



# TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

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## 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 \$10.82 (NASDAQ)**

November 20, 2007

	<u>FY2004A</u>	<u>FY2005A*</u>	<u>FY2006A</u>	<u>FY2007E</u>	<u>FY2008E</u>
Revenues (Thousands)# *	\$71,487	\$107,319	\$156,013	\$213,998	\$291,335
Earnings (loss) per share	\$0.31	\$(1.38)	\$0.16	\$0.44	\$0.80

52-Week Range	\$15.67 – 7.10	Fiscal Year Ends	December
Shares Outstanding	7.50 million	Revs/Share (TTM)	\$25.54
Approximate Float	5.02 million	Price/Sales(TTM)	0.4X
Market Capitalization	\$81 million	Price/Sales(2008)E	0.3X
Tangible Book Value/Share	\$1.35	Price/Earnings(TTM)	27.1X
Price/Tangible book	8.0X	Price/Earnings(2008)E	13.5X

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

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 reiterating our Speculative Buy rating on the shares of INXI and increasing our 12-month price target to \$17.00 from \$15.60 per share based on a relative P/E analysis. The increase in our price target is due to a valuation on forward twelve month earnings.*

*Our rating is based on: 1) Attractive industry dynamics; 2) Recent financial performance; 3) Track record of executing geographic expansion strategy; 4) Estimates for growth through 2008; and 5) Attractive valuation relative to growth potential. Shares of INXI are trading at around 13.5X estimated 2008 EPS. The Company's estimated 2008 two year compounded annual growth rate for EPS (from continuing operations) is 95%.*

*On October 11, 2007, INXI filed two form S-3 with the SEC, including one that would give it the ability to offer and sell up to \$100 million in equity. In the other, INXI filed to register up to 650,000 shares.*

*On November 5, 2007, INXI reported 3Q07 net revenues of \$52.0 million as compared to \$45.2 million in the year ago period. 3Q07 income from continuing operations was \$0.986 million or \$0.14 per share, as compared to \$0.615 million or \$0.09 per share in the year ago period.*

*We are fine-tuning our estimates for 2007 and 2008. Our revised 2007 forecast calls for revenues of \$214.0 million and net income of \$3.6 million or \$0.44 per diluted share. Our prior 2007 forecast called for revenues of \$215.0 million and net income of \$3.3 million or \$0.41 per diluted share. Our revised 2008 forecast calls for revenues of \$291.3 million and net income of \$7.0 million or \$0.80 per diluted share. Our prior 2008 forecast called for revenues of \$291.3 million and net income of \$6.5 million or \$0.75 per diluted share.*

*\* Please view our disclaimer located on page 11.*

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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, 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, INXI 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 and expand into complimentary technologies including security and storage.

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:

	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

**Recent Results**

**On November 5, 2007**, INXI reported results for its third quarter, ended September 30, 2007. The Company reported net revenues of \$52.0 million and net income of \$1.024 million or \$0.13 per diluted share. In the year ago period, INXI reported revenues of \$45.2 million and net income of \$0.271 million or \$0.04 per diluted share. 3Q07 income from continuing operations was \$0.986 million or \$0.14 per share, as compared to \$0.615 million or \$0.09 per share in the year ago period.

In comparison, Taglich Brothers’ estimates called for revenues of \$53.0 million and net income of \$0.940 million or \$0.12 per share.

The strong revenue growth was led by product and service sales growth of 14% and 26%, respectively. Product revenue increases was attributable to acquisition and organic growth. Service revenue growth was primarily due to continued organic growth particularly in its Pacific Northwest location, as well as growth in its NetSurant unit, which increased by 30.8% to \$1 million from \$0.765 million.

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

	3Q06A	3Q07A
Product	39,847	45,222
Service	5,397	6,776

Source: SEC filings

Overall gross margins increased slightly to 18.4% from 18.0% due to higher vendor rebates as a percentage of products revenue and fewer large volume (low margin projects), offset by lower margins on services revenue primarily due to the effect of the Boston acquisition, as well as increased use of outside contractors. The following chart illustrates some key INXI margin components:

Offering	3Q06A	3Q07A
Product	16.6%	17.4%
Service	28.1%	24.6%
Overall	18.0%	18.4%

Source: SEC filings

SG&A expenses increased to \$8.5 million from \$7.4 million. As a percentage of sales, SG&A was 16.4% in each period. Operating margin improved considerably as evidenced by the following chart:

	3Q06A	3Q07A
Operating Margin	1.5%	1.9%
After Tax margin	0.6%	2.0%

#### *Balance Sheet*

At the end of the third quarter, INXI had cash and cash equivalents of \$8.5 million, working capital of \$6.2 million, long-term debt of zero, and stockholders' equity of \$29.7 million.

On April 30, 2007, the Company entered into a \$50 million credit facility agreement with Castle Pines Capital LLC to provide inventory financing and to fund working capital requirements. The facility accrues interest at the rate of prime + 0.5%. As of September 30, 2007, the unused availability on the facility was \$1.6 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. As of September 30, 2007, the unused availability on the facility was \$4 million. INXI used \$6 million under this facility to partially fund the Select acquisition on August 31, 2007.

### ***Recent Industry and Company Developments***

**On October 7, 2007**, Cisco Systems (NASDAQ: CSCO) reported results for its fiscal 2008 first quarter ended October 27, 2007, as well as provided forward looking guidance for its business. According to its statements, advanced communications technologies, including those directly important to INXI's success, were and are projected to remain strong businesses for CSCO. However, management of CSCO noted some weakness in enterprise spending, particularly in the financial and automotive sectors.

**On September 4, 2007**, INXI announced that on August 31, 2007, it acquired Select, Inc., a Boston, Massachusetts-based Cisco-centric solutions provider focused on delivering best in class IP Telephony, IP Storage and network infrastructure solutions throughout New England. It designs, implements, maintains and supports advanced IP communications networks for enterprises. The 20 year old company, a Gold Certified Cisco partner, generated approximately \$46 million in fiscal 2007 (June 29, 2007) revenues and a reported a net profit of \$0.461 million.

On October 11, 2007, INXI filed two form S-3's with the SEC:

- The first S-3 is a the shelf registration statement that upon being declared effective by the SEC, would give the Company the ability to offer and sell, from time to time, in one or more offerings, shares of its common stock and/or warrants to purchase common stock for proceeds in the aggregate amount up to \$100 million. Funds from any offering will likely be used to fund further acquisitions.
- The second S-3 is a the registration of common shares issuable upon exercise of the Company's existing public warrants that currently trade under the symbol INXIW and securities issuable upon exercise of warrants granted to the representatives of the underwriters of the Company's 2004 public offering of units of common stock and the public warrants. According to the filing, it covers the sale of up to:
  - 500,000 common shares to be issued upon the exercise of public warrants;
  - 100,000 common shares and 50,000 of warrants to be issued upon the exercise of warrants granted to the representatives of a public offering of units; and
  - 50,000 common shares to be issued upon the exercise of the warrants underlying the representatives' warrants.

### ***Outlook***

Recent results and guidance indicate positive operating trends. Management sees improved operations as a result of its efforts to leverage its market position as a growing national provider of IP services and to improve margins through higher margin service offerings and staff utilization.

Management has set out to expand from a regional player to a national player. Over the past 2 years, the Company has expanded its offices and staff. 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. At recent investment conferences, Management stated that its in active discussions with approximately 8 target organizations, 5 of which have annual revenue between \$10 million and \$100 million and 3 of which have annual revenue greater than \$100 million.

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 4Q2007 (fourth quarter revenues are expected to be between \$60 and \$64 million) and beyond, Management expects revenues and operating profit margins should expand as gross margins improve, operating expenses are leveraged, and cost efficiencies are recognized.

**Projections**

**We are fine-tuning estimates for 2007 and 2008 based on recent 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 \$214.0 million and net income of \$3.6 million or \$0.44 per diluted share. Our prior 2007 forecast called for revenues of \$215.0 million and net income of \$3.3 million or \$0.41 per diluted share.

Our revised 2008 forecast calls for revenues of \$291.3 million and net income of \$7.0 million or \$0.80 per diluted share. Our prior 2008 forecast called for revenues of \$291.3 million and net income of \$6.5 million or \$0.75 per diluted share.

Our current model incorporates:

- Management’s guidance which calls for fourth quarter of 2007 revenue of between \$60 million and \$64 million and improved profitability.
- Revenue gains through 2008 of over 36% stemming from both organic growth and acquisitions.

Projected INX Revenue (\$ 000’s)

2004A	2005A	2006A	2007E	2008E
71,487	107,319	156,013	\$203,998	\$244,335

Source: SEC filings and Taglich Brothers estimates

The Company’s strategic plans call for additional acquisitions; however, we have not factored any impact from further 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. 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.
- Accumulated a net operating loss carryforward for federal income tax purposes of just under \$3 million as of September 30, 2007.

**Risks**

*Acquisition Risk*

The Company makes selected acquisitions a part of its business strategy. 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 Architech 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.

#### *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 companies provide IP products that may directly or indirectly compete with Cisco's product offerings: Alcatel Lucent (NYSE: ALU), Avaya, 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.

#### *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 5.0 million shares in the float. On average, approximately 64,600 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 reiterating our rating on the shares of INX (NASDAQ: INXI) of Speculative Buy and increasing our 12-month price target to \$17.00 from \$15.60 per share based on a relative P/E analysis. The increase in our price target is due to a valuation on forward twelve month earnings.**

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

- Average of the following to arrive at a P/E multiple of 23.5X, which we applied to our estimated EPS (from continuing operations) over the next four quarters of \$0.72 per share:
  - The low (18X) and high (47X) P/E for the Technology sector for the past 5 years; and
  - The trailing P/E (26.5X) for the Technology sector for the past 12 months.

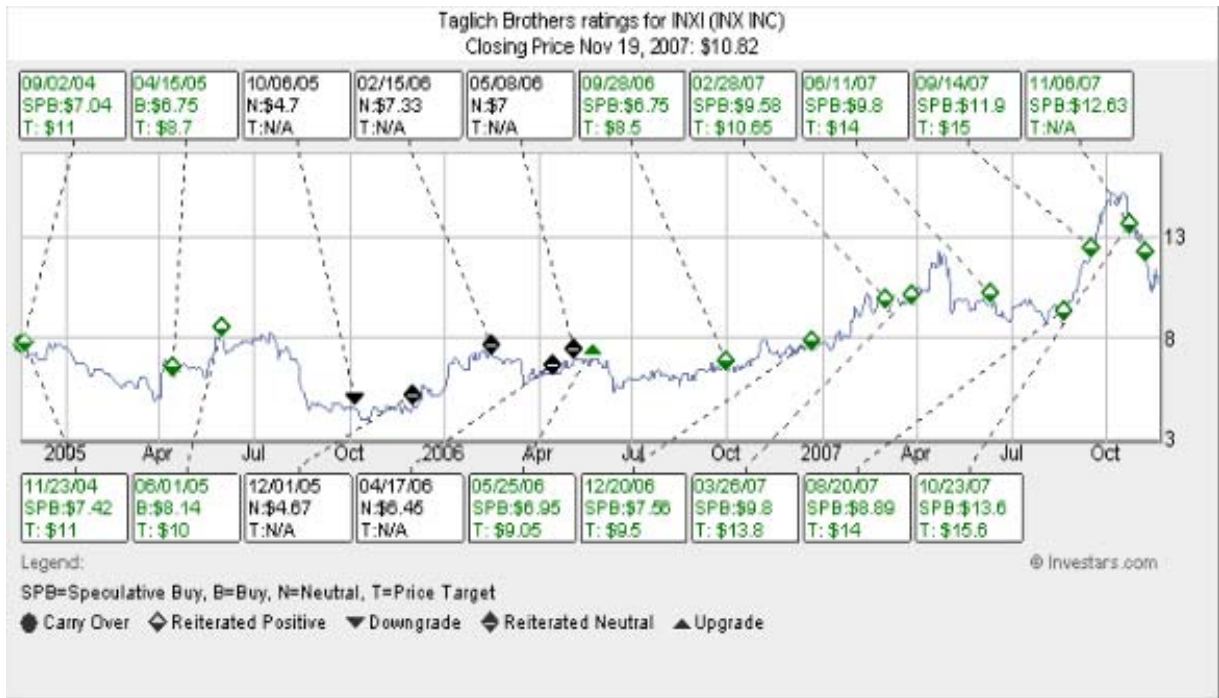
The shares are trading at around 13.5X estimated 2008 EPS. The Company's estimated 2008 two year compounded annual growth rate for EPS (from continuing operations) is 95%.

Our rating is based:

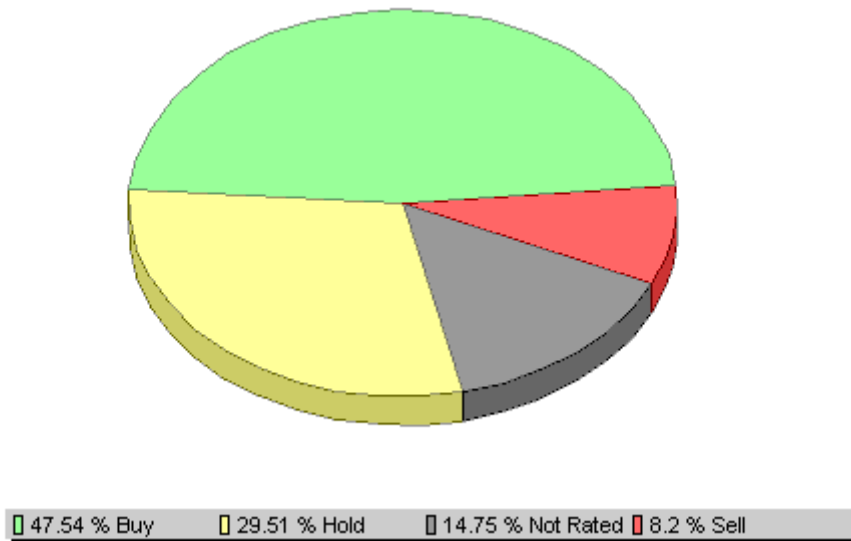
- Attractive industry dynamics;
- Recent financial performance;
- Track record of executing geographic expansion strategy;
- Estimates for growth through 2008; and
- Attractive valuation relative to growth potential.

**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	1	3.57%	
Hold	1	5.88%	
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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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not have an investment banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since April 2001, the company pays a monthly monetary fee of \$1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

**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	\$ 213,998	\$ 291,335
Costs of Goods Sold	<u>58,546</u>	<u>88,743</u>	<u>125,516</u>	<u>173,712</u>	<u>232,919</u>
<b>Gross Profit</b>	<b>12,941</b>	<b>18,576</b>	<b>30,497</b>	<b>40,286</b>	<b>58,416</b>
<i>Gross Margins</i>	18.10%	17.31%	19.55%	18.83%	20.05%
S,G&A	<u>11,268</u>	<u>22,759</u>	<u>28,710</u>	<u>36,675</u>	<u>50,833</u>
<b>Operating Income</b>	<b>1,673</b>	<b>(4,183)</b>	<b>1,787</b>	<b>3,611</b>	<b>7,583</b>
<i>Operating Margin</i>	2.34%	-3.90%	1.15%	1.69%	2.60%
Interest Expense(Income)-net	<u>96</u>	<u>236</u>	<u>232</u>	<u>100</u>	<u>400</u>
<b>Pre-Tax Income</b>	<b>1,577</b>	<b>(4,419)</b>	<b>1,555</b>	<b>3,511</b>	<b>7,183</b>
<i>Pre-Tax Margins</i>	2.21%	-4.12%	1.00%	1.64%	2.47%
Taxes (Benefit)	<u>350</u>	<u>475</u>	<u>44</u>	<u>28</u>	<u>225</u>
<i>Tax Rate</i>	22.19%	-10.75%	2.83%	0.80%	3.13%
<b>Net Income-continuing ops</b>	<b>\$ 1,227</b>	<b>\$ (4,894)</b>	<b>\$ 1,511</b>	<b>\$ 3,483</b>	<b>\$ 6,958</b>
<b>EPS-fully diluted- cont ops</b>	<b>\$ 0.25</b>	<b>\$ (0.86)</b>	<b>\$ 0.21</b>	<b>\$ 0.43</b>	<b>\$ 0.80</b>
Avg Shares Out-fully diluted	<u>5,004</u>	<u>5,706</u>	<u>7,294</u>	<u>8,053</u>	<u>8,681</u>
Income (loss) from discontinued	420	(2,967)	(316)	97	-
Minority Interest	(117)	(23)	-	-	-
<b>Net Income</b>	<b>\$ 1,530</b>	<b>\$ (7,884)</b>	<b>\$ 1,195</b>	<b>\$ 3,580</b>	<b>\$ 6,958</b>
<b>EPS-fully diluted</b>	<b>\$ 0.31</b>	<b>\$ (1.38)</b>	<b>\$ 0.16</b>	<b>\$ 0.44</b>	<b>\$ 0.80</b>
Avg Shares Out-fully diluted	<u>5,004</u>	<u>5,706</u>	<u>7,294</u>	<u>8,053</u>	<u>8,681</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	81.90%	82.69%	80.45%	81.17%	79.95%
SG&A	15.76%	21.21%	18.40%	17.14%	17.45%
Net Margin	2.14%	-7.35%	0.77%	1.67%	2.39%
		-1.49%			
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	63.98%	50.12%	45.37%	37.17%	36.14%

\* 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	<b>1,178</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>43</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%
Operating Income	154.65%	-229.57%	-3685.00%	-662.18%	-142.72%

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)E	F2007E
Total Revenues	\$ 45,643	\$ 53,727	\$ 51,998	\$ 62,630	\$ 213,998
Costs of Goods Sold	<u>37,136</u>	<u>43,682</u>	<u>42,445</u>	<u>50,449</u>	<u>173,712</u>
<b>Gross Profit</b>	8,507	10,045	9,553	12,181	<b>40,286</b>
<i>Gross Margins</i>	18.64%	18.70%	18.37%	19.45%	18.83%
S,G&A	<u>8,172</u>	<u>9,042</u>	<u>8,543</u>	<u>10,918</u>	<u>36,675</u>
<b>Operating Income</b>	335	1,003	1,010	1,263	<b>3,611</b>
<i>Operating Margin</i>	<b>0.73%</b>	<b>1.87%</b>	<b>1.94%</b>	<b>2.02%</b>	<b>1.69%</b>
Interest Expense(Income)-net	<u>24</u>	<u>(41)</u>	<u>17</u>	<u>100</u>	<u>100</u>
<b>Pre-Tax Income</b>	311	1,044	993	1,163	<b>3,511</b>
<i>Pre-Tax Margins</i>	<b>0.68%</b>	<b>1.94%</b>	<b>1.91%</b>	<b>1.86%</b>	<b>1.64%</b>
Taxes (Benefit)	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>28</u>
<i>Tax Rate</i>	2.25%	0.67%	0.70%	0.60%	0.80%
<b>Net Income-continuing ops</b>	<u>\$ 304</u>	<u>\$ 1,037</u>	<u>\$ 986</u>	<u>\$ 1,156</u>	<u>\$ 3,483</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>\$ 0.43</u>
Avg Shares Out-fully diluted	<u>7,730</u>	<u>7,817</u>	<u>8,057</u>	<u>8,607</u>	<u>8,053</u>
Income (loss) from discontinued	62	(3)	38	-	97
<b>Net Income</b>	<u>\$ 366</u>	<u>\$ 1,034</u>	<u>\$ 1,024</u>	<u>\$ 1,156</u>	<u>\$ 3,580</u>
<b>EPS-fully diluted</b>	<u>\$ 0.05</u>	<u>\$ 0.13</u>	<u>\$ 0.13</u>	<u>\$ 0.13</u>	<u>\$ 0.44</u>
Avg Shares Out-fully diluted	<u>7,730</u>	<u>7,817</u>	<u>8,037</u>	<u>8,607</u>	<u>8,053</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	81.36%	81.30%	81.63%	80.55%	81.17%
SG&A	17.90%	16.83%	16.43%	17.43%	17.14%
Net Margin	0.80%	1.92%	1.97%	1.85%	1.67%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	73.71%	38.91%	14.93%	36.70%	37.17%
Operating Income	-176.48%	58.95%	40.86%	43.99%	102.06%
Pre-Tax Income	-159.46%	70.31%	64.13%	35.21%	125.78%
Net Income	-169.32%	36.77%	277.86%	66.07%	199.57%

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	\$ 67,000	\$ 72,500	\$ 75,000	\$ 76,835	\$ 291,335
Costs of Goods Sold	<u>53,719</u>	<u>58,165</u>	<u>59,776</u>	<u>61,259</u>	<u>232,919</u>
<b>Gross Profit</b>	13,281	14,335	15,224	15,576	<b>58,416</b>
<i>Gross Margins</i>	19.82%	19.77%	20.30%	20.27%	20.05%
S,G&A	<u>11,725</u>	<u>12,651</u>	<u>13,088</u>	<u>13,369</u>	<u>50,833</u>
<b>Operating Income</b>	1,556	1,684	2,137	2,207	<b>7,583</b>
<i>Operating Margin</i>	<b>2.32%</b>	<b>2.32%</b>	<b>2.85%</b>	<b>2.87%</b>	<b>2.60%</b>
Interest Expense(Income)-net	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>400</u>
<b>Pre-Tax Income</b>	1,456	1,584	2,037	2,107	<b>7,183</b>
<i>Pre-Tax Margins</i>	<b>2.17%</b>	<b>2.18%</b>	<b>2.72%</b>	<b>2.74%</b>	<b>2.47%</b>
Taxes (Benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>	<u>225</u>
<i>Tax Rate</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>10.67%</i>	<i>3.13%</i>
<b>Net Income-continuing ops</b>	<u>\$ 1,456</u>	<u>\$ 1,584</u>	<u>\$ 2,037</u>	<u>\$ 1,882</u>	<u>\$ 6,958</u>
<b>EPS-fully diluted- cont ops</b>	<u>\$ 0.17</u>	<u>\$ 0.18</u>	<u>\$ 0.23</u>	<u>\$ 0.22</u>	<u>\$ 0.80</u>
Avg Shares Out-fully diluted	<u>8,625</u>	<u>8,650</u>	<u>8,725</u>	<u>8,725</u>	<u>8,681</u>
<b>Net Income</b>	<u>\$ 1,456</u>	<u>\$ 1,584</u>	<u>\$ 2,037</u>	<u>\$ 1,882</u>	<u>\$ 6,958</u>
<b>EPS-fully diluted</b>	<u>\$ 0.17</u>	<u>\$ 0.18</u>	<u>\$ 0.23</u>	<u>\$ 0.22</u>	<u>\$ 0.80</u>
Avg Shares Out-fully diluted	<u>8,625</u>	<u>8,650</u>	<u>8,725</u>	<u>8,725</u>	<u>8,681</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	80.18%	80.23%	79.70%	79.73%	79.95%
SG&A	17.50%	17.45%	17.45%	17.40%	17.45%
Net Margin	2.17%	2.18%	2.72%	2.45%	2.39%
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	46.79%	34.94%	44.24%	22.68%	36.14%
Operating Income	364.48%	67.85%	111.57%	74.73%	110.01%
Pre-Tax Income	368.17%	51.68%	105.13%	81.15%	104.59%
Net Income	297.81%	53.15%	98.92%	62.80%	94.37%

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

	F2006A	1Q07A	2Q07A	3Q07A
<b>Assets</b>				
Current Assets				
Cash & Equivalents	\$ 1,795	\$ 1,915	\$ 7,826	\$ 8,514
Net Receivables	42,424	39,248	39,656	42,058
Inventory	1,157	1,989	2,237	1,573
Prepaid Expense & Other	2,067	1,818	1,958	2,301
Discounted ops Assets	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Current Assets</b>	47,462	44,970	51,677	54,446
Plant, Property, & Equipment-net	3,854	4,108	4,084	4,345
Intangibles	11,174	11,416	12,293	19,711
Other	-	258	-	-
Discounted ops Assets	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u>\$ 62,520</u>	<u>\$ 60,752</u>	<u>\$ 68,054</u>	<u>\$ 78,502</u>
<b>Liabilities &amp; Shareholders' Equity</b>				
Current Liabilities				
Current portion of LTD	\$ 4,609	\$ 1,013	\$ 37	\$ 6,472
Accounts Payable	28,798	30,193	36,320	34,312
Accrued Expenses & Other	6,298	4,694	4,627	5,918
Discounted ops Liabilities	<u>125</u>	<u>1,284</u>	<u>1,233</u>	<u>1,550</u>
<b>Total Current Liabilities</b>	39,830	37,184	42,217	48,252
<b>LTD</b>	-	-	-	-
<b>Other LT</b>	306	145	306	526
<b>Total Shareholders' Equity</b>	<u>22,384</u>	<u>23,423</u>	<u>25,531</u>	<u>29,724</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 62,520</u>	<u>\$ 60,752</u>	<u>\$ 68,054</u>	<u>\$ 78,502</u>
SHARES OUT	6,603	6,756	6,953	7,394

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

	<u>FY2006A</u>	<u>9M07A</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ 1,195	\$ 2,424
Depreciation & Amortization	1,178	1,143
Other	497	646
Discontinued operations	<u>316</u>	<u>(97)</u>
	3,186	4,116
<i>Changes In:</i>		
Receivables	(17,584)	6,031
Inventories	(1,053)	13
Prepaid Expense	(1,185)	-
Accounts Payable	14,981	(1,343)
Accrued Expenses & Other	1,629	81
Discontinued operations	<u>(684)</u>	<u>43</u>
Net Changes in Working Capital	<u>(3,896)</u>	<u>4,825</u>
<b>Net cash Provided by Operations</b>	<u>(710)</u>	<u>8,941</u>
<i>Cash Flows from Investing Activities</i>		
Capital Expenditures	(1,921)	(1,127)
Acquisitions	(2,177)	(3,990)
Discontinued operations	<u>1,492</u>	<u>15</u>
<b>Net cash used in Investing</b>	<u>(2,606)</u>	<u>(5,102)</u>
<i>Cash Flows from Financing Activities</i>		
Proceeds from Common stock/options	613	1,029
Proceeds from Credit facilities	2,293	2,110
Repayments of notes	(391)	(259)
Discontinued operations	<u>(1)</u>	<u>-</u>
<b>Net cash provided by Financing</b>	<u>2,514</u>	<u>2,880</u>
Net change in Cash	<u>(802)</u>	<u>6,719</u>
Cash Beginning of Period	<u>2,597</u>	<u>1,795</u>
Cash End of Period	<u>\$ 1,795</u>	<u>\$ 8,514</u>