



# TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Report – Update

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

**INX Inc.**

**Rating: Speculative Buy**

Luis Martins

**INXI \$8.89 (NASDAQ)**

August 20, 2007

|                           | FY2004A  | FY2005A*  | FY2006A   | FY2007E   | FY2008E   |
|---------------------------|----------|-----------|-----------|-----------|-----------|
| Revenues (Thousands)# *   | \$71,487 | \$107,319 | \$156,013 | \$202,000 | \$244,335 |
| Earnings (loss) per share | \$0.31   | \$(1.38)  | \$0.16    | \$0.43    | \$0.75    |

|   |                |                       |          |
|---|----------------|-----------------------|----------|
| 52-Week Range                                   | \$12.43 – 5.52 | Fiscal Year Ends      | December |
| Shares Outstanding <small>As of 7/26/07</small> | 6.96 million   | Revs/Share (TTM)      | \$25.29  |
| Approximate Float                               | 4.91 million   | Price/Sales(TTM)      | 0.4X     |
| Market Capitalization                           | \$62 million   | Price/Sales(2008)E    | 0.3X     |
| Tangible Book Value/Share                       | \$1.90         | Price/Earnings(TTM)   | 28.7X    |
| Price/Tangible book                             | 4.7X           | Price/Earnings(2008)E | 11.9X    |

# 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 and \$14.00 per share 12-month price target. Our price target is based on a relative P/E analysis.*

*On August 6, 2007, INXI reported second quarter net revenues of \$53.7 million and net income of \$1.034 million or \$0.13 per diluted share. In the year ago period, INXI reported revenues of \$38.7 million and net income of \$0.756 million or \$0.10 per diluted share. Strong revenue growth was led by product and service sales growth of 41% and 27%, respectively.*

*Also on August 6, 2007, INXI announced that it secured a \$10 million credit facility with Castle Pines Capital LLC to be used to fund acquisitions.*

*We are fine tuning our estimates for 2007. Our revised 2007 forecast calls for revenues of \$202.0 million and net income of \$3.3 million or \$0.43 per diluted share. Our previous 2007 forecast called for revenues of \$195.0 million and net income of \$3.1 million or \$0.41 per diluted share. Our top and bottom line estimates for 2008 remain essentially unchanged calling for revenues of \$244.3 million and net income of \$6.0 million or \$0.75 per diluted share.*

*According to comments on the Company's second quarter conference call, Management expects to complete one acquisition in the third quarter of 2007.*

*Industry statistics indicate that Cisco is an industry leader in IP Communications systems. According to its statements, advanced communications technologies, including those directly important to INX's success, were and are projected to remain strong businesses for CSCO.*

*\* Please view our disclaimer located on page 12.*

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## ***Company Overview***

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) communication solutions to corporations, schools and federal, state and local governmental agencies. INXI has established offices in fifteen cities.

INX, through its Business Ready Networks approach, 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 believed to be one of the few publicly traded companies focused on providing end-to-end solutions in this space, providing hardware, professional services, applications, and managed services. Through its NetSurant business unit, INX provides comprehensive services, including remote monitoring and management, for managing converged Cisco networks with a suite of industry-standard management technologies.

INXI intends to employ the following strategies in pursuit of rapid growth:

- Expanding geographically by principally acquiring complementary businesses. The Company's efforts toward becoming a national provider of IP Communications are focused on acquiring new and larger customer opportunities in new and existing markets;
- Aligning itself with Cisco Systems as its primary supplier of IP communications technology;
- Increasing higher margin service offerings and its post-sale support services (NetSurant) in an effort to improve revenues and margins;
- Exploiting its national footprint to obtain larger customers; and
- Marketing custom, specialized IP communications solutions.

## ***Recent Results***

**On August 6, 2007**, INX reported results for its second quarter, ended June 30, 2007. The Company reported net revenues of \$53.7 million and net income of \$1.034 million or \$0.13 per diluted share. In the year ago period, INXI reported revenues of \$38.7 million and net income of \$0.756 million or \$0.10 per diluted share.

In comparison, Taglich Brothers' estimates called for revenues of \$47.3 million and net income of \$0.677 million or \$0.09 per share.

The strong revenue growth was led by product and service sales growth of 41% and 27%, respectively. Product revenue increases was seen across various business segments. Service revenue growth was due to the growth in installation revenue across substantially all locations and continued growth in the NetSurant post-sale recurring support services revenue, which increased 73% to \$0.8 million.

The following table illustrates the details of the Company's revenues in the second quarter of 2006 and 2007.

|         | 2Q06A  | 2Q07A  |
|---------|--------|--------|
| Product | 33,322 | 46,918 |
| Service | 5,356  | 6,809  |

Source: SEC filings

Overall gross margins decreased slightly to 18.7% from 19.7% due to lower product margins, offset by substantially higher service margins (stemming from utilization rates). The following chart illustrates some key INX margin components:

| Offering | 2Q06A | 2Q07A |
|----------|-------|-------|
| Product  | 19.1% | 16.8% |
| Service  | 23.7% | 31.7% |
| Overall  | 19.7% | 18.7% |

Source: SEC filings

SG&A expenses increased to \$9.0 million from \$7.0 million. As a percentage of sales, SG&A decreased to 16.8% from 18.1%. Operating margin improved considerably as evidenced by the following chart:

|                  | 2Q06A | 2Q07A |
|------------------|-------|-------|
| Operating Margin | 1.6%  | 1.9%  |
| After Tax margin | 2.0%  | 1.9%  |

#### *Balance Sheet*

At the end of the second quarter, INXI had cash and cash equivalents of \$7.8 million, working capital of \$9.5 million, long-term debt of zero, and stockholders' equity of \$25.5 million.

On April 30, 2007, the Company entered into a new credit facility agreement with Castle Pines Capital LLC to provide inventory financing and to fund working capital requirements. The new agreement increases the maximum availability to \$50 million from \$40 million in a prior agreement between the parties. The new facility has similar terms and conditions as the previous facility. Interest is payable at the rate of prime + 0.5%. As of June 30, 2007, the unused availability on the facility was \$0.4 million, based on collateral.

On August 6, 2007, INXI announced that it secured a \$10 million credit facility with Castle Pines Capital LLC (CPC) to be used specifically to fund acquisitions. According to comments on the Company's second quarter conference call, Management expects to complete one acquisition in the third quarter of 2007.

#### ***Industry Dynamics***

Industry statistics indicate that Cisco is an industry leader in IP Communications systems. Although Cisco Systems (NYSE: CSCO) is one of the leading players in IP telephony hardware, other companies such as Avaya (NYSE: AV), Nortel (NYSE: NT), and Alcatel-Lucent (NYSE: ALU) have a competitive market share.

**In August 2007, Cisco Systems (NASDAQ: CSCO) reported results for its fiscal 2007, as well as provided forward looking guidance for its business.** According to its statements, advanced communications technologies, including those directly important to INX's success, were and are projected to remain strong businesses for CSCO. During fiscal 2007, Cisco shipped its 10 millionth Cisco Unified IP Phone.

INXI believes that by focusing on Cisco-centric systems, it can compete more effectively for large Cisco-centric IP communications projects. INXI attempts to maintain excellent relations with Cisco. In fact, INX's sales force works closely with Cisco's sales organization to identify and close IP telephony projects. Additionally, its sales staff, sales management, and engineering staff are very knowledgeable about Cisco

products. The Company has "Gold" level status, which enables it to obtain the best published pricing discounts on the Cisco products.

**More recently, the Company announced that it:**

- Attained the coveted Master Unified Communications Certification from Cisco. Investors should note that only 2 other firms in the United States have this particular designation, which recognizes companies' proven capability to meet the growing global demand for highly sophisticated, applications-based unified communications solutions;
- Received Cisco Channel Customer Satisfaction Excellence recognition; and
- Was reclassified from "Regional Partner" to "National Partner" status.

**The above awards may be key differentiators in attracting business opportunities, acquisition candidates, and human capital.**

### ***Industry Statistics***

Findings from research analytical firms, as well as Wall Street firms indicate that enterprise usage and spending for IP is vast and growing opportunity within the Technology/Communications sector. According to Synergy Research, a leading source for networking and telecom market research in 2006, IP telephony has become the dominant technology choice in the Enterprise Voice market.

According to a February 2007 Bloomberg article, the IP equipment market represented a \$5 billion opportunity in 2006 and is expected to grow 33% in 2007, reaching \$6.5 billion.

Synergy Research Group in a February 2007 report found that the worldwide (and in particular the U.S) Enterprise IP Telephony market continues to be one of the fastest growing Networking equipment markets. Synergy found that IP Telephony represented 58% of the total Enterprise Telephony dollars spent in 2006, up from 46% in 2005.

A May 2007 report by Dell'Oro Group indicated that IP is seeing record penetration, growing at rates over 40% year over year. Avaya, Cisco, and Nortel represent half of the IP market. Findings by other firms indicate Cisco and Avaya are neck and neck at the top of the market. However, many experts believe that Cisco is the best positioned firm spanning all the elements of the market from infrastructure to products.

The increasing complexity of IP networks is also expected to provide a boost to the industry and Company. More and more, enterprises are incorporating other applications beyond voice and video (such as wireless, storage, collaboration, and security), which management expects will drive demand for its services. According to statements by INX, each dollar spent on equipment has a multiplier effect on services and sundry network equipment sales.

### ***Outlook***

Recent results and guidance indicate positive operating trends and backlog. Management sees improved operations as a result of its efforts to grow into a national provider of IP services and improve staff utilization, as well as efforts to improve margins through higher margin service offerings.

Management has set out to expand from a regional player to a national player. The Company has made a number of key acquisitions in this endeavor. Over the past 2 years, the Company has expanded its offices and staff.

Due to the above considerations, there is reason to be optimistic about the future. These metrics along with infrastructure improvements and investments in its sales organization have provided Management with the confidence to expect improved revenues and profits in the quarters to come. However, due to continued investments in the future, INXI expects that net operating margin percentage in the near-term will be below the levels it believes are ultimately achievable.

In a presentation coinciding with the Company's earnings release, Management indicated that its long-term target for operating margin is between 4% and 7%, based on gross margin of 19% to 21% and operating expenses, as percentage of sales, of between 14% and 15%. In 2007, Management expects revenues to grow as compared to 2006. The Company's operating profit margins are expected to expand as gross margins improves, operating expenses are leveraged, and cost efficiencies are recognized.

Management expects revenues to grow in 2007 and beyond (third quarter revenues are expected to be between \$48 and \$52 million) stemming from favorable industry and company fundamentals, increased market share, higher customer count, prior infrastructure investments, and acquisitions.

### **Projections**

**We are fine tuning our estimates for 2007 due to current operating and margin trends, recent developments, industry and Company outlooks, and Management's public comments and guidance.**

Our revised 2007 forecast calls for revenues of \$202.0 million and net income of \$3.3 million or \$0.43 per diluted share. Our previous 2007 forecast called for revenues of \$195.0 million and net income of \$3.1 million or \$0.41 per diluted share.

Our top and bottom line estimates for 2008 remain essentially unchanged calling for revenues of \$244.3 million and net income of \$6.0 million or \$0.75 per diluted share.

Our current model incorporates:

- Management's guidance which calls for third quarter of 2007 revenue of between \$48 million and \$52 million and bottom line profitability. Management stated that investments (i.e. increase in the sales staff and other infrastructure) are being made for the future growth of the Company. Management believes that on a long term basis it expects that its operating profit margin will improve.
- Organic revenue gains of over 20% stemming from the impact of recently received contracts, Management guidance, projected demand for the Company's product and service offerings, as well as comments made by Cisco Systems and the fundamentals of the IP marketplace. The following tables illustrate our revenue estimates and mix:

Projected INX Revenue (\$ 000's)

| 2004A  | 2005A   | 2006A   | 2007E     | 2008E     |
|--------|---------|---------|-----------|-----------|
| 71,487 | 107,319 | 156,013 | \$202,000 | \$244,335 |

Source: SEC filings and Taglich Brothers estimates

Projected INX Revenue Mix (\$ 000's)

|         | 2006A   | 2007E   | 2008E   |
|---------|---------|---------|---------|
| Product | 134,951 | 174,582 | 195,468 |
| Service | 21,062  | 27,418  | 48,867  |

Source: SEC filings and Taglich Brothers estimates

The Company's strategic plans call for additional acquisitions; however, we have not factored any impact from acquisitions. As acquisitions are completed, we will revise our model.

- A gradual improvement in operating margins due to efficiencies, increased staff utilization, and the spreading of fixed costs over a larger revenue base.

Projected INX Gross Margins (%)

|             | 2006A | 2007E<br>Previous | 2007E<br>Revised | 2008E<br>Previous | 2008E<br>Revised |
|-------------|-------|-------------------|------------------|-------------------|------------------|
| Product     | 18.6% | 18.4%             | 17.7%            | 18.5%             | 18.0%            |
| Service     | 25.5% | 25.7%             | 28.4%            | 28.5%             | 31.1%            |
| Overall INX | 19.5% | 19.5%             | 19.2%            | 20.7%             | 20.6%            |

Source: SEC filings and Taglich Brothers estimates

Projected Operating Margin (%)

|     | 2006E | 2007E<br>Previous | 2007E<br>Revised | 2008E<br>Previous | 2008E<br>Revised |
|-----|-------|-------------------|------------------|-------------------|------------------|
| INX | 1.2%  | 1.6%              | 1.7%             | 3.0%              | 3.1%             |

Source: SEC filings and Taglich Brothers estimates

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.

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

- Accumulated a net operating loss carryforward for federal income tax purposes of approximately \$1.8 million as of June 30, 2007.

**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 polices, 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 (NYSE: AV), 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.

### *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 Lucent (NYSE: ALU), Avaya (NYSE: AV), 8X8 (NASDAQ: EGHT), Inter-Tel (NASDAQ: INTL), 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.

**In May 2007, CDW (NASDAQ: CDWC), the parent company of Berbee Information Networks agreed to be purchased by private equity firm Madison Dearborn Partners L.L.C. for approximately \$7.3 billion. Meanwhile, Avaya announced that it plans to go private driven by private equity money of a consortium led by Silver Lake Partners III, L.P. and TPG Partners V, L.P.**

#### *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 4.9 million shares in the float. On average, approximately 22,000 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***

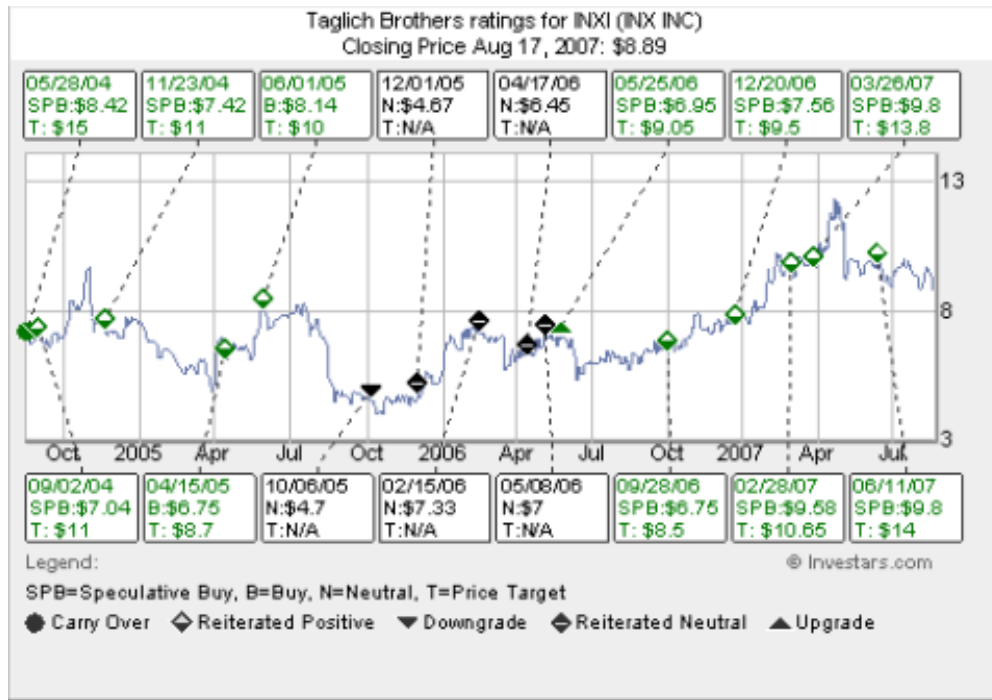
**We are maintaining our Speculative Buy rating on the shares of INX (NASDAQ: INXI) and 12-month price target of \$14.00.**

Our price target is based on the average of the following discounted by 20% to incorporate microcap and other risks:

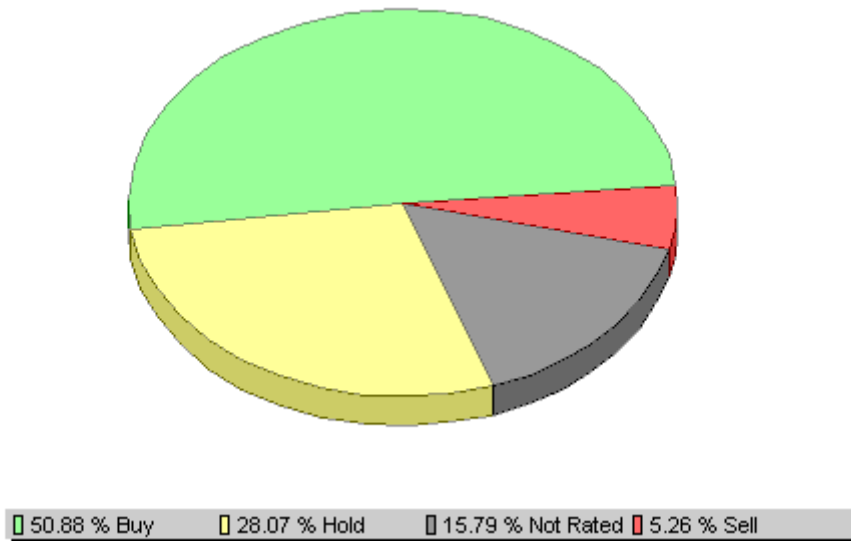
- Average the following to arrive at a P/E multiple of 24X, which we applied to our estimated 2007 EPS (from continuing operations) of \$0.43 per share and 2008 EPS of \$0.75 per share:
  - The low (18X) and high (49X) P/E for the Technology sector for the past 5 years; and
  - The trailing P/E (27X) 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



| <b>Investment Banking Services for Companies Covered in the Past 12 Months</b> |   |       |
|--|---|-------|
| Rating   | # | %     |
| Buy  | 1 | 3.13% |
| Hold   | 0 | 0     |
| 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)  
Avaya (NYSE: AV)  
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)

|                                    | F2004A          | F2005A            | F2006A          | F2007E          | F2008E          |
|------------------------------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| Total Revenues                     | \$ 71,487       | \$ 107,319        | \$ 156,013      | \$ 202,000      | \$ 244,335      |
| Costs of Goods Sold                | <u>58,546</u>   | <u>88,743</u>     | <u>125,516</u>  | <u>163,233</u>  | <u>193,965</u>  |
| <b>Gross Profit</b>                | <b>12,941</b>   | <b>18,576</b>     | <b>30,497</b>   | <b>38,767</b>   | <b>50,370</b>   |
| <i>Gross Margins</i>               | <i>18.10%</i>   | 17.31%            | 19.55%          | 19.19%          | 20.62%          |
|                                    |                 | <b>18.81</b>      |                 |                 |                 |
| S,G&A                              | <u>11,268</u>   | <u>22,759</u>     | <u>28,710</u>   | <u>35,431</u>   | <u>42,840</u>   |
| <b>Operating Income</b>            | <b>1,673</b>    | <b>(4,183)</b>    | <b>1,787</b>    | <b>3,336</b>    | <b>7,529</b>    |
| <i>Operating Margin</i>            | <i>2.34%</i>    | <i>-3.90%</i>     | <i>1.15%</i>    | <i>1.65%</i>    | <i>3.08%</i>    |
| <i>EBITDA</i>                      | <i>2,334</i>    | <i>3,234</i>      | <i>2,965</i>    | <i>4,777</i>    | <i>9,129</i>    |
| Interest Expense(Income)-net       | <u>96</u>       | <u>236</u>        | <u>232</u>      | <u>34</u>       | <u>200</u>      |
| <b>Pre-Tax Income</b>              | <b>1,577</b>    | <b>(4,419)</b>    | <b>1,555</b>    | <b>3,302</b>    | <b>7,329</b>    |
| <i>Pre-Tax Margins</i>             | <i>2.21%</i>    | <i>-4.12%</i>     | <i>1.00%</i>    | <i>1.63%</i>    | <i>3.00%</i>    |
| Taxes (Benefit)                    | <u>350</u>      | <u>475</u>        | <u>44</u>       | <u>14</u>       | <u>1,354</u>    |
| <i>Tax Rate</i>                    | <i>22.19%</i>   | <i>-10.75%</i>    | <i>2.83%</i>    | <i>0.42%</i>    | <i>18.48%</i>   |
| <b>Net Income-continuing ops</b>   | <u>\$ 1,227</u> | <u>\$ (4,894)</u> | <u>\$ 1,511</u> | <u>\$ 3,288</u> | <u>\$ 5,975</u> |
| <b>EPS-fully diluted- cont ops</b> | <u>\$ 0.25</u>  | <u>\$ (0.86)</u>  | <u>\$ 0.21</u>  | <u>\$ 0.42</u>  | <u>\$ 0.75</u>  |
| Avg Shares Out-fully diluted       | <u>5,004</u>    | <u>5,706</u>      | <u>7,294</u>    | <u>7,799</u>    | <u>8,000</u>    |
| Income (loss) from discontinue     | 420             | (2,967)           | (316)           | 59              | -               |
| Minority Interest                  | (117)           | (23)              | -               | -               | -               |
| <b>Net Income</b>                  | <u>\$ 1,530</u> | <u>\$ (7,884)</u> | <u>\$ 1,195</u> | <u>\$ 3,347</u> | <u>\$ 5,975</u> |
| <b>EPS-fully diluted</b>           | <u>\$ 0.31</u>  | <u>\$ (1.38)</u>  | <u>\$ 0.16</u>  | <u>\$ 0.43</u>  | <u>\$ 0.75</u>  |
| Avg Shares Out-fully diluted       | <u>5,004</u>    | <u>5,706</u>      | <u>7,294</u>    | <u>7,799</u>    | <u>8,000</u>    |
| <u>Percent of Revenue</u>          |                 |                   |                 |                 |                 |
| Costs of Goods Sold                | 81.90%          | 82.69%            | 80.45%          | 80.81%          | 79.38%          |
| SG&A                               | 15.76%          | 21.21%            | 18.40%          | 17.54%          | 17.53%          |
| Net Margin                         | 2.14%           | -7.35%            | 0.77%           | 1.66%           | 2.45%           |
| <u>YEAR / YEAR GROWTH</u>          |                 |                   |                 |                 |                 |
| Total Revenues                     | 63.98%          | 50.12%            | 45.39%          | 29.46%          | 20.96%          |

\* 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>    |
| <i>EBITDA</i>                      | (164)            | 906            | 1,022          | 1,201          | 2,965           |
| Interest Expense(Income)-net       | <u>85</u>        | <u>18</u>      | <u>112</u>     | <u>17</u>      | <u>232</u>      |
| <b>Pre-Tax Income</b>              | (523)            | 613            | 605            | 860            | <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>43</u>      | <u>-</u>       | <u>44</u>       |
| <i>Tax Rate</i>                    | -0.19%           | 0.00%          | 7.11%          | 0.00%          | 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>7,294</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>7,294</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                     | -5.37%           | 12.61%         | 15.55%         | 86.93%         | 45.39%          |

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)E      | Q4(12/07)E      | F2007E          |
|------------------------------------|----------------|-----------------|----------------|-----------------|-----------------|
| Total Revenues                     | \$ 45,643      | \$ 53,727       | \$ 50,000      | \$ 52,630       | \$ 202,000      |
| Costs of Goods Sold                | <u>37,136</u>  | <u>43,682</u>   | <u>40,160</u>  | <u>42,255</u>   | <u>163,233</u>  |
| <b>Gross Profit</b>                | 8,507          | 10,045          | 9,840          | 10,375          | <b>38,767</b>   |
| <i>Gross Margins</i>               | 18.64%         | 18.70%          | 19.68%         | 19.71%          | 19.19%          |
| S,G&A                              | <u>8,172</u>   | <u>9,042</u>    | <u>8,875</u>   | <u>9,342</u>    | <u>35,431</u>   |
| <b>Operating Income</b>            | 335            | 1,003           | 965            | 1,033           | <b>3,336</b>    |
| <i>Operating Margin</i>            | <b>0.73%</b>   | <b>1.87%</b>    | <b>1.93%</b>   | <b>1.96%</b>    | <b>1.65%</b>    |
| <i>EBITDA</i>                      | 705            | 1,349           | 1,315          | 1,408           | 4,777           |
| Interest Expense(Income)-net       | <u>24</u>      | <u>(41)</u>     | <u>25</u>      | <u>26</u>       | <u>34</u>       |
| <b>Pre-Tax Income</b>              | 311            | 1,044           | 940            | 1,007           | <b>3,302</b>    |
| <i>Pre-Tax Margins</i>             | <b>0.68%</b>   | <b>1.94%</b>    | <b>1.88%</b>   | <b>1.91%</b>    | <b>1.63%</b>    |
| Taxes (Benefit)                    | <u>7</u>       | <u>7</u>        | <u>-</u>       | <u>-</u>        | <u>14</u>       |
| <i>Tax Rate</i>                    | 2.25%          | 0.67%           | 0.00%          | 0.00%           | 0.42%           |
| <b>Net Income-continuing ops</b>   | <u>\$ 304</u>  | <u>\$ 1,037</u> | <u>\$ 940</u>  | <u>\$ 1,007</u> | <u>\$ 3,288</u> |
| <b>EPS-fully diluted- cont ops</b> | <u>\$ 0.04</u> | <u>\$ 0.13</u>  | <u>\$ 0.12</u> | <u>\$ 0.13</u>  | <u>\$ 0.42</u>  |
| Avg Shares Out-fully diluted       | <u>7,730</u>   | <u>7,817</u>    | <u>7,825</u>   | <u>7,825</u>    | <u>7,799</u>    |
| Income (loss) from discontinued    | 62             | (3)             | -              | -               | 59              |
| <b>Net Income</b>                  | <u>\$ 366</u>  | <u>\$ 1,034</u> | <u>\$ 940</u>  | <u>\$ 1,007</u> | <u>\$ 3,347</u> |
| <b>EPS-fully diluted</b>           | <u>\$ 0.05</u> | <u>\$ 0.13</u>  | <u>\$ 0.12</u> | <u>\$ 0.13</u>  | <u>\$ 0.43</u>  |
| Avg Shares Out-fully diluted       | <u>7,730</u>   | <u>7,817</u>    | <u>7,825</u>   | <u>7,825</u>    | <u>7,799</u>    |
| <u>Percent of Revenue</u>          |                |                 |                |                 |                 |
| Costs of Goods Sold                | 81.36%         | 81.30%          | 80.32%         | 80.29%          | 80.81%          |
| SG&A                               | 17.90%         | 16.83%          | 17.75%         | 17.75%          | 17.54%          |
| Net Margin                         | 0.80%          | 1.92%           | 1.88%          | 1.91%           | 1.66%           |
| <u>YEAR / YEAR GROWTH</u>          |                |                 |                |                 |                 |
| Total Revenues                     | 73.71%         | 38.91%          | 10.51%         | 14.88%          | 29.46%          |

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

|                                    | Q1(3/08)E       | Q2(6/08)E       | Q3(9/08)E       | Q4(12/08)E      | F2008E          |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Revenues                     | \$ 56,000       | \$ 60,500       | \$ 63,000       | \$ 64,835       | \$ 244,335      |
| Costs of Goods Sold                | <u>44,720</u>   | <u>48,115</u>   | <u>49,905</u>   | <u>51,225</u>   | <u>193,965</u>  |
| <b>Gross Profit</b>                | 11,280          | 12,385          | 13,095          | 13,610          | 50,370          |
| <i>Gross Margins</i>               | 20.14%          | 20.47%          | 20.79%          | 20.99%          | 20.62%          |
| S,G&A                              | <u>9,884</u>    | <u>10,618</u>   | <u>11,025</u>   | <u>11,314</u>   | <u>42,840</u>   |
| <b>Operating Income</b>            | 1,396           | 1,767           | 2,070           | 2,296           | 7,529           |
| <i>Operating Margin</i>            | <b>2.49%</b>    | <b>2.92%</b>    | <b>3.29%</b>    | <b>3.54%</b>    | <b>3.08%</b>    |
| <i>EBITDA</i>                      | 1,796           | 2,167           | 2,470           | 2,696           | 9,129           |
| Interest Expense(Income)-net       | <u>50</u>       | <u>50</u>       | <u>50</u>       | <u>50</u>       | <u>200</u>      |
| <b>Pre-Tax Income</b>              | 1,346           | 1,717           | 2,020           | 2,246           | 7,329           |
| <i>Pre-Tax Margins</i>             | <b>2.40%</b>    | <b>2.84%</b>    | <b>3.21%</b>    | <b>3.46%</b>    | <b>3.00%</b>    |
| Taxes (Benefit)                    | <u>-</u>        | <u>-</u>        | <u>568</u>      | <u>786</u>      | <u>1,354</u>    |
| <i>Tax Rate</i>                    | 0.00%           | 0.00%           | 28.12%          | 35.00%          | 18.48%          |
| <b>Net Income-continuing ops</b>   | <u>\$ 1,346</u> | <u>\$ 1,717</u> | <u>\$ 1,452</u> | <u>\$ 1,460</u> | <u>\$ 5,975</u> |
| <b>EPS-fully diluted- cont ops</b> | <u>\$ 0.17</u>  | <u>\$ 0.21</u>  | <u>\$ 0.18</u>  | <u>\$ 0.18</u>  | <u>\$ 0.75</u>  |
| Avg Shares Out-fully diluted       | <u>8,000</u>    | <u>8,000</u>    | <u>8,000</u>    | <u>8,000</u>    | <u>8,000</u>    |
| <br>                               |                 |                 |                 |                 |                 |
| <u>Percent of Revenue</u>          |                 |                 |                 |                 |                 |
| Costs of Goods Sold                | 79.86%          | 79.53%          | 79.21%          | 79.01%          | 79.38%          |
| SG&A                               | 17.65%          | 17.55%          | 17.50%          | 17.45%          | 17.53%          |
| Net Margin                         | 2.40%           | 2.84%           | 2.30%           | 2.25%           | 2.45%           |
| <br>                               |                 |                 |                 |                 |                 |
| <u>YEAR / YEAR GROWTH</u>          |                 |                 |                 |                 |                 |
| Total Revenues                     | 22.69%          | 12.61%          | 26.00%          | 23.19%          | 20.96%          |

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

|   | F2006A           | 1Q07A            | 2Q07A            |
|---|------------------|------------------|------------------|
| <b>Assets</b>                                 |                  |                  |                  |
| Current Assets                                |                  |                  |                  |
| Cash & Equivalents                            | \$ 1,795         | \$ 1,915         | \$ 7,826         |
| Net Receivables                               | 42,424           | 39,248           | 39,656           |
| Inventory                                     | 1,157            | 1,989            | 2,237            |
| Prepaid Expense & Other                       | 2,067            | 1,818            | 1,958            |
| Discounted ops Assets                         | <u>19</u>        | <u>-</u>         | <u>-</u>         |
| <b>Total Current Assets</b>                   | 47,462           | 44,970           | 51,677           |
| <br>  |                  |                  |                  |
| Plant, Property, & Equipment-net              | 3,854            | 4,108            | 4,084            |
| Intangibles                                   | 11,174           | 11,416           | 12,097           |
| Other   | -                | 258              | 196              |
| Discounted ops Assets                         | <u>30</u>        | <u>-</u>         | <u>-</u>         |
| <b>Total Assets</b>                           | <u>\$ 62,520</u> | <u>\$ 60,752</u> | <u>\$ 68,054</u> |
| <br>  |                  |                  |                  |
| <b>Liabilities &amp; Shareholders' Equity</b> |                  |                  |                  |
| Current Liabilities                           |                  |                  |                  |
| Current portion of LTD                        | \$ 4,609         | \$ 1,013         | \$ 37            |
| Accounts Payable                              | 28,798           | 30,193           | 36,320           |
| Accrued Expenses & Other                      | 6,298            | 4,694            | 4,627            |
| Discounted ops Liabilities                    | <u>125</u>       | <u>1,284</u>     | <u>1,233</u>     |
| <b>Total Current Liabilities</b>              | 39,830           | 37,184           | 42,217           |
| <br>  |                  |                  |                  |
| <b>Other LT</b>                               | 306              | 145              | 306              |
| <br>  |                  |                  |                  |
| <b>Total Shareholders' Equity</b>             | <u>22,384</u>    | <u>23,423</u>    | <u>25,531</u>    |
| <br>  |                  |                  |                  |
| <b>Total Liabilities &amp; Equity</b>         | <u>\$ 62,520</u> | <u>\$ 60,752</u> | <u>\$ 68,054</u> |
| SHARES OUT                                    | 6,603            | 6,756            | 6,953            |

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

|   | <u>6M06</u>         | <u>6M07</u>         |
|---|---------------------|---------------------|
| <i>Cash Flows from Operating Activities</i>     |                     |                     |
| Net Income                                      | \$ 228              | \$ 1,400            |
| Depreciation & Amortization                     | 549                 | 716                 |
| Other   | 221                 | 446                 |
| Discontinued operations                         | (139)               | <u>(59)</u>         |
| <br><i>Changes In:</i>                          |                     |                     |
| Receivables                                     | (10,462)            | 2,728               |
| Inventories                                     | (586)               | (1,080)             |
| Prepaid Expense                                 | -                   | -                   |
| Accounts Payable                                | 10,586              | 7,522               |
| Accrued Expenses & Other                        | 785                 | (403)               |
| Discontinued operations                         | <u>(433)</u>        | <u>22</u>           |
| Net Changes in Working Capital                  | <u>(110)</u>        | <u>8,789</u>        |
| <b>Net cash Provided by Operations</b>          | <u>749</u>          | <u>11,292</u>       |
| <br><i>Cash Flows from Investing Activities</i> |                     |                     |
| Capital Expenditures                            | (1,124)             | (856)               |
| Acquisitions                                    | (1,430)             | (280)               |
| Discontinued operations                         | <u>1,117</u>        | <u>15</u>           |
| <b>Net cash used in Investing</b>               | <u>(1,437)</u>      | <u>(1,121)</u>      |
| <br><i>Cash Flows from Financing Activities</i> |                     |                     |
| Proceeds from Common stock/options              | 443                 | 432                 |
| Proceeds from Credit facilities                 | 2,016               | (4,350)             |
| Repayments of notes                             | (77)                | (222)               |
| Discontinued operations                         | <u>(1)</u>          | <u>-</u>            |
| <b>Net cash provided by Financing</b>           | <u>2,381</u>        | <u>(4,140)</u>      |
| <br>Net change in Cash                          | <br><u>1,693</u>    | <br><u>6,031</u>    |
| Cash Beginning of Period                        | <u>2,597</u>        | <u>1,795</u>        |
| <br>Cash End of Period                          | <br><u>\$ 4,290</u> | <br><u>\$ 7,826</u> |