----	-----	-----	-----
Net income (loss)	\$(1,091)	(10.8)	\$ 39	0.3
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Contact:

I-Sector Corporation
James H. Long, 713-795-2000
or
PR Financial Marketing LLC
Jim Blackman, 713-256-0369 (IR)
jimblackman@prfinancialmarketing.com

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, 2004

I-SECTOR CORPORATION

By: /s/ JAMES H. LONG

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