

Research Note

Investors should consider this report as only a single factor in making their investment decision.

INX Inc.

Rating: Speculative Buy

Luis Martins

INXI \$9.58 (NASDAQ)

February 28, 2007

	FY2004A	FY2005A*	FY2006E	FY2007E
Revenues (Thousands)# *	\$71,487	\$107,319	\$149,306	\$179,167
Earnings (loss) per share	\$0.31	\$(1.38)	\$0.09	\$0.37

52-Week Range	\$10.50 – 5.01	Fiscal Year Ends	December
Shares Outstanding <small>As of 10/24/06</small>	6.52 million	Revs/Share (TTM)	\$18.50
Approximate Float	4.34 million	Price/Sales(TTM)	0.5X
Market Capitalization	\$62 million	Price/Sales(2007)E	0.4X
Tangible Book Value/Share	\$1.53	Price/Earnings(TTM)	NMF
Price/Tangible book	6.3X	Price/Earnings(2007)E	25.9X

Restated * FY 2005 includes a \$5.7 million non-cash expense included in SG&A.

INX Inc. (NASDAQ: INXI), formerly known as I-Sector Corp., was founded in 1983 in Texas. The Company's focus is providing professional and integration services for Cisco-centric Internet Protocol (IP) Communications/Telephony solutions.

Key Investment Considerations:

We are maintaining our Speculative Buy rating on the shares of INXI and increasing our 12-month price target to \$10.65 from \$9.50 per share. Our price target is based on a relative P/E and P/S analysis.

In February 2007, Cisco Systems reported final results for its fiscal second quarter and first six months of fiscal 2007, as well as provided forward looking guidance for its business. Advanced communications technologies, including those directly important to INX, were and are likely to be highlights for CSCO.

During the past few months, the Company announced a number of developments, including achieving the Advanced Security Specialization from Cisco Systems.

INX was recently engaged, through its RouteStep Custom IP Products division, by the United States Department of Defense to provide advanced IP communications technologies.

Over the past few months, INX was awarded and completed contracts from the U.S. Army, IE Discovery, MSD Ignition, T3, and the University of Portland.

We are maintaining estimates for 2006 and 2007, pending the release of the Company's fiscal 2006 results. Our 2006 forecast calls for revenues of \$149.3 million and net income of \$0.6 million or \$0.09 per diluted share. Our 2007 forecast calls for revenues of \$179.2 million and net income of \$2.7 million or \$0.37 per diluted share.

** Please view our disclaimer located on page 8.*

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Recent Company Developments

Industry

In February 2007, Cisco Systems reported final results for its fiscal second quarter and first six months of fiscal 2007, as well as provided forward looking guidance for its business. According to its statements, the Company's business is strong and expected to be strong. Advanced communications technologies, including those directly important to INX, were and are likely to be strong business for CSCO.

Company

During the past few months, the Company announced a number of developments, including:

- Achieving the Advanced Security Specialization from Cisco Systems, which recognizes INX as a top-tier security services provider with the knowledge and expertise to not only sell, design, and install integrated network security solutions, but also to provide the on-going support that customers demand;
- Being awarded and completing contracts from the U.S. Army, IE Discovery, MSD Ignition, T3, and the University of Portland; and
- Being engaged, through its RouteStep Custom IP Products division, by the United States Department of Defense to provide advanced IP communications technologies, namely four of RouteStep's FALCoN (Forward Area Lightweight Communication Node) units. The falcon compact, rapid deployable, self contained communications node that allows near-instantaneous voice and data capability in any field environment.

These industry and company developments give us optimism that the Company is delivering and may continue to deliver on its business plan and growth strategies, as well as provide us with additional confidence in our estimates through 2007.

Projections

We are maintaining estimates for 2006 and 2007, pending the release of the Company's fiscal 2006 results. Our 2006 forecast calls for revenues of \$149.3 million and net income of \$0.6 million or \$0.09 per diluted share. Our 2007 forecast calls for revenues of \$179.2 million and net income of \$2.7 million or \$0.37 per diluted share.

Risks

Acquisition Risk

The Company makes selected acquisitions a part of its business strategy. In February 2006, INX acquired the assets and operations of Southern California-based Datatran Network Systems (DNS), a specialized provider of network solutions serving the southern California market primarily focusing on IP Telephony. Previously, the Company made two other acquisitions in mid-2005, InfoGroup Northwest, Inc. and Network Architech Corp. As part of its stated strategy to emerge as a national IP telephony service provider, Management intends to make further acquisitions. Issues that may come up in the integration process include, differing corporate cultures, customer policies, and management styles. These issues may cause a clash resulting in a lack of synergies and the inability to execute stated goals and financial objectives.

Balance Sheet

The Company's credit facility features a variable interest rate tied to the prime rate. If interest rates rise or INXI becomes increasingly indebted, debt service will increase. This will adversely impact the Company's financial results.

Dependency on Cisco Systems

The Company has aligned itself with Cisco Systems. An overwhelming majority of revenues are derived from the sale of Cisco products, network products and related services. If the Company divests itself of its two non-core segments, its dependency will increase. As a result, INXI's success is dependent on its ongoing relationship with Cisco and business decisions made by Cisco (including those relative to its sales incentive programs).

While Cisco Systems (NYSE: CSCO) is one of leading players in IP hardware, other companies such as Nortel (NYSE: NT), Avaya (NYSE: AV), Alcatel (NYSE: ALA), and Siemens (NYSE: SI), have a competitive market share. Although INXI and Cisco believe that Cisco-based systems will continue to gain market acceptance, there can be no assurance that Cisco-centric systems will continue to be held in high regard by the marketplace.

Economic Risk

The Company's financial results depend largely on customer buying cycles, capital spending trends, and the general business outlook of existing and new customers. An adverse indication on these and other key metrics may negatively impact the Company's financial results and equity values.

Competition

According to our research, the following public companies provide IP products that may directly or indirectly compete with Cisco's product offerings: Alcatel (NYSE: ALA), Avaya (NYSE: AV), 8X8 (NASDAQ: EGHT), Inter-Tel (NASDAQ: INTL), Lucent (NYSE: LU), NEC (NASDAQ: NIPNY), Nortel (NYSE: NT), Polycom (NASDAQ: PLCM), Siemens (NYSE: SI), Sonus (NASDAQ: SONS), VocalTec (NASDAQ: VOCL) and 3Com (NASDAQ: COMS). Cisco also faces competition from a number of private companies.

The market for IP communications solutions is extremely competitive. The Company believes that it competes directly with such large companies as: Electronic Data Systems (NYSE: EDS), IBM (NYSE: IBM), and AT&T (NYSE: T). According to CSCO's Internet site, many public and private companies have authorizations similar to those of INXI. Other competitors are rapidly deploying assets to compete in the space. Competition occurs on the basis of price, technical competence, the quality of support services, perceptions of the customer regarding financial and operational ability to manage a project and to provide high quality service, and the quality of a competitor's relationship with hardware manufacturers. Some companies may have or may develop greater resources and may be better able to respond to industry changes. Competitors may develop better relationships with Cisco. These factors may adversely impact INXI's financial results and equity value.

Quarterly Fluctuations/Seasonality

Investors should note that the Company's revenues and operating results for any particular quarter may not be indicative of its performance in future quarters, and may be subject to periodic variations and seasonality. A single order from one customer may represent a substantial portion of sales in any one period and significant orders by any customer during one period may not be followed by further orders in subsequent periods.

Growth Management

As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted.

Sarbanes-Oxley Act of 2002

Over the past few years, Wall Street has increased its focus on corporate governance and placed increased emphasis on the accountability of Management and Directors to shareholders. These events have brought about the passage of the Sarbanes-Oxley Act of 2002. The Company expects that future selling, general and administrative expenses will increase due to further compliance with the provisions of the Sarbanes-Oxley Act of 2002.

Ownership of Stock

One investor, Jim Long (the Company's Founder, Chairman, and CEO) owns a substantial stake in INXI. Small investors should be aware that investors with significant stakes can control the outcome of certain shareholder votes. These outcomes may not be in the best interests of all shareholders. If a sizable stake is liquidated in the open market, there could be substantial selling pressure on the shares.

Federal Reserve

Since mid-2004, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 after 17 meetings, however, over the last 5 meetings the Federal Reserve decided to hold rates steady.

Liquidity

Shares of INXI have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in the stock price. Therefore, risk averse investors should be cautious with shares of INXI. The Company has approximately 4.3 million shares in the float. On average, approximately 11,000 shares are traded daily.

Miscellaneous Risks

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Valuation & Conclusion

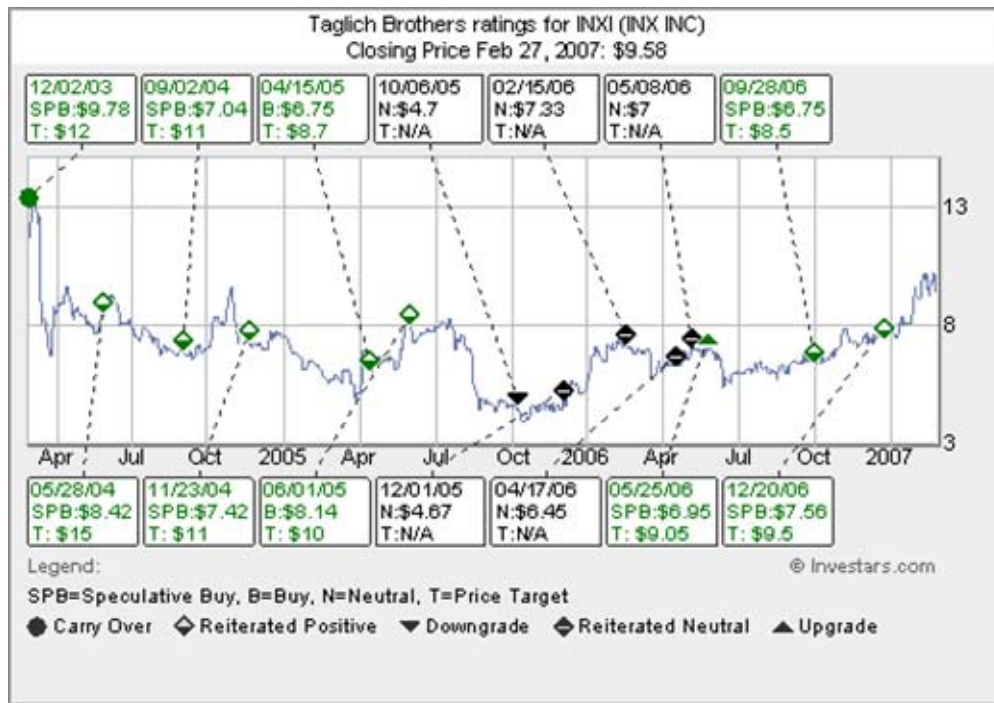
We are maintaining our Speculative Buy rating on the shares of INX (NASDAQ: INXI) and increasing our 12-month price target to \$10.65 from \$9.50 per share. Our price target is based on a relative P/E and P/S analysis.

Our price target is based on the average of the following discounted by 10% to incorporate microcap and other risks:

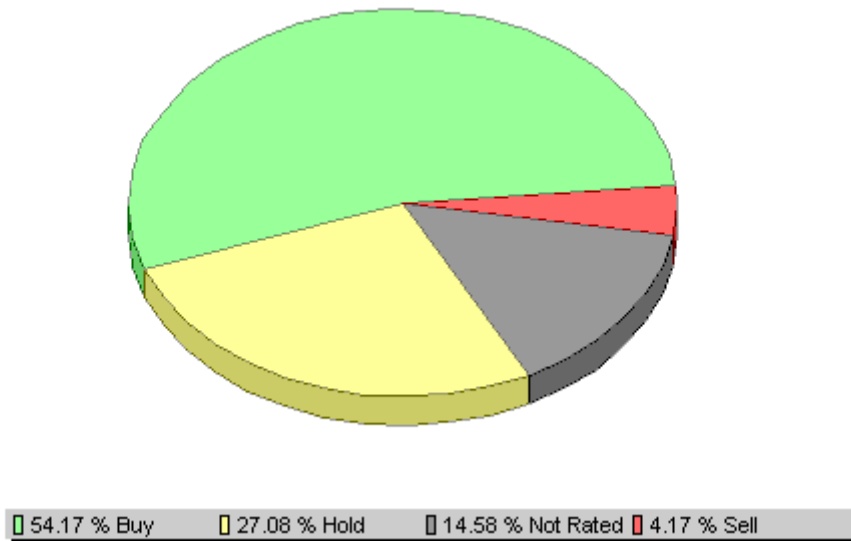
- Applying a P/S multiple of 0.5X (derived from the recent transaction in which CDW Corp (NASDAQ: CDWC) acquired Berbee Information Network, a comparable peer to INXI) to our estimated 2007 revenue per share of \$24.41 per share.
- Average the following to arrive at a P/E multiple of 30X, which we applied to our estimated 2007 EPS of \$0.37 per share:
 - The low (18X) and high (60X) P/E for the Technology sector for the past 5 years; and
 - The trailing P/E (28X) for the Technology sector for the past 12 months.

Investors should recognize that an investment in INXI is an opportunity to participate in a rapidly developing microcap technology oriented company; therefore, the shares are only suitable for high-risk tolerant investors. Investors should be cognizant of the many risks involved in such an investment including:

- Rapidly evolving markets and technology;
- Competitive concerns;
- Sales and implementation cycles;
- Dependency on Cisco Systems;
- Growth management; and
- Microcap risk.



Taglich Brothers' Current Rating Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	6.45%
Hold	1	7.14%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies mentioned in this report:

3Com (NASDAQ: COMS)
Avaya (NYSE: AV)
Alcatel (NYSE: ALA)
AT&T (NYSE: T)
BellSouth Business (NYSE: BLS)
Cisco Systems (NASDAQ: CSCO)
CDW Corp (NASDAQ: CDWC)
8X8 (NASDAQ: EGHT)
Lucent (NYSE: LU)
Nortel (NYSE: NT)
Siemens (NYSE: SI)

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I, Luis Martins, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

INX Inc.
Annual Income Statement Model
For Year Ended December 31#
(in thousands)

	F2004A	F2005A	F2006E	F2007E
Total Revenues	\$ 71,487	\$ 107,319	\$ 149,306	\$ 179,167
Costs of Goods Sold	<u>58,546</u>	<u>88,743</u>	<u>120,676</u>	<u>144,014</u>
Gross Profit	12,941	18,576	28,630	35,153
<i>Gross Margins</i>	<i>18.10%</i>	<i>17.31%</i>	<i>19.18%</i>	<i>19.62%</i>
S,G&A	<u>11,268</u>	<u>22,759</u>	<u>27,474</u>	<u>32,250</u>
Operating Income	1,673	(4,183)	1,156	2,903
<i>Operating Margin</i>	<i>2.34%</i>	<i>-3.90%</i>	<i>0.77%</i>	<i>1.62%</i>
Interest Expense(Income)-net	<u>96</u>	<u>236</u>	<u>315</u>	<u>200</u>
Pre-Tax Income	1,577	(4,419)	841	2,703
<i>Pre-Tax Margins</i>	<i>2.21%</i>	<i>-4.12%</i>	<i>0.56%</i>	<i>1.51%</i>
Taxes (Benefit)	<u>350</u>	<u>475</u>	<u>44</u>	<u>-</u>
<i>Tax Rate</i>	<i>22.19%</i>	<i>-10.75%</i>	<i>5.23%</i>	<i>0.00%</i>
Net Income-continuing ops	<u>\$ 1,227</u>	<u>\$ (4,894)</u>	<u>\$ 841</u>	<u>\$ 2,703</u>
EPS-fully diluted- cont ops	<u>\$ 0.25</u>	<u>\$ (0.86)</u>	<u>\$ 0.12</u>	<u>\$ 0.37</u>
Avg Shares Out-fully diluted	<u>5,004</u>	<u>5,706</u>	<u>6,985</u>	<u>7,340</u>
Income (loss) from discontinued	420	(2,967)	(152)	-
Minority Interest	(117)	(23)	-	-
Net Income	<u>\$ 1,530</u>	<u>\$ (7,884)</u>	<u>\$ 645</u>	<u>\$ 2,703</u>
EPS-fully diluted	<u>\$ 0.31</u>	<u>\$ (1.38)</u>	<u>\$ 0.09</u>	<u>\$ 0.37</u>
Avg Shares Out-fully diluted	<u>5,004</u>	<u>5,706</u>	<u>6,985</u>	<u>7,340</u>
<u>Percent of Revenue</u>				
Costs of Goods Sold	81.90%	82.69%	80.82%	80.38%
SG&A	15.76%	21.21%	18.40%	18.00%
Net Margin	2.14%	-7.35%	0.43%	1.51%
<u>YEAR / YEAR GROWTH</u>				
Total Revenues	63.98%	50.12%	39.12%	20.00%

* FY 2005 includes a \$5.7 million non-cash expense included in SG&A.

Restated

INX Inc.
Quarterly Income Statement Model
For Year Ended December 31, 2006
(in thousands)

	Q1(3/06)A	Q2(6/06)A	Q3(9/06)A	Q4(12/06)E	F2006E
Total Revenues	\$ 26,276	\$ 38,678	\$ 45,244	\$ 39,108	\$ 149,306
Costs of Goods Sold	<u>20,869</u>	<u>31,046</u>	<u>37,095</u>	<u>31,666</u>	<u>120,676</u>
Gross Profit	5,407	7,632	8,149	7,442	28,630
<i>Gross Margins</i>	20.58%	19.73%	18.01%	19.03%	19.18%
S,G&A	5,845	122626 7,001	19.37 7,432	7,196	<u>27,474</u>
Operating Income	(438)	631	717	246	1,156
<i>Operating Margin</i>	-1.67%	1.63%	1.58%	0.63%	0.77%
Interest Expense(Income)-net	<u>85</u>	<u>18</u>	<u>112</u>	<u>100</u>	<u>315</u>
Pre-Tax Income	(523)	613	605	146	841
<i>Pre-Tax Margins</i>	-1.99%	1.58%	1.34%	0.37%	0.56%
Taxes (Benefit)	<u>1</u>	-	<u>43</u>	-	<u>44</u>
<i>Tax Rate</i>	-0.19%	0.00%	7.11%	0.00%	5.23%
Net Income-continuing ops	<u>\$ (524)</u>	<u>\$ 613</u>	<u>\$ 562</u>	<u>\$ 146</u>	<u>\$ 841</u>
EPS-fully diluted- cont ops	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.02</u>	<u>\$ 0.12</u>
Avg Shares Out-fully diluted	<u>6,048</u>	<u>7,324</u>	<u>7,284</u>	<u>7,284</u>	<u>6,985</u>
Income (loss) from discontinued	(4)	143	(291)	-	(152)
Net Income	<u>\$ (528)</u>	<u>\$ 756</u>	<u>\$ 271</u>	<u>\$ 146</u>	<u>\$ 645</u>
EPS-fully diluted	<u>\$ (0.09)</u>	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>
Avg Shares Out-fully diluted	<u>6,048</u>	<u>7,324</u>	<u>7,284</u>	<u>7,284</u>	<u>6,985</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	79.42%	80.27%	81.99%	80.97%	80.82%
SG&A	22.24%	18.10%	16.43%	18.40%	18.40%
Net Margin	-2.01%	1.95%	0.60%	0.37%	0.43%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	-5.37%	12.61%	15.55%	31.86%	39.12%

INX Inc.
Consolidated Balance Sheet
For Periods Ended
(in thousands)

	F2005A	1Q06A	2Q06A	3Q06A
Assets				
Current Assets				
Cash & Equivalents	\$ 2,597	\$ 2,915	\$ 4,290	\$ 3,146
Net Receivables	24,903	27,325	35,339	38,127
Inventory	79	1,260	690	2,105
Prepaid Expense & Other	881	837	858	2,318
Discounted ops Assets	<u>2,564</u>	<u>1,307</u>	<u>733</u>	<u>282</u>
Total Current Assets	31,024	33,644	41,910	45,978
Plant, Property, & Equipment-net				
Intangibles	2,050	2,258	2,818	3,011
Other	7,493	8,900	11,314	11,248
Other	21	-	-	-
Discounted ops Assets	<u>1,057</u>	<u>106</u>	<u>106</u>	<u>106</u>
Total Assets	<u>\$ 41,645</u>	<u>\$ 44,908</u>	<u>\$ 56,148</u>	<u>\$ 60,343</u>
Liabilities & Shareholders' Equity				
Current Liabilities				
Current portion of LTD	\$ 2,707	\$ 849	\$ 4,646	\$ 4,716
Accounts Payable	13,825	19,670	24,411	28,272
Accrued Expenses & Other	4,164	4,537	5,537	5,656
Discounted ops Liabilities	<u>2,936</u>	<u>1,415</u>	<u>573</u>	<u>329</u>
Total Current Liabilities	23,632	26,471	35,167	38,973
LTD				
LTD	7	-	-	-
Other LT	-	-	142	142
Total Shareholders' Equity	<u>18,006</u>	<u>18,437</u>	<u>20,839</u>	<u>21,228</u>
Total Liabilities & Equity	<u>\$ 41,645</u>	<u>\$ 44,908</u>	<u>\$ 56,148</u>	<u>\$ 60,343</u>
SHARES OUT	5,976	6,174	6,347	6,523