



# TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

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## Research Note

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

**INX Inc.**

**Rating: Buy**

Luis Martins

**INXI \$12.37 (NASDAQ)**

June 13, 2008

	<u>FY2005A*</u>	<u>FY2006A</u>	<u>FY2007A</u>	<u>FY2008E**</u>	<u>FY2009E**</u>
Revenues (Thousands)*	\$107,319	\$156,013	\$207,967	\$262,143	\$301,197
Earnings (loss) per share**	\$(1.38)	\$0.16	\$0.47	\$0.49	\$0.75

52-Week Range	\$15.67 – 6.31	Fiscal Year Ends	December
Shares Outstanding	7.42 million	Revs/Share (TTM)	\$27.32
Approximate Float	5.49 million	Price/Sales(TTM)	0.5X
Market Capitalization	\$92 million	Price/Sales(2009)E	0.4X
Tangible Book Value/Share	\$1.77	Price/Earnings(TTM)	24.9X
Price/Tangible book	7.0X	Price/Earnings(2009)E	16.5X

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

\*\* Assuming 42% effective tax rate

INX Inc. (NASDAQ: INXI) 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 upgrading our rating on the shares of INXI to a Buy from a Speculative Buy and increasing our 12-month price target to \$19.00 from \$15.00 per share. Our price target is based on a PEG analysis.*

*Our upgrade is based on the belief that shares of INXI are a compelling investment opportunity, particularly for technology oriented investors. The Company is executing its business strategy and posting solid profits. At the current price, the stock is trading at compelling valuations.*

*We are effectively valuing INXI at a PEG ratio of 0.9X. In comparison, the technology sector trades at a PEG ratio of 1.26X and the networking and communications industry trades at a PEG ratio of 1.34X.*

*On June 9, 2008, INXI announced that it acquired AccessFlow, Inc., based in a Sacramento, California, for \$5.87 million in cash and stock plus earn outs. AccessFlow is a consulting organization focused on delivering VMware-based virtualization solutions.*

*We are adjusting our estimates for 2008 based on updated Management guidance and the impact of the AccessFlow acquisition. We are also introducing 2009 estimates.*

*Our revised 2008 forecast calls for revenues of \$262.1 million and net income (before adjustments) of \$4.3 million or \$0.49 per diluted share. Our prior 2008 forecast called for revenues of \$264.1 million and net income (before adjustments) of \$4.3 million or \$0.50 per diluted share.*

*\* Please view our disclaimer located on page 10*

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## ***Company Overview***

INX Inc. (NASDAQ: INXI), formerly known as I-Sector Corp., was founded in 1983 in Texas. The Company is a network consulting and solutions provider focusing on Internet Protocol (IP) network based solutions for enterprise organizations. Customers include corporations, schools and federal, state and local governmental agencies.

INXI offers a complete range of products and services for Cisco-centric IP Telephony solutions that support the entire life-cycle (design, implementation, and support) of enterprise IP communications, including a full suite of convergence solutions and network infrastructure products. INX is focused on providing end-to-end solutions in this space, providing hardware, professional services, applications, and managed services, INXI also provides comprehensive services, including remote monitoring and management, for managing converged Cisco networks with a suite of industry-standard management technologies.

The Company also sells network storage products manufactured by Network Appliance, certain unified communications products from Microsoft, and various products that the Company considers “best-of-breed” including products from Avotus, Cistera Networks, Converged Access, IPCelerate, Riverbed, Tandberg, VMWare, and others.

## ***Acquisition Announcement***

**On June 9, 2008**, INX Inc. announced that it acquired AccessFlow, Inc., based in Sacramento, California-based focused, for \$5.87 million in cash and stock plus earn outs based on the next two years’ performance. AccessFlow is a consulting organization focused on delivering VMware-based virtualization solutions. According to the Company, the acquisition allows for INXI to gain a very complementary focused virtualization practice area, as well as a company that has achieved recognition and distinction in the industry and from its key partner, VMware.

AccessFlow, with 190 customers of similar profile as INX, had \$10.5 million in revenues (growing over 100%) for the twelve months ended March 31, 2008, as well as strong gross (22.7%) and operating (8.6%) margins. INX expects the transaction to be accretive to per-share earnings for the 12-month period following the transaction; however, in the second quarter, there may be transactions costs of approximately \$0.01 per share.

INX’s growth strategy for this acquisition calls for the introduction of AccessFlow’s virtualization practice to INX’s existing 14 office locations and the rollout of INX’s existing practice areas to the AccessFlow customer base.

## ***Outlook***

Management has set out to expand from a regional Texas player to a national player. Over the past few years, the Company has expanded its offices and staff. The Company now has 15 offices located in Texas (5), California (2), Idaho (1), Massachusetts (1), New Mexico (1), Oklahoma (1), Oregon (2), Washington (1) and Washington DC (1). The Company has made a number of key acquisitions as part of its strategic expansion plans. To date, these acquisitions have contributed excellent financial performance and provided the Company with an expanded footprint. Management anticipates further strategic acquisitions.

Recent results and guidance indicate generally positive operating trends. The Company’s goal is to obtain operating margins of 4% to 7%. Management believes that this can be achieved by increased gross margins and lowering S, G, & A expenses as a percentage of sales. The following chart illustrates the Management’s long-term plan for margins:

Projected INX Long-term Margins (%)

	Goal
Product Margins	15 - 19%
Service Margins	30 - 35%
Overall Gross margins	19 - 21%
S, G, A Expense	14 - 15%
Operating Margins	4 - 7%

Source: SEC filings

Management sees improved operations as a result of Management's efforts to leverage INXI's market position as a growing national provider of IP services and to improve margins through higher margin service offerings and staff utilization. The Company is also poised to take advantage of the following trends:

- Introduction and expansion of network storage and security practice areas;
- Strong relationship with Cisco Systems;
- Growing service contracts;
- Strong data center trends (i.e. virtualization);
- Acquisitions; and
- Investment in revenue generating employees (i.e. engineers and sales).

**Projections**

**We are adjusting our estimates for 2008 based on updated Management guidance and the impact of the AccessFlow acquisition. We are also introducing 2009 estimates.**

Our revised 2008 forecast calls for revenues of \$262.1 million and net income (before adjustments) of \$4.3 million or \$0.49 per diluted share. Our prior 2008 forecast called for revenues of \$264.1 million and net income (before adjustments) of \$4.3 million or \$0.50 per diluted share.

Investors should note that on a pre-tax income (non-GAAP) basis, adjusting for Management's guidance for an effective income tax rate of 42%, our 2008 forecast for pre-tax earnings from continuing operations is \$0.84 per share. This compares favorably to 2007 pre-tax earnings of \$0.44 per share. The following table provides our Non-GAAP estimates for fiscal 2008:

2008 (per share)	1QA	2QE	3QE	4QE	2008E
GAAP	0.12	0.10	0.12	0.14	0.49
Non-GAAP	0.21	0.18	0.20	0.25	0.84

Note: We define Non-GAAP per share as pre-tax income per share; our definition may differ from that of INXI.

**Investors should realize that substantially all the income tax expense recorded in 2008 and a good portion in 2009 will be non-cash stemming from \$4.5 million net operating loss carry-forwards as of March 31, 2008. Accordingly, we are also highlighting a comparison of 2007 pre-tax income.**

2007 (per share)	1QA	2QA	3QA	4QA	2007A
GAAP	0.04	0.13	0.12	0.16	0.45
Non-GAAP	0.04	0.13	0.13	0.14	0.44

In 2008, year over year growth in Non-GAAP EPS is projected to be 90%.

**Our initial 2009 estimates call for revenues of \$301.2 million and net income of \$7.1 million or \$0.75 per diluted share.**

Our current model for 2008 and 2009 incorporates:

- Management's guidance which was updated on June 9, 2008. INXI now expects to report second quarter revenues of \$58 to \$63 million (as compared to its prior guidance of \$60 to \$65 million). Service margins are expected to remain strong in the second quarter due to higher than expected service revenue of between \$10 to \$10.5 million (as compared to prior guidance of \$9.2 to \$9.7 million). Also, sequential improvements in revenue should continue in the second half of the year.

Services revenues will be boosted in the second half of 2008 by a recent \$8.4 million contract win from the U.S. Army Corp of Engineers. According to statements in the conference call, much of the award will be showing up during the second half of 2008.

- Overall revenue gains of 26% and 15% in 2008 and 2009, respectively stemming from both organic growth and acquisitions. Excluding the impact of AccessFlow practice revenues, top line is expected to increase by 24% and 13% in the respective periods of 2008 and 2009.

The following tables provide our revenue mix estimate for products and services:

FY2008	1QA	2QE	3QE	4QE	2008E
Products	50,491	52,000	57,000	60,000	219,491
Services	9,152	10,500	11,500	11,500	42,652

FY2009	1QE	2QE	3QE	4QE	2009E
Products	60,065	60,500	63,000	66,300	249,865
Services	12,000	12,575	13,329	13,429	51,333

**Two important factors in our forecast are economic growth and technology spending. As further economic statistics and technology trends develop, we will re-evaluate our assumptions.**

- A gradual improvement in gross and operating margins due to efficiencies, increased staff utilization, and the spreading of fixed costs over a larger revenue base. As stated previously, the Company's goal is to obtain operating margins of 4% to 7%. Management believes that this can be achieved by increased gross margins and lower S, G, & A expenses as a percentage of sales. We are projecting sequential improvements should occur in 2008, as well as substantial year over year improvements (as illustrated in the following charts):

INX Gross Margin Analysis (%)

	1Q	2Q	3Q	4Q	Fiscal
2007A	18.6%	18.7%	18.4%	20.4%	19.1%
2008E	20.4%	20.2%	20.3%	20.2%	20.3%
2009E	20.5%	20.7%	20.8%	20.8%	20.7%

INX Operating Margin Analysis (%)

	1Q	2Q	3Q	4Q	Fiscal
2007A	0.8%	1.9%	1.9%	2.0%	1.7%
2008E	3.0%	2.6%	2.7%	3.2%	3.9%
2009E	-	-	-	-	4.2%

## **Risks**

### *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. Recently, there has been much talk and evidence that the economy is in a period of slower growth or even entering a recession. In early February 2008, a number of research firms released their expectations for technology spending indicating a slowdown.

### *Acquisition Risk*

The Company makes selected acquisitions a part of its business strategy. In June 2008, INX acquired AccessFlow. In August 2007, it acquired Select, Inc., a Boston, Massachusetts-based Cisco-centric solutions provider focused on delivering IP Telephony, IP Storage and network infrastructure solutions throughout New England. In February 2006, INXI 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 Architechs Corp. As part of its stated strategy to emerge as a national IP telephony service provider, Management intends to make further acquisitions.

INXI has an excellent track record of integrating past acquisitions. Nevertheless, the performance of recently announced and future acquisitions may be adversely impacted by issues that may come up in the integration process including, 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.

The Company uses its credit facility to finance purchases of Cisco products from Cisco and from certain wholesale distributors. Cisco provides 60-day terms, and other wholesale distributors typically provide 30-day terms. Balances under the credit facility that are within the 60-day period do not accrue interest and are classified as accounts payable on its balance sheet.

### *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. 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, Alcatel Lucent (NYSE: ALU), 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.

Investors should note that INX participates in a vendor incentive program under which incentives are principally earned by sales volume, sales growth and customer satisfaction levels. The amounts earned under these programs are accrued when they are deemed probable and can be reasonably measured; otherwise, they are recorded when they are declared by the vendor or the cash is received, whichever is earlier. As a result of these estimates, the amount of rebates declared by the vendor, or the amount of rebates received in cash, the

effect of vendor incentives on cost of goods can vary significantly between quarterly and annual reporting periods. The incentives are recorded as a reduction of cost of goods and services. Selling, general and administrative expenses are increased for any associated commission expense and payroll tax related to the incentives.

#### *Competition*

According to our research, a number of companies provide IP products that may directly or indirectly compete with Cisco's product offerings. Cisco also faces competition from a number of private companies. New entrants into the space, such as Microsoft, may create new competitive dynamics.

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*

Two investors, Jim Long (the Company's Founder, Chairman, and CEO) and Mark Hilz (President and COO) own substantial stakes 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.

#### *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 5.5 million shares in the float. On average, approximately 33,400 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 upgrading our rating on the shares of INX (NASDAQ: INXI) to a Buy from a Speculative Buy and increasing our 12-month price target to \$19.00 from \$15.00 per share.**

We believe that shares of INXI are a compelling investment opportunity, particularly for technology oriented investors. The Company is executing on its business strategy and posting solid profits. At the current price, the stock is trading at compelling valuations.

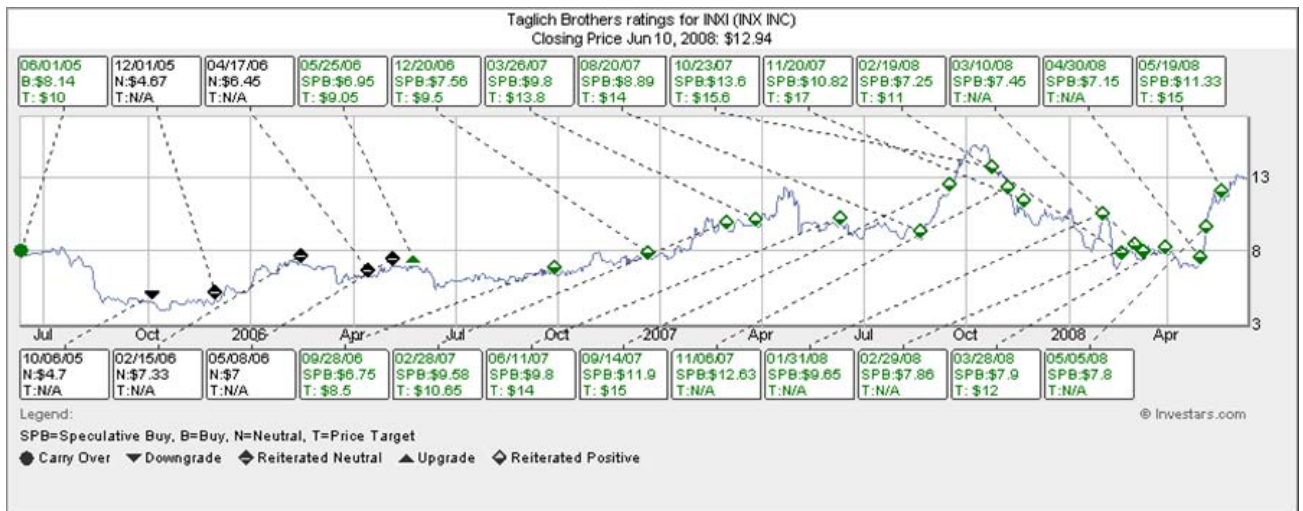
Our price target is based on the following discounted by 10% to incorporate microcap and other risks:

- A multiple of 28.4X applied to our estimated 2009 GAAP EPS of \$0.75 per share. We arrived at this multiple from the Company's estimated 2-year (2007 to 2009) compounded annual growth rate in GAAP EPS.

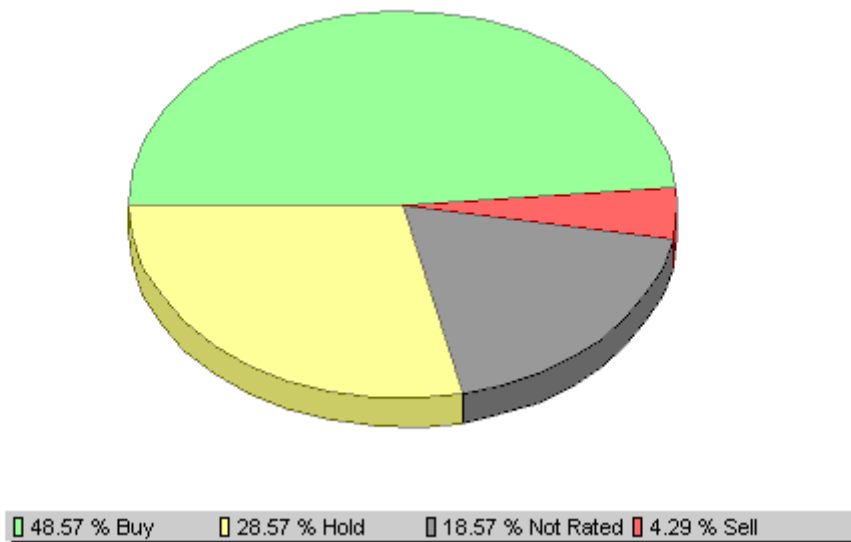
Of note, after the 10% discount, we are effectively valuing INXI at a PEG ratio of 0.9X. In comparison, the technology sector trades at a PEG ratio of 1.26X and the networking and communications industry trades at a PEG ratio of 1.34X; as a consequence, we believe that our conservative valuation, provides for ample opportunity for further price appreciation as the Company deliveries on its strategy and shows further financial gains.

**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:

- Economic risk;
- 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	0	0
Hold	1	6.67%
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.**

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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)

Alcatel-Lucent (NYSE: ALU)

AT&T (NYSE: T)

Cisco Systems (NASDAQ: CSCO)

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)

	F2005A	F2006A	F2007A	F2008E	F2009E
Total Revenues	\$ 107,319	\$ 156,013	\$ 207,967	\$ 262,143	\$ 301,197
Costs of Goods Sold	<u>88,743</u>	<u>125,516</u>	<u>168,320</u>	<u>208,994</u>	<u>238,898</u>
<b>Gross Profit</b>	<b>18,576</b>	<b>30,497</b>	<b>39,647</b>	<b>53,150</b>	<b>62,299</b>
<i>Gross Margins</i>	17.31%	19.55%	19.06%	20.28%	20.68%
	<b>18.81</b>				
S,G&A	<u>22,759</u>	<u>28,710</u>	<u>36,152</u>	<u>45,570</u>	<u>49,698</u>
<b>Operating Income</b>	<b>(4,183)</b>	<b>1,787</b>	<b>3,495</b>	<b>7,580</b>	<b>12,602</b>
<i>Operating Margin</i>	-3.90%	1.15%	1.68%	2.89%	4.18%
Interest Expense(Income)-net	<u>236</u>	<u>232</u>	<u>79</u>	<u>298</u>	<u>325</u>
<b>Pre-Tax Income</b>	<b>(4,419)</b>	<b>1,555</b>	<b>3,416</b>	<b>7,282</b>	<b>12,277</b>
<i>Pre-Tax Margins</i>	-4.12%	1.00%	1.64%	2.78%	4.08%
			<b>0.43</b>		
Taxes (Benefit)	<u>475</u>	<u>44</u>	<u>(236)</u>	<u>3,031</u>	<u>5,156</u>
<i>Tax Rate</i>	-10.75%	2.83%	-6.91%	41.63%	42.00%
<b>Net Income-continuing ops</b>	<b>\$ (4,894)</b>	<b>\$ 1,511</b>	<b>\$ 3,652</b>	<b>\$ 4,250</b>	<b>\$ 7,121</b>
<b>EPS-fully diluted- cont ops</b>	<b>\$ (0.86)</b>	<b>\$ 0.21</b>	<b>\$ 0.45</b>	<b>\$ 0.49</b>	<b>\$ 0.75</b>
Avg Shares Out-fully diluted	<u>5,706</u>	<u>7,294</u>	<u>8,027</u>	<u>8,719</u>	<u>9,500</u>
Income (loss) from discontinued Minority Interest	(2,967) (23)	(316) -	83 -	4 -	
<b>Net Income</b>	<b>\$ (7,884)</b>	<b>\$ 1,195</b>	<b>\$ 3,735</b>	<b>\$ 4,254</b>	<b>\$ 7,121</b>
<b>EPS-fully diluted</b>	<b>\$ (1.38)</b>	<b>\$ 0.16</b>	<b>\$ 0.47</b>	<b>\$ 0.49</b>	<b>\$ 0.75</b>
Avg Shares Out-fully diluted	<u>5,706</u>	<u>7,294</u>	<u>8,027</u>	<u>8,719</u>	<u>9,500</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	82.69%	80.45%	80.94%	79.72%	79.32%
SG&A	21.21%	18.40%	17.38%	17.38%	16.50%
Net Margin	-7.35%	0.77%	1.80%	1.62%	4.08%
	-1.49%				
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	50.12%	45.37%	33.30%	26.05%	14.90%

\* 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)A	F2006A
Total Revenues	\$ 26,276	\$ 38,678	\$ 45,244	\$ 45,815	\$ 156,013
Costs of Goods Sold	<u>20,869</u>	<u>31,046</u>	<u>37,095</u>	<u>36,506</u>	<u>125,516</u>
<b>Gross Profit</b>	5,407	7,632	8,149	9,309	<b>30,497</b>
<i>Gross Margins</i>	20.58%	19.73%	18.01%	20.32%	19.55%
S,G&A	<u>5,845</u>	<u>7,001</u>	<u>7,432</u>	<u>8,432</u>	<u>28,710</u>
<b>Operating Income</b>	(438)	631	717	877	<b>1,787</b>
<i>Operating Margin</i>	<b>-1.67%</b>	<b>1.63%</b>	<b>1.58%</b>	<b>1.91%</b>	<b>1.15%</b>
	274	275	305	324	1,178
<i>EBITDA</i>	(164)	906	1,022	1,201	2,965
Interest Expense(Income)-net	<u>85</u>	<u>18</u>	<u>111</u>	<u>18</u>	<u>232</u>
<b>Pre-Tax Income</b>	(523)	613	606	859	<b>1,555</b>
<i>Pre-Tax Margins</i>	<b>-1.99%</b>	<b>1.58%</b>	<b>1.34%</b>	<b>1.88%</b>	<b>1.00%</b>
Taxes (Benefit)	<u>1</u>	<u>-</u>	<u>44</u>	<u>(1)</u>	<u>44</u>
<i>Tax Rate</i>	-0.19%	0.00%	7.26%	-0.11%	2.83%
<b>Net Income-continuing ops</b>	<u>\$ (524)</u>	<u>\$ 613</u>	<u>\$ 562</u>	<u>\$ 860</u>	<u>\$ 1,511</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.09</u>	<u>\$ 0.11</u>	<u>\$ 0.21</u>
Avg Shares Out-fully diluted	<u>6,048</u>	<u>7,324</u>	<u>7,284</u>	<u>7,500</u>	<u>7,294</u>
Income (loss) from discontinued	(4)	143	(291)	(164)	(316)
<b>Net Income</b>	<u>\$ (528)</u>	<u>\$ 756</u>	<u>\$ 271</u>	<u>\$ 696</u>	<u>\$ 1,195</u>
<b>EPS-fully diluted</b>	<u>\$ (0.09)</u>	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.16</u>
Avg Shares Out-fully diluted	<u>6,048</u>	<u>7,324</u>	<u>7,284</u>	<u>7,500</u>	<u>7,294</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	79.42%	80.27%	81.99%	79.68%	80.45%
SG&A	22.24%	18.10%	16.43%	18.40%	18.40%
Net Margin	-2.01%	1.95%	0.60%	1.52%	0.77%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	23.50%	36.40%	36.40%	86.93%	45.37%

INX Inc.  
Quarterly Income Statement Model  
For Year Ended December 31, 2007  
(in thousands)

	Q1(3/07)A	Q2(6/07)A	Q3(9/07)A	Q4(12/07)A	F2007A
Total Revenues	\$ 45,643	\$ 53,727	\$ 51,998	\$ 56,599	\$ 207,967
Costs of Goods Sold	<u>37,136</u>	<u>43,682</u>	<u>42,445</u>	<u>45,057</u>	<u>168,320</u>
<b>Gross Profit</b>	8,507	10,045	9,553	11,542	<b>39,647</b>
<i>Gross Margins</i>	18.64%	18.70%	18.37%	20.39%	19.06%
S,G&A	<u>8,172</u>	<u>9,042</u>	<u>8,543</u>	<u>10,395</u>	<u>36,152</u>
<b>Operating Income</b>	335	1,003	1,010	1,147	<b>3,495</b>
<i>Operating Margin</i>	<b>0.73%</b>	<b>1.87%</b>	<b>1.94%</b>	<b>2.03%</b>	<b>1.68%</b>
Interest Expense(Income)-net	<u>24</u>	<u>(41)</u>	<u>17</u>	<u>79</u>	<u>79</u>
<b>Pre-Tax Income</b>	311	1,044	993	1,068	<b>3,416</b>
<i>Pre-Tax Margins</i>	<b>0.68%</b>	<b>1.94%</b>	<b>1.91%</b>	<b>1.89%</b>	<b>1.64%</b>
Taxes (Benefit)	<u>7</u>	<u>7</u>	<u>7</u>	<u>(257)</u>	<u>(236)</u>
<i>Tax Rate</i>	2.25%	0.67%	0.70%	-24.06%	-6.91%
<b>Net Income-continuing ops</b>	<u>\$ 304</u>	<u>\$ 1,037</u>	<u>\$ 986</u>	<u>\$ 1,325</u>	<u>\$ 3,652</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.04</u>	<u>\$ 0.13</u>	<u>\$ 0.12</u>	<u>\$ 0.16</u>	<u>\$ 0.45</u>
Avg Shares Out-fully diluted	<u>7,730</u>	<u>7,817</u>	<u>8,037</u>	<u>8,408</u>	<u>8,027</u>
Income (loss) from discontinued	62	(3)	38	(14)	83
<b>Net Income</b>	<u>\$ 366</u>	<u>\$ 1,034</u>	<u>\$ 1,024</u>	<u>\$ 1,311</u>	<u>\$ 3,735</u>
<b>EPS-fully diluted</b>	<u>\$ 0.05</u>	<u>\$ 0.13</u>	<u>\$ 0.13</u>	<u>\$ 0.16</u>	<u>\$ 0.47</u>
Avg Shares Out-fully diluted	<u>7,730</u>	<u>7,817</u>	<u>8,037</u>	<u>8,408</u>	<u>8,027</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	81.36%	81.30%	81.63%	79.61%	80.94%
SG&A	17.90%	16.83%	16.43%	18.37%	17.38%
Net Margin	0.80%	1.92%	1.97%	2.32%	1.80%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	73.71%	38.91%	14.93%	23.54%	33.30%
Operating Income	-176.48%	58.95%	40.86%	30.79%	95.50%
Pre-Tax Income	-159.46%	70.31%	64.13%	24.19%	119.60%
Net Income	-169.32%	36.77%	277.86%	88.36%	212.50%

INX Inc.  
Quarterly Income Statement Model  
For Year Ended December 31, 2008  
(in thousands)

	Q1(3/08)A	Q2(6/08)E	Q3(9/08)E	Q4(12/08)E	F2008E
Total Revenues	\$ 59,643	\$ 62,500	\$ 68,500	\$ 71,500	\$ 262,143
Costs of Goods Sold	<u>47,496</u>	<u>49,885</u>	<u>54,584</u>	<u>57,029</u>	<u>208,994</u>
<b>Gross Profit</b>	12,147	12,615	13,917	14,471	<b>53,150</b>
<i>Gross Margins</i>	20.37%	20.18%	20.32%	20.24%	20.28%
S,G&A	<u>10,384</u>	<u>10,975</u>	<u>12,056</u>	<u>12,155</u>	<u>45,570</u>
<b>Operating Income</b>	1,763	1,640	1,861	2,316	<b>7,580</b>
<i>Operating Margin</i>	<b>2.96%</b>	<b>2.62%</b>	<b>2.72%</b>	<b>3.24%</b>	<b>2.89%</b>
Interest Expense(Income)-net	<u>73</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>298</u>
<b>Pre-Tax Income</b>	1,690	1,565	1,786	2,241	<b>7,282</b>
<i>Pre-Tax Margins</i>	<b>2.8%</b>	<b>2.50%</b>	<b>2.61%</b>	<b>3.13%</b>	<b>2.78%</b>
Taxes (Benefit)	<u>683</u>	<u>657</u>	<u>750</u>	<u>941</u>	<u>3,031</u>
<i>Tax Rate</i>	40.41%	42.00%	42.00%	42.00%	41.63%
<b>Net Income-continuing ops</b>	<u>\$ 1,007</u>	<u>\$ 908</u>	<u>\$ 1,036</u>	<u>\$ 1,300</u>	<u>\$ 4,250</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.14</u>	<u>\$ 0.49</u>
Avg Shares Out-fully diluted	<u>8,242</u>	<u>8,735</u>	<u>8,900</u>	<u>9,000</u>	<u>8,719</u>
Income (loss) from discontinued	4	-	-	-	4
<b>Net Income- Non GAAP</b>	<u>\$ 1,690</u>	<u>\$ 1,565</u>	<u>\$ 1,861</u>	<u>\$ 2,316</u>	<u>\$ 7,282</u>
<b>EPS-fully diluted</b>	<u>\$ 0.21</u>	<u>\$ 0.18</u>	<u>\$ 0.20</u>	<u>\$ 0.25</u>	<u>\$ 0.84</u>
Avg Shares Out-fully diluted	<u>8,242</u>	<u>8,735</u>	<u>8,900</u>	<u>9,000</u>	<u>8,719</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	79.63%	79.82%	79.68%	79.76%	79.72%
SG&A	17.41%	17.40%	17.60%	17.00%	17.38%
Net Margin	1.70%	2.50%	2.61%	3.13%	1.62%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	30.67%	16.33%	31.74%	26.33%	26.05%

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

	F2006A	F2007A	1Q08A
<b>Assets</b>			
Current Assets			
Cash & Equivalents	\$ 1,795	\$ 9,340	\$ 8,236
Net Receivables	42,424	45,128	45,292
Inventory	1,157	1,439	1,606
Deferred income taxes	-	2,100	2,100
Other Assets	<u>2,086</u>	<u>2,062</u>	<u>2,355</u>
<b>Total Current Assets</b>	47,462	60,069	59,589
Plant, Property, & Equipment-net	3,854	4,421	4,586
Intangibles	11,174	19,751	19,674
Discounted ops Assets	<u>30</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u>\$ 62,520</u>	<u>\$ 84,241</u>	<u>\$ 83,849</u>
<b>Liabilities &amp; Shareholders' Equity</b>			
Current Liabilities			
Current portion of LTD	\$ 4,609	\$ 6,200	\$ 6,327
Accounts Payable	28,798	37,233	35,487
Accrued Expenses & Other	5,038	5,613	6,129
Other	<u>1,385</u>	<u>1,440</u>	<u>1,188</u>
<b>Total Current Liabilities</b>	39,830	50,486	49,131
Deferred income taxes	-	1,565	1,565
Other LT	306	163	332
<b>Total Shareholders' Equity</b>	<u>22,384</u>	<u>32,027</u>	<u>32,821</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 62,520</u>	<u>\$ 84,241</u>	<u>\$ 83,849</u>
SHARES OUT	6,603	7,549	7,423

INX Inc.  
Consolidated Cash Flow Statement  
For Periods Ended  
(in thousands)

	<u>FY2006A</u>	<u>FY2007A</u>	<u>3M(3/08)08</u>
<i>Cash Flows from Operating Activities</i>			
Net Income	\$ 1,195	\$ 3,735	\$ 1,011
Depreciation & Amortization	1,178	1,659	520
Other	497	602	282
Discounted operations	<u>316</u>	<u>(111)</u>	<u>(4)</u>
	3,186	5,885	1,809
<i>Changes In:</i>			
Receivables	(17,584)	2,733	(119)
Inventories	(1,053)	156	(167)
Prepaid Expense	(1,185)	130	-
Accounts Payable	14,981	1,653	(1,746)
Accrued Expenses & Other	1,629	(560)	140
Discounted operations	<u>(684)</u>	<u>28</u>	<u>4</u>
Net Changes in Working Capital	<u>(3,896)</u>	<u>4,140</u>	<u>(1,888)</u>
<b>Net cash Provided by Operations</b>	<u>(710)</u>	<u>10,025</u>	<u>(79)</u>
<i>Cash Flows from Investing Activities</i>			
Capital Expenditures	(1,921)	(1,588)	(563)
Acquisitions	(2,177)	(4,011)	(54)
Discounted operations	<u>1,492</u>	<u>15</u>	<u>-</u>
<b>Net cash used in Investing</b>	<u>(2,606)</u>	<u>(5,584)</u>	<u>(617)</u>
<i>Cash Flows from Financing Activities</i>			
Proceeds from Common stock/options	613	1,578	(535)
Proceeds from Credit facilities	2,293	1,526	127
Repayments of notes	(391)	-	-
Discounted operations	<u>(1)</u>	<u>-</u>	<u>-</u>
<b>Net cash provided by Financing</b>	<u>2,514</u>	<u>3,104</u>	<u>(408)</u>
Net change in Cash	<u>(802)</u>	<u>7,545</u>	<u>(1,104)</u>
Cash Beginning of Period	<u>2,597</u>	<u>1,795</u>	<u>9,340</u>
Cash End of Period	<u>\$ 1,795</u>	<u>\$ 9,340</u>	<u>\$ 8,236</u>