

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-31949

INX Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State of incorporation)

76-0515249

(I.R.S. Employer Identification Number)

1955 Lakeway Drive

Lewisville, Texas 75057

(Address of principal executive offices)

(Zip code)

(469) 549-3800

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The Registrant has 9,669,872 shares of common stock outstanding as of May 16, 2011.

INX Inc. and Subsidiaries
FORM 10-Q for the Quarter Ended September 30, 2010

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EXPLANATORY NOTE

Overview of Restatement

In this Quarterly Report on Form 10-Q, INX Inc. (the “Company” or “INX”):

1. Restates its Condensed Consolidated Balance Sheet as of September 30, 2009, and
2. Restates its Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2009 and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2009, and the related disclosures in Notes to Condensed Consolidated Financial Statements.

[Amounts are presented in thousands except share, per share, par value and percentages in all parts of this Quarterly Report on Form 10-Q, except in the exhibits and unless otherwise stated.]

Background on the Restatement

As previously disclosed in the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on March 26, 2010, the Company announced that it was delaying its fourth quarter earnings release (for the year ended December 31, 2009) and that it would not file its Annual Report on Form 10-K for the fiscal year 2009 by its due date in order to allow the Company additional time for the reexamination of its revenue recognition under Accounting Standards Codification (ASC) 605-25, Revenue Recognition, Multiple-Element Arrangement, previously referred to as Emerging Issues Task Force No. 00-21 (“EITF 00-21”), “Revenue Arrangements with Multiple Deliverables”.

In the Company’s Current Report on Form 8-K filed with the SEC on June 21, 2010, the Company announced that the Audit Committee of its Board of Directors, upon the recommendation of management, had determined that its previously issued financial statements included in its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, its Quarterly Report for the quarter ended March 31, 2009 on Form 10-Q/A and for the quarters ended June 30, 2009 and September 30, 2009 on Form 10-Q, should no longer be relied upon as a result of certain errors affecting the timing of recognition of revenues and costs of revenues.

The restated financial statements correct the following errors in the recognition of revenue associated with the proper:

1. Application of EITF 00-21, affecting the timing and presentation of revenue recognized (“00-21 Adjustments”) for the:
 - a. Proper determination of contracts to which EITF 00-21 was applicable and the related units of accounting for such contracts,
 - b. Proper determination of linkage between contracts, reflecting aggregation of single contracts into multiple element arrangements since they were negotiated as a package, and
 - c. Proper assessment of whether or not the Company had vendor specific objective evidence (“VSOE”) of the fair value of the various deliverables within arrangements containing multiple deliverables, as well as (i) the timing of revenue recognition based upon the relative fair value of the deliverables within the arrangement for deliverables for which we are able to establish the fair value. (ii) the allocation of the total arrangement consideration between the various elements of the arrangement based upon the relative fair value of the deliverables within the arrangement for multi-element arrangements, and, (iii) the deferral of revenue for the entire arrangement in situations where the arrangement contained remaining undelivered deliverables for which we are not able to establish the fair value.
2. Identification of customer contracts with special customer acceptance terms which require deferral of revenues and related costs of revenues and commissions until customer acceptance was obtained (“Special Acceptance Terms”),
3. Identification of contract shipping terms resulting in the incorrect timing of recognition of revenues and related costs of sales and commissions (“Shipping Terms”), and
4. Identification of products that are maintenance, support, and installation services provided by third parties as the primary obligor of the service, which requires presentation of the revenue reported by the Company net of the cost of the services provided by the third party (“Net Presentation”).

In addition, the Company also determined that an error was made in the accounting for contingent consideration (“earn-out”) paid in August 2006 in connection with the acquisition of substantially all of the assets of InfoGroup Northwest, Inc. (“InfoGroup”). The InfoGroup assets were acquired under an asset purchase agreement in June 2005 and most InfoGroup employees became employees of the Company. As part of the earn-out provision, cash and common stock were paid by the Company to the InfoGroup shareholder based upon the InfoGroup branch offices achieving specific financial performance targets, which were recorded as goodwill. The selling shareholder decided to give a portion of the earn-out to former employees of InfoGroup who had become employees of the Company as a result of the acquisition (“Employee Payments”). Under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. When a selling shareholder gives acquisition-related payments to Company employees who were not selling shareholders, these payments are viewed as resulting from services that are assumed to have benefited the Company and therefore must be further recorded as a non-cash charge to compensation expense. In effect, the Employee Payments are in substance a separate transaction from the Company’s acquisition of the InfoGroup assets, which should have been recorded as a separate non-cash charge to compensation expense. The Employee Payments were therefore required to be reflected in the consolidated financial statements for the year ended December 31, 2006 as non-cash compensation expense in the amount of \$672, and the selling shareholder was deemed to have made a corresponding capital contribution to the Company. The compensation expense is a non-cash charge because the payments were made directly by the selling shareholder from the acquisition proceeds received from the Company. The Company did not expend additional cash with respect to the compensation charge. The correction had no effect on total stockholders’ equity at December 31, 2006.

The adjustments made as a result of the restatement are more fully discussed in Note 3, Restatement of Previously Issued Financial Statements, of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 and Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Quarterly Report. For a description of the control deficiencies identified by management as a result of our internal reviews, and management’s plan to remediate those deficiencies, see Part I, Item 4, Controls and Procedures.

Previously filed Annual Reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company’s previously released financial statements for these periods and any earnings releases or other communications relating to these periods.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited):

INX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value amounts)
(Unaudited)

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,546	\$ 13,247
Accounts receivable, net of allowance of \$565 and \$295, respectively	68,453	52,269
Inventory, net	2,368	7,527
Deferred costs	3,174	1,497
Deferred income taxes	2,351	---
Other current assets	1,151	1,106
Total current assets	89,043	75,646
Property and equipment, net of accumulated depreciation of \$7,347 and \$5,825, respectively	4,590	4,833
Goodwill	13,798	13,870
Intangible assets, net of accumulated amortization of \$1,835 and \$1,201, respectively	1,201	1,760
Deferred income taxes	3,394	—
Other assets	191	257
Total assets	\$ 112,217	\$ 96,366
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 172	\$ 192
Accounts payable floor plan	45,247	44,561
Accounts payable	7,972	5,682
Accrued payroll and related costs	7,892	4,679
Accrued expenses	2,917	4,838
Deferred revenue	4,052	2,402
Other current liabilities	640	282
Total current liabilities	68,892	62,636
Non-current liabilities:		
Non-current portion of capital lease obligations	91	216
Other liabilities	1,618	1,535
Total liabilities	70,601	64,387
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, \$.01 par value, 15,000,000 shares authorized, 9,420,673 and 9,103,253 issued and outstanding, respectively	94	91
Additional paid-in capital	57,150	54,269
Accumulated deficit	(15,628)	(22,381)
Total stockholders' equity	41,616	31,979
Total liabilities and stockholders' equity	\$ 112,217	\$ 96,366

The accompanying notes are an integral part of these condensed consolidated financial statements.

INX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,	
	2010	2009 <small>(As Restated, Note 3)</small>
Revenue:		
Products	\$ 74,027	\$ 46,577
Services	10,886	11,166
Total revenue	84,913	57,743
Cost of products and services:		
Products	57,355	36,394
Services	8,407	8,318
Total cost of products and services	65,762	44,712
Gross profit	19,151	13,031
Selling, general and administrative expenses	17,392	13,249
Operating income (loss)	1,759	(218)
Interest and other (expense) income, net	(12)	83
Income (loss) before income taxes	1,747	(135)
Income tax expense	820	66
Net income (loss) from continuing operations	927	(201)
Loss from discontinued operations, net of taxes	—	(48)
Net income (loss)	\$ 927	\$ (249)
Basic net income (loss) per share:		
Net income (loss) from continuing operations	\$ 0.10	\$ (0.02)
Loss from discontinued operations, net of taxes	—	(0.01)
Net income (loss) per share – basic	\$ 0.10	\$ (0.03)
Diluted net income (loss) per share:		
Net income (loss) from continuing operations	\$ 0.09	\$ (0.02)
Loss from discontinued operations, net of taxes	—	(0.01)
Net income (loss) per share – diluted	\$ 0.09	\$ (0.03)
Weighted Average Shares - Basic	9,294,873	8,927,549
Weighted Average Shares - Diluted	9,880,852	8,927,549

The accompanying notes are an integral part of these condensed consolidated financial statements.

INX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009 (As Restated, Note 3)
Revenue:		
Products	\$ 209,191	\$ 134,628
Services	29,825	35,231
Total revenue	<u>239,016</u>	<u>169,859</u>
Cost of products and services:		
Products	166,521	106,982
Services	23,743	25,431
Total cost of products and services	<u>190,264</u>	<u>132,413</u>
Gross profit	48,752	37,446
Selling, general and administrative expenses	46,510	38,234
Operating income (loss)	2,242	(788)
Interest and other income, net	68	100
Income (loss) before income taxes	2,310	(688)
Income tax (benefit) expense	(4,443)	66
Net income (loss) from continuing operations	6,753	(754)
Loss from discontinued operations, net of taxes	—	(104)
Net income (loss)	<u>\$ 6,753</u>	<u>\$ (858)</u>
Basic net income (loss) per share:		
Net income (loss) from continuing operations	\$ 0.73	\$ (0.09)
Loss from discontinued operations, net of taxes	—	(0.01)
Net income (loss) per share – basic	<u>\$ 0.73</u>	<u>\$ (0.10)</u>
Diluted net income (loss) per share:		
Net income (loss) from continuing operations	\$ 0.69	\$ (0.09)
Loss from discontinued operations, net of taxes	—	(0.01)
Net income (loss) per share – diluted	<u>\$ 0.69</u>	<u>\$ (0.10)</u>
Weighted Average Shares - Basic	<u>9,201,862</u>	<u>8,818,793</u>
Weighted Average Shares - Diluted	<u>9,798,140</u>	<u>8,818,793</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

INX INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (In thousands, except share amounts)
 (Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2009	9,103,253	\$ 91	\$ 54,269	\$ (22,381)	\$ 31,979
Exercise of common stock options	7,782	—	10	—	10
Issuance of vested restricted common stock	152,965	1	(1)	—	—
Share-based compensation expense related to employee stock options and employee restricted stock grants	—	—	1,371	—	1,371
Share-based compensation expense related to Employee Stock Purchase Plan	—	—	220	—	220
Issuance of common stock under the Employee Stock Purchase Plan	138,499	1	572	—	573
Purchase price consideration issued for AccessFlow acquisition	50,525	1	248	—	249
Excess tax benefit from stock option exercises	—	—	611	—	611
Issuance of common stock grant	10,000	—	54	—	54
Purchase and retirement of stock resulting from grantee election to fund payroll taxes out of restricted stock grant	(42,351)	—	(204)	—	(204)
Net income	—	—	—	6,753	6,753
Balance at September 30, 2010	<u>9,420,673</u>	<u>\$ 94</u>	<u>\$ 57,150</u>	<u>\$ (15,628)</u>	<u>\$ 41,616</u>

The accompanying notes are an integral part of this condensed consolidated financial statement.

INX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
	(As Restated, Note 3)	
Cash flows from operating activities:		
Net income (loss)	\$ 6,753	\$ (858)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss from discontinued operations	—	104
Depreciation and amortization	2,135	2,310
Share-based compensation expense	1,645	1,614
Impairment charges	594	—
Adjustment to estimated acquisition contingent consideration	(254)	—
Deferred income tax	(5,745)	—
Excess tax benefits from stock option exercises	(611)	(66)
Provision for doubtful accounts	366	260
Loss on disposal of property and equipment	11	35
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	(16,550)	5,923
Inventory	5,159	1,647
Accounts payable	2,290	551
Other assets and liabilities	4,099	(167)
Net cash (used in) provided by operating activities	<u>(108)</u>	<u>11,353</u>
Cash flows from investing activities:		
Capital expenditures, net of acquisitions	(1,345)	(813)
Acquisition of AdvancedNetworX	—	(465)
Acquisition of NetTek's Technology Consultants, Inc	(1,500)	—
Acquisition of Access Flow, Inc.	(273)	(209)
Acquisition of Select, Inc.	—	(25)
Increase in restricted cash for lease deposit	—	(53)
Proceeds from sale of property and equipment	1	8
Net cash used in investing activities	<u>(3,117)</u>	<u>(1,557)</u>
Cash flows from financing activities:		
Borrowings (payments) under non-interest bearing floor plan financing, net	686	(8,708)
Excess tax benefits from stock option exercises	611	66
Proceeds from shares issued under Employee Stock Purchase Plan	573	326
Payments on other borrowings	(152)	(197)
Purchase of stock resulting from grantee election	(204)	(60)
Proceeds from exercise of stock options	10	22
Purchase of common stock	—	(66)
Net cash provided by (used in) financing activities	<u>1,524</u>	<u>(8,617)</u>
Net (decrease) increase in cash and cash equivalents	(1,701)	1,179
Cash and cash equivalents at beginning of period	13,247	10,937
Cash and cash equivalents at end of period	<u>\$ 11,546</u>	<u>\$ 12,116</u>
Supplemental disclosure of cash flow information:		
Issuance of vested restricted common stock	\$ 842	\$ 579
Acquisition of Access Flow	\$ 249	\$ 185
Acquisition of AdvancedNetworX, Inc.	\$ —	\$ 677
Capital lease obligation	\$ —	\$ 297

The accompanying notes are an integral part of these condensed consolidated financial statements.

INX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)

1. Description of Business

INX Inc. (“INX” or the “Company”) is a technology solutions provider focused on delivering three broad categories of technology services infrastructure to enterprise customers. Our solutions architectures consist of three broad categories of technology infrastructure: network infrastructure, unified communications and collaboration (“UC&C”) and data center. Our value-added proposition is delivered in the form of combining our professional with certain manufacturer’s products to address our customers’ needs. Our professional services include consulting, planning and design engineering, implementation engineering, system integration. We provide technology infrastructure solutions for enterprise-class organizations such as corporations, healthcare organizations, educational institutions, and Federal, state and local governmental agencies located in the United States.

2. Basis of Presentation

The accompanying unaudited financial data as of September 30, 2010 and for the three-month and nine-month periods ended September 30, 2010 and 2009 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2009 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes the disclosures are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 as filed on June 3, 2011.

In the opinion of management, all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary for a fair presentation of financial position as of September 30, 2010, results of operations for the three-month and nine-month periods ended September 30, 2010 and 2009, cash flows for the nine months ended September 30, 2010 and 2009, and stockholders’ equity for the nine months ended September 30, 2010, have been included. The results of the interim periods are not necessarily indicative of results for the full year or any future period.

Certain prior period amounts in the balance sheets, statements of operations, and statements of cash flows presented herein have been reclassified to conform to the current period presentation.

3. Restatement of Previously Issued Financial Statements

As previously disclosed in the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on March 26, 2010, the Company announced that it was delaying its fourth quarter earnings release (for the year ended December 31, 2009) and that it would not file its Annual Report on Form 10-K for the fiscal year 2009 by its due date in order to allow the Company additional time for the reexamination of its revenue recognition under Accounting Standards Codification (ASC) 605-25, Revenue Recognition, Multiple-Element Arrangement, previously referred to as Emerging Issues Task Force No. 00-21 (“EITF 00-21”), “Revenue Arrangements with Multiple Deliverables”.

In the Company’s Current Report on Form 8-K filed with the SEC on June 21, 2010, the Company announced that the Audit Committee of its Board of Directors, upon the recommendation of management, had determined that its previously issued financial statements included in its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, its Quarterly Report for the quarter ended March 31, 2009 on Form 10-Q/A and for the quarters ended June 30, 2009 and September 30, 2009 on Form 10-Q, should no longer be relied upon as a result of certain errors affecting the timing of recognition of revenues and costs of revenues.

The restated financial statements correct the following errors in the recognition of revenue associated with the proper:

1. Application of EITF 00-21, affecting the timing and presentation of revenue recognized (“00-21 Adjustments”) for the:
 - a. Proper determination of contracts to which EITF 00-21 was applicable and the related units of accounting for such contracts,

- b. Proper determination of linkage between contracts, reflecting aggregation of single contracts into multiple element arrangements since they were negotiated as a package, and
 - c. Proper assessment of whether or not the Company had vendor specific objective evidence (“VSOE”) of the fair value of the various deliverables within arrangements containing multiple deliverables, as well as (i) the timing of revenue recognition based upon the relative fair value of the deliverables within the arrangement for deliverables for which we are able to establish the fair value. (ii) the allocation of the total arrangement consideration between the various elements of the arrangement based upon the relative fair value of the deliverables within the arrangement for multi-element arrangements, and, (iii) the deferral of revenue for the entire arrangement in situations where the arrangement contained remaining undelivered deliverables for which we are not able to establish the fair value.
2. Identification of customer contracts with special customer acceptance terms which require deferral of revenues and related costs of revenues and commissions until customer acceptance was obtained (“Special Acceptance Terms”),
 3. Identification of contract shipping terms resulting in the incorrect timing of recognition of revenues and related costs of sales and commissions (“Shipping Terms”), and
 4. Identification of products that are maintenance, support, and installation services provided by third parties as the primary obligor of the service, which requires presentation of the revenue reported by the Company net of the cost of the services provided by the third party (“Net Presentation”).

In addition, the Company also determined that an error was made in the accounting for contingent consideration (“earn-out”) paid in August 2006 in connection with the acquisition of substantially all of the assets of InfoGroup Northwest, Inc. (“InfoGroup”). The InfoGroup assets were acquired under an asset purchase agreement in June 2005 and most InfoGroup employees became employees of the Company. As part of the earn-out provision, cash and common stock were paid by the Company to the InfoGroup shareholder based upon the InfoGroup branch offices achieving specific financial performance targets, which were recorded as goodwill. The selling shareholder decided to give a portion of the earn-out to former employees of InfoGroup who had become employees of the Company as a result of the acquisition (“Employee Payments”). Under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. When a selling shareholder gives acquisition-related payments to Company employees who were not selling shareholders, these payments are viewed as resulting from services that are assumed to have benefited the Company and therefore must be further recorded as a non-cash charge to compensation expense. In effect, the Employee Payments are in substance a separate transaction from the Company’s acquisition of the InfoGroup assets, which should have been recorded as a separate non-cash charge to compensation expense. The Employee Payments were therefore required to be reflected in the consolidated financial statements for the year ended December 31, 2006 as non-cash compensation expense in the amount of \$672, and the selling shareholder was deemed to have made a corresponding capital contribution to the Company. The compensation expense is a non-cash charge because the payments were made directly by the selling shareholder from the acquisition proceeds received from the Company. The Company did not expend additional cash with respect to the compensation charge. The correction had no effect on total stockholders’ equity at December 31, 2006.

A summary of the effect of the errors on the three and nine months ended September 30, 2009 as previously reported is summarized below:

Condensed Consolidated Statement of Operations For the Three Months Ended September 30, 2009:

	As Previously Reported	00-21 Adjustments	Special Acceptance Terms	Shipping Terms	Net Presentation	As Restated
Revenue:						
Products	\$ 46,813	\$ 454	\$ (1)	\$ (81)	\$ (608)	\$ 46,577
Services	11,046	113	7	—	—	11,166
Total revenue	57,859	567	6	(81)	(608)	57,743
Cost of products and services:						
Products	36,620	329	—	53	(608)	36,394
Services	8,272	75	(31)	2	—	8,318
Total cost of products and services	44,892	404	(31)	55	(608)	44,712
Total gross profit	12,967	163	37	(136)	—	13,031
Selling, general and administrative expenses	13,284	2	(7)	(30)	—	13,249
Operating income (loss)	(317)	161	44	(106)	—	(218)
Interest and other income (expense), net	83	—	—	—	—	83
Income (loss) before income taxes	(234)	161	44	(106)	—	(135)
Income tax expense (benefit)	93	(44)	(12)	29	—	66
Net income (loss) from continuing operations	(327)	205	56	(135)	—	(201)
Income (loss) from discontinued operations, net of taxes	(48)	—	—	—	—	(48)
Net income (loss)	\$ (375)	\$ 205	\$ 56	\$ (135)	\$ —	\$ (249)
Basic net loss per share:						
Net loss from continuing operations	\$ (0.04)					\$ (0.02)
Loss from discontinued operations, net of taxes	—					(0.01)
Net loss per share – basic	\$ (0.04)					\$ (0.03)
Diluted net loss per share:						
Net loss from continuing operations	\$ (0.04)					\$ (0.02)
Loss from discontinued operations, net of taxes	—					(0.01)
Net loss per share – diluted	\$ (0.04)					\$ (0.03)
Weighted average shares outstanding -basic	8,927,549					8,927,549
Weighted average shares outstanding - diluted	8,927,549					8,927,549

Condensed Consolidated Statement of Operations For the Nine Months Ended September 30, 2009:

	As Previously Reported	00-21 Adjustments	Special Acceptance Terms	Shipping Terms	Net Presentation	As Restated
Revenue:						
Products	\$ 137,834	\$ (834)	\$ (1,799)	\$ 761	\$ (1,334)	\$ 134,628
Services	35,706	(48)	(427)	—	—	35,231
Total revenue	173,540	(882)	(2,226)	761	(1,334)	169,859
Cost of products and services:						
Products	109,619	(543)	(1,519)	759	(1,334)	106,982
Services	25,926	(30)	(472)	7	—	25,431
Total cost of products and services	135,545	(573)	(1,991)	766	(1,334)	132,413
Total gross profit	37,995	(309)	(235)	(5)	—	37,446
Selling, general and administrative expenses	38,337	(42)	(40)	(21)	—	38,234
Operating income (loss)	(342)	(267)	(195)	16	—	(788)
Interest and other income (expense), net	100	—	—	—	—	100
Income (loss) before income taxes	(242)	(267)	(195)	16	—	(688)
Income tax expense (benefit)	212	(124)	(70)	48	—	66
Net income (loss) from continuing operations	(454)	(143)	(125)	(32)	—	(754)
Income (loss) from discontinued operations, net of taxes	(104)	—	—	—	—	(104)
Net income (loss)	\$ (558)	\$ (143)	\$ (125)	\$ (32)	\$ —	\$ (858)
Basic net loss per share:						
Net loss from continuing operations	\$ (0.05)					\$ (0.09)
Loss from discontinued operations, net of taxes	(0.01)					(0.01)
Net loss per share – basic	\$ (0.06)					\$ (0.10)
Diluted net loss per share:						
Net loss from continuing operations	\$ (0.05)					\$ (0.09)
Loss from discontinued operations, net of taxes	(0.01)					(0.01)
Net loss per share – diluted	\$ (0.06)					\$ (0.10)
Weighted average shares outstanding -basic	8,818,793					8,818,793
Weighted average shares outstanding - diluted	8,818,793					8,818,793

Condensed Consolidated Balance Sheet at September 30, 2009:

	As Previously Reported	Revenue Corrections	Goodwill Correction	As Restated
Current assets:				
Cash and cash equivalents	\$ 12,116	\$ —	\$ —	\$ 12,116
Accounts receivable, net	45,807	(296)	—	45,511
Inventory, net	1,681	282	—	1,963
Deferred costs	345	728	—	1,073
Other current assets	1,063	—	—	1,063
Total current assets	61,012	714	—	61,726
Property and equipment, net	4,576	—	—	4,576
Goodwill	14,085	—	—	14,085
Intangible and other assets, net	1,476	—	—	1,476
Total assets	<u>\$ 81,149</u>	<u>\$ 714</u>	<u>\$ —</u>	<u>\$ 81,863</u>
Current liabilities:				
Current portion of capital lease obligations	\$ 198	\$ —	\$ —	\$ 198
Accounts payable floor plan	31,294	—	—	31,294
Accounts payable	5,721	—	—	5,721
Accrued payroll and related costs	5,114	(37)	—	5,077
Accrued expenses	1,796	—	—	1,796
Deferred revenue	763	1,317	—	2,080
Other current liabilities	279	(146)	—	133
Total current liabilities	45,165	1,134	—	46,299
Non-current liabilities:				
Non-current portion of capital lease obligations	267	—	—	267
Other liabilities	608	—	—	608
Total liabilities	<u>46,040</u>	<u>1,134</u>	<u>—</u>	<u>47,174</u>
Stockholders' equity:				
Common stock	89	—	—	89
Additional paid-in capital	52,837	(55)	672	53,454
Accumulated deficit	(17,817)	(365)	(672)	(18,854)
Total stockholders' equity	<u>35,109</u>	<u>(420)</u>	<u>—</u>	<u>34,689</u>
Total liabilities and stockholders' equity	<u>\$ 81,149</u>	<u>\$ 714</u>	<u>\$ —</u>	<u>\$ 81,863</u>

Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2009:

	<u>As Previously Reported</u>	<u>Total Revenue Corrections</u>	<u>As Restated</u>
Cash flows from operating activities:			
Net loss	\$ (558)	\$ (300)	\$ (858)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss from discontinued operations	104	—	104
Depreciation and amortization	2,310	—	2,310
Share-based compensation expense	1,614	—	1,614
Excess tax benefits from stock option exercises	(66)	—	(66)
Loss on disposal of property and equipment	35	—	35
Provision for doubtful accounts	260	—	260
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	6,799	(876)	5,923
Inventory	725	922	1,647
Accounts payable	551	—	551
Other assets and liabilities	(421)	254	(167)
Net cash provided by operating activities	<u>11,353</u>	<u>—</u>	<u>11,353</u>
Cash flows from investing activities:			
Acquisition of AdvancedNetworkX, Inc.	(465)	—	(465)
Acquisition of Access Flow, Inc.	(209)	—	(209)
Acquisition of Select, Inc.	(25)	—	(25)
Proceeds from sales of property and equipment	8	—	8
Increase in restricted cash for lease deposit	(53)	—	(53)
Capital expenditures	(813)	—	(813)
Net cash used in investing activities	<u>(1,557)</u>	<u>—</u>	<u>(1,557)</u>
Cash flows from financing activities:			
Payments under non-interest bearing floor plan financing, net	(8,708)	—	(8,708)
Proceeds from shares issued under Employee Stock Purchase Plan	326	—	326
Exercise of stock options	22	—	22
Excess tax benefits from stock option exercises	66	—	66
Purchase of common stock	(66)	—	(66)
Purchase of stock resulting from grantee election	(60)	—	(60)
Payments on notes payable and capital lease obligations	(197)	—	(197)
Net cash used in financing activities	<u>(8,617)</u>	<u>—</u>	<u>(8,617)</u>
Net increase in cash and cash equivalents	1,179	—	1,179
Cash and cash equivalents at beginning of period	10,937	—	10,937
Cash and cash equivalents at end of period	<u>\$ 12,116</u>	<u>\$ —</u>	<u>\$ 12,116</u>

4. Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (“FASB”) clarified required disclosures regarding pro forma revenue and earnings in a business combination. If comparative financial statements of an acquired business are presented, the revenue and earnings of the combined entity should be presented as though the business combination had occurred at the beginning of the prior reporting period only. In addition, the supplemental disclosures should include a description of the amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the pro forma revenue and earnings. The clarification is required to be applied to any business combination of the Company that closes after 2010 and early adoption is permitted. The Company will adopt the requirement for any business combination that closes after December 31, 2010.

In December 2010, the FASB clarified certain aspects of “carrying value” in applying step 1 of the goodwill impairment test to a reporting unit. The revised guidance does not prescribe a specific method of calculating the carrying value of a reporting unit, but it does require reporting units with negative or zero carrying value to be assessed for impairment using qualitative factors. If the qualitative factors indicate that it is more likely than not that impairment of goodwill exists, then step 2 of the goodwill impairment test must be performed. The new requirement is effective for years beginning after December 15, 2010 and early adoption is not permitted. Companies affected by this new standard are required to record a cumulative effect adjustment to beginning retained earnings in the period of adoption. The new standard is not expected to have a material effect on the Company because none of the Company’s reporting units with goodwill balances at December 31, 2010, have a negative or zero carrying value.

In July 2010, the FASB adopted enhanced disclosure requirements regarding financing receivables and allowance for credit losses, excluding short-term trade receivables or receivables measured at fair value or lower of cost or fair value. The enhanced disclosure requirements include information about the nature and credit risk inherent in the entity's financing receivables, the Company's methods of analyzing and assessing credit risk in determining the allowance for credit losses and the changes and reasons for changes in the allowance for credit losses. The enhanced disclosure requirements are required to be adopted by the Company in its annual report for the year ended December 31, 2010. The Company's financing receivables are currently short-term trade receivables which are excluded from such disclosures. The additional disclosure requirements will not have an impact on the Company's results of operations or financial position.

In January 2010, the FASB enhanced existing requirements and added new requirements for disclosures of fair value measurements. Previous guidance required companies to disclose information about how management determined fair value for those assets and liabilities measured at fair value by categorizing such assets and liabilities in one of three categories: Level 1, Level 2 or Level 3. The new requirements enhance and amend these disclosures. Some of the new disclosures were required to be adopted, and were adopted by the Company in the first quarter ended March 31, 2010, with the remaining disclosures required to be adopted by the Company in the first quarter ended March 31, 2011. The additional disclosure requirements will not have an impact on the Company's results of operations or financial position.

In October 2009, the FASB issued "Multiple-Deliverable Revenue Arrangements", amending guidance to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. Expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance are required. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company will adopt this guidance prospectively as of January 1, 2011 and is currently evaluating the financial statement impact, although it does not expect the implementation of this standard to have a material impact on the results of operations or financial position.

In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements", amending guidance to exclude tangible products containing software components and non-software components that function together to deliver the product's essential functionality. Entities that sell joint hardware and software products that meet this scope exception will be required to follow this guidance, effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company will adopt this guidance prospectively as of January 1, 2011 and is currently evaluating the financial statement impact, although it does not expect the implementation of this standard to have a material impact on the results of operations or financial position.

5. Acquisitions/Goodwill Impairment

The Company completed two acquisitions in 2009. The acquisitions were undertaken to improve the Company's geographic presence and enhance its technical capabilities.

(a) Marketware Inc.

On December 31, 2009, the Company purchased the operations and certain assets, and assumed specified liabilities of Marketware Inc. ("Marketware"). Marketware, a Sacramento-based provider of Cisco IP-network-based physical security and networking solutions founded in 1982, generated revenue of approximately \$5,400 for the 12 months ended December 31, 2009. The acquisition initially added ten employees as part of an expanded Northern California region.

Consideration at closing totaled \$469 and consisted of (a) \$350 in cash, (b) reimbursed inventory commitments of \$60, (c) liabilities assumed of \$28, (d) stock options granted to the seller valued at \$23, (e) state sales taxes incurred in the transaction of \$7, and (f) a noncompete agreement payment to the seller of \$1. Cash of \$35 was initially retained by the Company under defined holdback provisions and was subsequently paid. Transaction costs of \$21 were charged as incurred to selling, general and administrative expenses. Additional purchase consideration may be payable based on the Northern California region's operating income contribution during the two years subsequent to the acquisition date. For the one-year period ending December 31, 2010, a minimum of zero and a maximum of \$591 additional purchase price consideration can be earned. For the twelve-month period ending December 31, 2011, a minimum of zero and a maximum of \$1,313 additional purchase price consideration can be earned. Up to 50% of the additional purchase price consideration may be paid in the form of common stock, at the Company's option.

Estimated additional purchase consideration payable was recorded at fair value on the acquisition date in the amount of \$825 and classified as other non-current liabilities as of September 30, 2010 and December 31, 2009. The estimated additional consideration will be remeasured to fair value at each reporting date until settled with changes in fair value recognized as a component of selling, general and administrative expenses.

(b) AdvancedNetworX, Inc.

On July 17, 2009, the Company purchased the operations and certain assets, and assumed specified liabilities of AdvancedNetworX, Inc. ("ANX"). ANX, a Raleigh, North Carolina-based network consulting organization founded in September 2007, generated revenue of approximately \$1,700 for the 12 months ended June 30, 2009. The acquisition will create a presence for INX in the Mid Atlantic region.

Consideration at closing totaled \$665, consisting of: (a) \$465 in cash, (b) \$156 in assumed liabilities under customer contracts, (c) \$34 in capital lease obligations assumed and (d) 2,000 shares of the Company's common shares valued at \$5.08 per share for a total of \$10. The shares were initially held in escrow under holdback provisions as defined in the acquisition agreement and were subsequently issued. Transaction costs of \$16 were charged as incurred to selling, general and administrative expenses.

Additional purchase consideration of between zero and \$700 per year is payable based on ANX's branch office operating income contribution during each of the one-year periods ending July 31, 2010, 2011 and 2012. Up to 60% of such additional purchase price may be paid in the form of Common Stock, at the Company's option. For the one year period ending July 31, 2010, the operating profit contribution was less than the minimum required resulting in no additional purchase consideration due.

Estimated additional purchase consideration payable was recorded at fair value on the acquisition date in the amount of \$477. The estimated additional consideration was remeasured as of September 30, 2010, June 30, 2010, March 31, 2010 and December 31, 2009 based on revised operating income forecasts, resulting in reduced selling, general, and administrative expense of \$254 in the nine months ended September 30, 2010 and increased selling, general, and administrative expense of \$109 in the quarter ended December 31, 2009. The estimated additional purchase consideration payable of \$0 and \$254 are classified as accrued expenses and \$332 and \$332 are classified as other non-current liabilities as of September 30, 2010 and December 31, 2009, respectively, based on when the amounts are expected to be earned. The estimated additional consideration will be remeasured to fair value at each reporting date until settled with changes in fair value recognized as a component of selling, general and administrative expenses.

(c) Acquisitions Summary

The following table summarizes the estimated fair values, including professional fees and other related acquisition costs, at the closing date for 2009 acquisitions, including additional purchase price consideration subsequently paid. There were no acquisitions in 2010.

	<u>Marketware</u>	<u>ANX</u>
Allocated acquisition cost:		
Intangible assets	\$ 491	\$ 299
Inventory	9	—
Property and equipment	79	59
Other assets	50	—
Goodwill	665	784
Current portion of capital lease obligations	—	(15)
Accrued expenses	(7)	—
Deferred revenue	(5)	(156)
Other current liabilities	(17)	—
Non-current portion of capital lease obligations	—	(19)
Other liabilities	(831)	(477)
Net assets acquired	<u>\$ 434</u>	<u>\$ 475</u>
Amount of goodwill deductible for U.S. Federal income tax purposes	<u>\$ —</u>	<u>\$ 39</u>

The total amount of ANX goodwill was determined to be impaired during the fourth quarter of 2009 and was charged to impairment expense.

Pro Forma Summary (Unaudited)

The following pro forma consolidated amounts give effect to the Company's 2009 acquisition of ANX and Marketware as if they had occurred January 1, 2009. The pro forma consolidated amounts are not necessarily indicative of the operating results that would have been achieved had the transaction been in effect and should not be construed as being representative of future operating results.

	Three Months Ended September 30, 2009 (As restated)	Nine Months Ended September 30, 2009 (As restated)
Revenues	\$ 59,002	\$ 176,126
Net loss	\$ (409)	\$ (1,606)
Net loss per share:		
Basic	\$ (0.05)	\$ (0.18)
Diluted	\$ (0.05)	\$ (0.18)
Weighted average shares used in calculation:		
Basic	8,927,893	8,820,241
Diluted	8,927,893	8,820,241

(d) Goodwill Impairment

During the first two quarters of 2010, the Company's Northern California reporting unit, consisting of the Company's Marketware and Access Flow acquisitions, generated substantial operating losses compared to the operating income as forecasted in connection with the 2009 annual goodwill impairment assessment. This financial underperformance triggered the need to perform an interim impairment test, resulting in a goodwill impairment charge of \$594 recorded in selling, general and administrative expenses during the second quarter.

6. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is based on the weighted-average number of shares outstanding during each period and the assumed exercise of dilutive stock options and warrants less the number of treasury shares assumed to be purchased from the exercise proceeds using the average market price of the Company's common stock for each of the periods presented.

The following table presents the calculation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator for basic and diluted earnings per share:				
Net income(loss) from continuing operations	\$ 927	\$ (201)	\$ 6,753	\$ (754)
Loss on disposal of discontinued operations, net of income taxes	—	(48)	—	(104)
Net income (loss)	\$ 927	\$ (249)	\$ 6,753	\$ (858)
Denominator for basic earnings per share — weighted-average shares outstanding				
Effect of dilutive securities — shares issuable from assumed conversion of common stock options, restricted stock, and warrants	9,294,873	8,927,549	9,201,862	8,818,793
Denominator for diluted earnings per share — weighted-average shares outstanding	585,979	—	596,278	—
Denominator for basic earnings per share — weighted-average shares outstanding	9,880,852	8,927,549	9,798,140	8,818,793

The following table presents the number of shares of common stock that were excluded in the calculation of diluted earnings per share since their effect would have been antidilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Warrants	40,000	40,000	40,000	40,000
Stock options	541,568	519,618	560,468	550,518
Contingent Shares	—	—	—	—
Restricted stock	—	621,249	—	511,798
ESPP	—	8,972	—	2,991
Weighted-average shares considered antidilutive	<u>581,568</u>	<u>1,189,839</u>	<u>600,468</u>	<u>1,105,307</u>

For 2010, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of the Company's common shares, because the inclusion of such options and warrants would be anti-dilutive and such options and warrants are not considered participating securities. For 2009, the computation of diluted loss per share excludes warrants and outstanding stock options, and restricted stock awards because the Company reported losses during the period and including them would have had an anti-dilutive effect on loss per share. In any period during which the average market price of the Company's common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings (losses) per share computation using the if converted method of accounting.

7. Share-Based Compensation

The Company recognized employee share-based compensation expense for stock option, restricted stock grants, and the employee stock purchase plan of \$628 and \$471 during the three months ended September 30, 2010 and 2009, respectively and \$1,591 and \$1,525 during the nine months ended September 30, 2010 and 2009, respectively. In addition, during the three months ended June 30, 2009, the Company issued 19,149 shares to its non-employee directors. The issued shares vest immediately and were valued at \$90, determined by multiplying the number of shares issued by the closing price per share for the common stock as reported by NASDAQ on May 12, 2009. The unrecognized compensation cost related to the Company's unvested stock options as of September 30, 2010 and 2009 was \$538 and \$1,013, respectively and is expected to be recognized over a weighted-average period of 1.1 years and 1.5 years, respectively. The unrecognized compensation cost related to the Company's unvested restricted shares as of September 30, 2010 and 2009 was \$1,956 and \$3,494, respectively and is expected to be recognized over a weighted-average period of 1.8 years and 2.2 years, respectively.

8. Senior Credit Facility

The Company has a \$70,000 maximum aggregate line of credit with Castle Pines Capital LLC ("CPC") under a senior credit facility. The CPC senior credit facility is used primarily for inventory financing and working capital requirements. At September 30, 2010, \$45,247 was outstanding under the Facility and reported under accounts payable floor plan, and the unused availability was \$2,557.

At September 30, 2010, the Company was operating under a waiver from CPC requiring compliance with the loan covenants as the Company had not filed its required SEC Form 10-K for December 31, 2009 or any subsequent Form 10-Q in 2010. In May 2011, CPC waived the Company's events of default under the Agreement loan covenants regarding timely provision of GAAP financial statements.

In the future, if any of the loan covenants are violated, the Company would be required to seek waivers from CPC. If CPC refused to provide waivers, the amount due under the Agreement could be accelerated and the Company could be required to seek other sources of financing.

9. Income Taxes

The Company records income tax expense for interim periods on the basis of an estimated annual effective tax rate. The estimated annual effective tax rate is recomputed on a quarterly basis and may fluctuate due to changes in forecasted annual operating income, positive or negative changes to the valuation allowance for net deferred tax assets, and changes to actual or forecasted permanent book to tax differences. In addition, the Company reflects the tax effect of discrete items such as tax benefits related to certain stock compensation transactions in the quarter these events occur.

For both the three month period ended September 30, 2010, the effective tax rate was 46%. The primary reason that the tax rate differs from the 34% Federal statutory corporate rate is the impact of permanent tax differences including meals and entertainment, stock compensation and non-deductible goodwill.

For the nine month period ended September 30, 2010, before considering the impact of releasing the valuation allowance, the effective tax rate was 45%. The primary reason that the tax rate differs from the 34% Federal statutory corporate rate is the impact of permanent tax differences including meals and entertainment, stock compensation and non-deductible goodwill. In addition, the Company released the valuation allowance in full and recognized an income tax benefit of \$5,492. The Company reached this determination after giving consideration to a variety of factors including but not limited to: (a) the current period realization of all net operating loss (NOL) carry forwards totaling \$3,510, (b) the current period taxable income and (c) the expectation of future earnings, thus concluding that it is more likely than not that the Company's deferred tax assets will be realized.

For both the three month and nine month periods ended September 30, 2009, the effective tax rate was 0%. The primary reason that the tax rate differs from the 34% federal statutory corporate rate is the tax benefit for the current period loss is offset by the change in the valuation allowance. In addition, tax expense for these periods reflects \$66 associated with the provision for taxes related to non-deductible goodwill on the Company's 2008 tax return.

At September 30, 2009, the Company maintained a full valuation allowance against the net deferred tax asset as management concluded that it is more likely than not that the net deferred tax asset would not be realized.

10. Commitments and Contingencies

Litigation

On February 6, 2009, the Company filed a lawsuit in the United States District Court Eastern District of Texas styled *InternetworkExperts, Inc. v. International Business Machines Corporation* ("IBM") claiming damages totaling \$1,791 plus interest, attorney fees, and costs of suit for breach of purchase orders in 2004 and 2006 under which payments were due upon early termination of services. On January 29, 2010, a settlement agreement was executed covering all outstanding litigation between the parties, resulting in IBM paying INX the amount of \$310 less legal fees of \$112. The net settlement was reflected as a reduction of selling, general and administrative expenses in the first quarter of 2010.

On August 3, 2009, the Company filed a lawsuit in the 152nd District Court of Harris County styled "*INX, Inc. v. General Consulate of Equatorial Guinea*" seeking damages plus interest, attorney fees, and costs of suit for breach of contract in connection with the Company's lease of its then Houston, Texas location. On August 13, 2010, the Company received payment of \$140 in settlement of the litigation, which was recognized as a reduction of selling, general and administrative expenses in the third quarter of 2010.

On July 15, 2010, the Company filed a lawsuit in the United States District Court for the District of New Mexico ("US District Court") styled "*INX, Inc. v. Azulstar, Inc.*" ("Azulstar") seeking compensatory and punitive damages plus interest, attorney fees, and costs of suit for breach of contract, tortious interference with business relations and existing contractual relations, and other allegations. Azulstar provided professional services as a subcontractor to the Company in connection with the State of New Mexico, Department of Transportation RailRunner Wireless System Project ("RailRunner Project"). Azulstar hired subcontractors to assist them and is alleged by the Company to not have paid those subcontractors for work performed. In addition to paying Azulstar directly for all work performed except \$23 held back, the Company paid Azulstar's subcontractors \$146 directly, charging the duplicate costs to professional services cost of sales in the quarter ended December 31, 2009. On September 10, 2010, Azulstar filed a motion to dismiss the Company's claim for failure to join a party under Rule 19 of the Federal Rules of Civil Procedure ("Motion to Dismiss"). The US District Court has not yet ruled on the motion. The amount of damages and costs that may ultimately be recovered by the Company, if any, cannot be determined at this time. The Motion to Dismiss includes statements that Azulstar intends to file breach of contract claims against the Company. The nature and extent of Azulstar's allegations cannot be determined and the final outcome of any lawsuit that may be filed by Azulstar on this matter cannot be predicted, including whether such threatened lawsuit could have a material adverse effect on INX's results of operations or financial position.

The Company is also party to other litigation and claims which management believes are normal in the course of its operations. While the results of such litigation and claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a materially adverse effect on its results of operations, financial position, or cash flows.

11. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. When an asset or liability is required to be measured at fair value, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs using a fair value hierarchy as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The carrying amount of cash and cash equivalents, receivables, accounts payable and accounts payable floor plan are a reasonable estimate of their fair values due to their short duration.

The Company's financial instruments measured at fair value on a recurring basis that are subject to the hierarchy disclosure requirements are as follows:

	Level 1	Level 2	Level 3	Total fair value
Estimated Contingent Consideration:				
Balance at December 31, 2009	\$ —	\$ —	\$ 1,411	\$ 1,411
Adjustment of estimate	—	—	(254)	(254)
Balance at September 30, 2010	\$ —	\$ —	\$ 1,157	\$ 1,157

	Level 1	Level 2	Level 3	Total Fair Value
Estimated Contingent Consideration:				
Balance at December 31, 2008	\$ —	\$ —	\$ —	\$ —
Additions	—	—	477	477
Balance at September 30, 2009	\$ —	\$ —	\$ 477	\$ 477

The Company's other non-financial assets include goodwill, fixed assets and other intangible assets, which are classified as Level 3 assets. These assets are measured at fair value on a non-recurring basis as part of the Company's impairment assessments and as circumstances require.

Description	Fair Value Measurements Using				Total Gains (Losses)
	Nine Months Ended September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Goodwill	\$ 13,798	\$ —	\$ —	\$ 13,798	\$ (594)
Intangible assets, net	1,201	—	—	1,201	—
Property and equipment, net	4,590	—	—	4,590	—
Total					\$ (594)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is qualified in its entirety by, and should be read in conjunction with, our consolidated financial statements, including the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was contemporaneously filed with the Securities and Exchange Commission. Amounts are presented in thousands except for share and per share data.

Special notice regarding forward-looking statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to future events or our future financial performance. Readers are cautioned that any statement that is not a statement of historical fact including, but not limited to, statements which may be identified by words including, but not limited to, "anticipate," "appear," "believe," "could," "estimate," "expect," "hope," "indicate," "intend," "likely," "may," "might," "plan," "potential," "seek," "should," "will," "would," and other variations or negative expressions thereof, are predictions or estimations and are subject to known and unknown risks and uncertainties. Numerous factors, including factors that we have little or no control over, may affect INX's actual results and may cause actual results to differ materially from those expressed in the forward-looking statements contained herein. In evaluating such statements, readers should consider the various factors identified in our Annual Report on Form 10-K for our fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission including the matters set forth in Item 1A. — "Risk Factors," which could cause actual events, performance or results to differ materially from those indicated by such statements.

Financial Restatement

As previously disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on March 26, 2010, the Company announced that it was delaying its fourth quarter earnings release (for the year ended December 31, 2009) and that it would not file its Annual Report on Form 10-K for the fiscal year 2009 by its due date in order to allow the Company additional time for the reexamination of its revenue recognition under Accounting Standards Codification (ASC) 605-25, Revenue Recognition, Multiple-Element Arrangement, previously referred to as Emerging Issues Task Force No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables".

In the Company's Current Report on Form 8-K filed with the SEC on June 21, 2010, the Company announced that the Audit Committee of its Board of Directors, upon the recommendation of management, had determined that its previously issued financial statements included in its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, its Quarterly Report for the quarter ended March 31, 2009 on Form 10-Q/A and for the quarters ended June 30, 2009 and September 30, 2009 on Form 10-Q, should no longer be relied upon as a result of certain errors affecting the timing of recognition of revenues and costs of revenues.

The restated financial statements correct the following errors in the recognition of revenue associated with the proper:

1. Application of EITF 00-21, affecting the timing and presentation of revenue recognized ("00-21 Adjustments") for the:
 - a. Proper determination of contracts to which EITF 00-21 was applicable and the related units of accounting for such contracts,
 - b. Proper determination of linkage between contracts, reflecting aggregation of single contracts into multiple element arrangements since they were negotiated as a package, and
 - c. Proper assessment of whether or not the Company had vendor specific objective evidence ("VSOE") of the fair value of the various deliverables within arrangements containing multiple deliverables, as well as (i) the timing of revenue recognition based upon the relative fair value of the deliverables within the arrangement for deliverables for which we are able to establish the fair value. (ii) the allocation of the total arrangement consideration between the various elements of the arrangement based upon the relative fair value of the deliverables within the arrangement for multi-element arrangements, and, (iii) the deferral of revenue for the entire arrangement in situations where the arrangement contained remaining undelivered deliverables for which we are not able to establish the fair value.
2. Identification of customer contracts with special customer acceptance terms which require deferral of revenues and related costs of revenues and commissions until customer acceptance was obtained ("Special Acceptance Terms"),
3. Identification of contract shipping terms resulting in the incorrect timing of recognition of revenues and related costs of sales and commissions ("Shipping Terms"), and
4. Identification of products that are maintenance, support, and installation services provided by third parties as the primary obligor of the service, which requires presentation of the revenue reported by the Company net of the cost of the services provided by the third party ("Net Presentation").

In addition, the Company also determined that an error was made in the accounting for contingent consideration (“earn-out”) paid in August 2006 in connection with the acquisition of substantially all of the assets of InfoGroup Northwest, Inc. (“InfoGroup”). The InfoGroup assets were acquired under an asset purchase agreement in June 2005 and most InfoGroup employees became employees of the Company. As part of the earn-out provision, cash and common stock were paid by the Company to the InfoGroup shareholder based upon the InfoGroup branch offices achieving specific financial performance targets, which were recorded as goodwill. The selling shareholder decided to give a portion of the earn-out to former employees of InfoGroup who had become employees of the Company as a result of the acquisition (“Employee Payments”). Under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. When a selling shareholder gives acquisition-related payments to Company employees who were not selling shareholders, these payments are viewed as resulting from services that are assumed to have benefited the Company and therefore must be further recorded as a non-cash charge to compensation expense. In effect, the Employee Payments are in substance a separate transaction from the Company’s acquisition of the InfoGroup assets, which should have been recorded as a separate non-cash charge to compensation expense. The Employee Payments were therefore required to be reflected in the consolidated financial statements for the year ended December 31, 2006 as non-cash compensation expense in the amount of \$672, and the selling shareholder was deemed to have made a corresponding capital contribution to the Company. The compensation expense is a non-cash charge because the payments were made directly by the selling shareholder from the acquisition proceeds received from the Company. The Company did not expend additional cash with respect to the compensation charge. The correction had no effect on total stockholders’ equity at December 31, 2006.

The adjustments made as a result of the restatement are more fully discussed in Note 3, Restatement of Previously Issued Financial Statements, of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report. For a description of the control deficiencies identified by management as a result of our internal reviews, and management’s plan to remediate those deficiencies, see Part I, Item 4, Controls and Procedures.

A summary of effect of errors on the three and nine months ended September 30, 2009 as previously reported is summarized below:

For the Three Months Ended September 30, 2009:

	<u>00-21</u> <u>Adjustments</u>	<u>Special</u> <u>Acceptance</u> <u>Terms</u>	<u>Shipping Terms</u>	<u>Net</u> <u>Presentation</u>	<u>Total</u> <u>Restatement</u>
Revenue:					
Products	\$ 454	\$ (1)	\$ (81)	\$ (608)	\$ (236)
Services	113	7	—	—	120
Total revenue	<u>567</u>	<u>6</u>	<u>(81)</u>	<u>(608)</u>	<u>(116)</u>
Cost of products and services:					
Products	329	—	53	(608)	(226)
Services	75	(31)	2	—	46
Total cost of products and services	<u>404</u>	<u>(31)</u>	<u>55</u>	<u>(608)</u>	<u>(180)</u>
Gross Profit:					
Products	125	(1)	(134)	—	(10)
Services	38	38	(2)	—	74
Total gross profit	<u>163</u>	<u>37</u>	<u>(136)</u>	<u>—</u>	<u>64</u>
Selling, general and administrative expenses	2	(7)	(30)	—	(35)
Operating income (loss)	<u>161</u>	<u>44</u>	<u>(106)</u>	<u>—</u>	<u>99</u>
Income tax expense (benefit)	(44)	(12)	29	—	(27)
Net income (loss) from continuing operations	<u>205</u>	<u>56</u>	<u>(135)</u>	<u>—</u>	<u>126</u>
Loss from discontinued operations	—	—	—	—	—
Net income (loss)	<u>\$ 205</u>	<u>\$ 56</u>	<u>\$ (135)</u>	<u>\$ —</u>	<u>\$ 126</u>

For the Nine Months Ended September 30, 2009:

	00-21 Adjustments	Special Acceptance Terms	Shipping Terms	Net Presentation	Total Restatement
Revenue:					
Products	\$ (834)	\$ (1,799)	\$ 761	\$ (1,334)	\$ (3,206)
Services	(48)	(427)	—	—	(475)
Total revenue	(882)	(2,226)	761	(1,334)	(3,681)
Cost of products and services:					
Products	(543)	(1,519)	759	(1,334)	(2,637)
Services	(30)	(472)	7	—	(495)
Total cost of products and services	(573)	(1,991)	766	(1,334)	(3,132)
Gross Profit:					
Products	(291)	(280)	2	—	(569)
Services	(18)	45	(7)	—	20
Total gross profit	(309)	(235)	(5)	—	(549)
Selling, general and administrative expenses	(42)	(40)	(21)	—	(103)
Operating income (loss)	(267)	(195)	16	—	(446)
Income tax expense (benefit)	(124)	(70)	48	—	(146)
Net income (loss) from continuing operations	(143)	(125)	(32)	—	(300)
Loss from discontinued operations	—	—	—	—	—
Net income (loss)	\$ (143)	\$ (125)	\$ (32)	\$ —	\$ (300)

Results Of Operations

Period Comparisons. The following tables set forth, for the periods indicated, certain financial data derived from our condensed consolidated statements of operations. Percentages shown in the table below are percentages of total revenue, except for the products and services components of gross profit, which are percentages of the respective product and service revenue.

Three Months Ended September 30, 2010 Compared To the Restated Three Months Ended September 30, 2009

	Three Months Ended September 30,					
	2010		2009 (As Restated)		2009 (As Previously Reported)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Products	\$ 74,027	87.2	\$ 46,577	80.7	\$ 46,813	80.9
Services	10,886	12.8	11,166	19.3	11,046	19.1
Total revenue	84,913	100.0	57,743	100.0	57,859	100.0
Gross profit:						
Products	16,672	22.5	10,183	21.9	10,193	21.8
Services	2,479	22.8	2,848	25.5	2,774	25.1
Total gross profit	19,151	22.6	13,031	22.6	12,967	22.4
Selling, general and administrative expenses	17,392	20.5	13,249	23.0	13,284	22.9
Operating income	1,759	2.1	(218)	(0.4)	(317)	(0.5)
Interest and other income, net	(12)	—	83	0.2	83	0.1
Income tax expense	820	1.0	66	0.1	93	0.2
Net income from continuing operations	927	1.1	(201)	(0.3)	(327)	(0.6)
Loss from discontinued operations, net of taxes	—	—	(48)	(0.1)	(48)	—
Net income	\$ 927	1.1	\$ (249)	(0.4)	\$ (375)	(0.6)

Revenue. Total revenue increased by \$27,170, or 47.1%, to \$84,913 from \$57,743. Products revenue increased \$27,450, or 58.9% to \$74,027 from \$46,577. The increase in products revenue was primarily due to the elimination of the Cisco manufacturing backlog and the continued strengthening in substantially all markets, with the largest increases in the Gulf Coast, North Texas, Southern California, and Northwest Regions. Services revenue decreased \$280 or 2.5% to \$10,886 from \$11,166. Services revenue decreased the loss of a large Federal subcontract, partially offset by sales increases in the Gulf Coast and Northwest Regions.

Gross Profit. Total gross profit increased by \$6,120, or 47.0%, to \$19,151 from \$13,031. Gross profit as a percentage of revenue remained flat at 22.6%. Gross profit on the products sales component increased \$6,489 or 63.7%, to \$16,672 from \$10,183 and, as a percentage of sales, increased to 22.5% from 21.9%. Gross profit on services revenue decreased \$369 or 13.0% to \$2,479 from \$2,848 and gross profit as a percent of services revenue decreased to 22.8% from 25.5% due to the loss of a high margin large Federal subcontract.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$4,143, or 31.3% to \$17,392 from \$13,249. As a percentage of total revenue, these expenses decreased to 20.5% in 2010 versus 23.0% in 2009. The increase in the amount of selling, general and administrative expenses reflected higher sales commissions consistent with increased sales, higher personnel costs due to increased headcount and improved operating results, and approximately \$1,375 of restatement costs.

Operating (Loss) Income. Operating income increased \$1,977 to income of \$1,759 from a loss of \$218, primarily due to higher sales partially offset by higher selling, general and administrative expenses.

Interest and Other Income (Expense), Net. Interest and other income (expense), net, changed by \$95 to expense of \$12 from income of \$83, primarily due to a special discount program sponsored by Cisco, in place from September 2009 to January 2010, for payment of borrowings under our senior credit facility within the free interest period.

Income Tax Expense. Income tax expense increased by \$754 to \$820 from \$66, primarily due to higher 2010 pretax income. An income tax benefit was not recognized for the 2009 loss due to the corresponding valuation allowance recorded as discussed further under “*Deferred Tax Assets*” below.

Net (Loss) Income. Net income increased \$1,176 to income of \$927 from a loss of \$249, primarily due to higher sales partially offset by higher selling, general and administrative expenses and higher income tax expense.

Deferred Tax Assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences, as determined pursuant to SFAS No. 109, “Accounting for Income Taxes,” become deductible. Management considers the reversal of deferred tax liabilities, projected future income, and tax planning strategies in making this assessment. Management’s evaluation of the realizability of deferred tax assets must consider both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. During the second quarter of 2010, the Company released the valuation allowance in full and recognized an income tax benefit of \$5,492. The Company reached this determination after giving consideration to a variety of factors including but not limited to: (a) the current period realization of all net operating loss (NOL) carry forwards totaling \$3,510, (b) the current period taxable income and (c) the expectation of future earnings, thus concluding that it is more likely than not that the Company’s deferred tax assets will be realized. As of September 30, 2009, we recorded a valuation allowance related to the net operating loss carryforwards and other temporary items as we determined it is more likely than not that we will not be able to use the assets to reduce future tax liabilities.

Nine Months Ended September 30, 2010 Compared To the Restated Nine Months Ended September 30, 2009

	Nine Months Ended September 30,					
	2010		2009 (As Restated)		2009 (As Previously Reported)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Products	\$ 209,191	87.5	\$ 134,628	79.3	\$ 137,834	79.4
Services	29,825	12.5	35,231	20.7	35,706	20.6
Total revenue	<u>239,016</u>	<u>100.0</u>	<u>169,859</u>	<u>100.0</u>	<u>173,540</u>	<u>100.0</u>
Gross profit:						
Products	42,670	20.4	27,646	20.5	28,215	20.5
Services	6,082	20.4	9,800	27.8	9,780	27.4
Total gross profit	<u>48,752</u>	<u>20.4</u>	<u>37,446</u>	<u>22.0</u>	<u>37,995</u>	<u>21.9</u>
Selling, general and administrative expenses	46,510	19.5	38,234	22.5	38,337	22.1
Operating (loss) income	2,242	0.9	(788)	(0.5)	(342)	(0.2)
Interest and other income (expense), net	68	0.0	100	0.1	100	0.1
Income tax (benefit) expense	(4,443)	(1.9)	66	0.0	212	0.2
Net income (loss) from continuing operations	6,753	2.8	(754)	(0.4)	(454)	(0.3)
Income (loss) from discontinued operations, net of taxes	—	—	(104)	(0.1)	(104)	—
Net income (loss)	<u>\$ 6,753</u>	<u>2.8</u>	<u>\$ (858)</u>	<u>(.05)</u>	<u>\$ (558)</u>	<u>(0.3)</u>

Revenue. Total revenue increased by \$69,157, or 40.7%, to \$239,016 from \$169,859. Products revenue increased \$74,563, or 55.4% to \$209,191 from \$134,628. The increase in products revenue was primarily due the elimination of the Cisco manufacturing backlog and the continued strengthening in substantially all markets, with the largest increases in the Gulf Coast, North Texas, Southern California, and Northwest Regions. Services revenue decreased \$5,406 or 15.3% to \$29,825 from \$35,231. The decrease in services revenue was primarily in our Federal Division, principally due to the loss of a subcontract in Iraq, and in our Southwest Region, partially offset by significant increases in the Northwest, North Texas, and North Carolina Regions.

Gross Profit. Total gross profit increased by \$11,306, or 30.2%, to \$48,752 from \$37,446. Gross profit as a percentage of revenue decreased to 20.4% from 22.0%. Gross profit on the products sales component increased \$15,024 or 54.3%, to \$42,670 from \$27,646 and, as a percentage of sales, decreased to 20.4% from 20.5%. Gross profit on services revenue decreased \$3,718 or 37.9% to \$6,082 from \$9,800 and gross profit as a percent of services revenue decreased to 20.4% from 27.8%, due to the loss of high margin Federal subcontract and lower engineer utilization.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$8,276 or 21.6% to \$46,510 from \$38,234. As a percentage of total revenue, these expenses decreased to 19.5% in 2010 versus 22.5% in 2009. The increase in the amount of selling, general and administrative expenses reflected higher sales commissions consistent with increased sales, higher personnel costs due to increased headcount and improved operating results, approximately \$2,095 of restatement costs, and a \$594 goodwill impairment charge. During the first two quarters of 2010, the Northern California reporting unit generated substantial operating losses compared to the operating income forecast in connection with the 2009 annual goodwill impairment test. This triggered the requirement to perform an interim impairment test of both goodwill and long lived assets, resulting in the goodwill impairment charge recorded in the second quarter of 2010.

Operating (Loss) Income. Operating income increased \$3,030 to income of \$2,242 from a loss of \$788, primarily due to higher sales partially offset by higher selling, general and administrative expenses.

Interest and Other Income (Expense), Net. Interest and other income (expense), net, changed by \$32 to income of \$68 from income of \$100.

Income Tax (Benefit) Expense. Income tax benefit increased by \$4,509 to a benefit of \$4,443 from expense of \$66, primarily due to the full release of the valuation allowance in the second quarter of 2010 resulting in an income tax benefit of \$5,492. An income tax benefit was not recognized for the 2009 loss due to the corresponding valuation allowance recorded as discussed further under “*Deferred Tax Assets*” below.

Net Income (Loss). Net income increased \$7,611 to income of \$6,753 from a loss of \$858, primarily due to higher sales and the 2010 income tax benefit, partially offset by higher selling, general and administrative expenses.

Deferred Tax Assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences, as determined pursuant to SFAS No. 109, “Accounting for Income Taxes,” become deductible. Management considers the reversal of deferred tax liabilities, projected future income, and tax planning strategies in making this assessment. Management’s evaluation of the realizability of deferred tax assets must consider both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. As of September 30, 2010, the Company released the valuation allowance in full and recognized an income tax benefit of \$5,492. The Company reached this determination after giving consideration to a variety of factors including but not limited to: (a) the current period realization of all net operating loss (NOL) carry forwards totaling \$3,510, (b) the current period taxable income and (c) the expectation of future earnings, thus concluding that it is more likely than not that the Company’s deferred tax assets will be realized. As of September 30, 2009, we recorded a valuation allowance related to the net operating loss carryforwards and other temporary items as we determined it is more likely than not that we will not be able to use the assets to reduce future tax liabilities.

Liquidity and Capital Resources

Sources of Liquidity

Our principal sources of liquidity are collections from our accounts receivable and our credit facility with Castle Pines Capital LLC (the “Credit Facility”), which we believe are sufficient to meet our short-term and long-term liquidity requirements. We use the Credit Facility to finance the majority of our purchases of inventory and to provide working capital when our cash flow from operations is insufficient. Our working capital increased to \$20,151 at September 30, 2010 from \$13,010 at December 31, 2009, primarily due to improved operating results.

The total Credit Facility is \$70,000 with an additional \$10 million credit facility specifically for acquisitions (“Acquisition Facility”). Substantially all of our assets are pledged as collateral under the Credit Facility. Advances under the Acquisition Facility are specific to each acquisition and subject to approval by CPC based on pre-established criteria. There were no borrowings under the Acquisition Facility outstanding at September 30, 2010. Termination date of the Credit Facility was extended to December 31, 2011, subject to automatic annual renewal as defined in the Amendment. We expect the Agreement to be extended under substantially similar terms.

As of September 30, 2010, borrowing capacity and availability were as follows:

Total Credit Facility	\$	70,000
Borrowing base limitation		(22,196)
Total borrowing capacity		47,804
Less interest-bearing borrowings		—
Less non-interest bearing advances		(45,247)
Total unused availability	\$	<u>2,557</u>

In addition to unused borrowing availability, liquidity at September 30, 2010 included our cash balance of \$11,546. The “unused availability” is the amount not borrowed, but eligible to be borrowed. The borrowing base restrictions generally restrict our borrowings under the Credit Facility to 85% of the eligible receivables, 100% of our floor planned inventory and 75% of Cisco vendor rebates receivable.

We use the 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 those respective 60-day and 30-day periods (the “Free Finance Period”) do not accrue interest and are classified as floor plan financing in our balance sheet. To the extent that we have credit availability under the Credit Facility, it gives us the ability to extend the payment terms past the Free Finance Period. Amounts extended past the Free Finance Period accrue interest and are classified as notes payable on our balance sheet, for which there was no balance outstanding at either September 30, 2010 or December 31, 2009. The interest rate of the Credit Facility is the prime rate plus 0.5% (3.75% at September 30, 2010) and the interest rate of the Acquisition Facility is the prime rate plus 2.0% (5.25% at September 30, 2010).

As defined in the Credit Facility there are restrictive covenants measured at each quarter and year-end regarding minimum tangible net worth, maximum debt to tangible net worth ratio, and a minimum current ratio. At September 30, 2010, we were operating under a waiver from CPC requiring compliance with the loan covenants we had not filed our required SEC Form 10-K for December 31, 2009. In May 2011, CPC waived our events of default under the Agreement loan covenants regarding timely provision of GAAP financial statements. If we violate any of the loan covenants, we would be required to seek waivers from CPC for those non-compliance events. If CPC refused to provide waivers, the amount due under the Credit Facility could be accelerated and we could be required to seek other sources of financing.

Cash Flows. During the nine months ended September 30, 2010, our cash decreased by \$1,701. Operating activities used cash of \$108, investing activities used \$3,117, and financing activities provided cash of \$1,524.

Operating Activities. Operating activities used \$108 in the nine months ended September 30, 2010, as compared to providing cash of \$11,353 in the comparable 2009 period. During the nine months ended September 30, 2010, net income and noncash adjustments to net income provided cash of \$4,894 and changes in asset and liability accounts used cash of \$5,002, primarily due to substantially increased accounts receivable resulting from higher sales, partially offset by lower inventories and payables.

Investing Activities. Investing activities used \$3,117 in the nine months ended September 30, 2010, compared to \$1,557 used during the comparable period in 2009. Our investing activities primarily consisted of purchases of property and equipment of \$1,345 in 2010 and \$813 in 2009 and the payment of contingent purchase price for acquisitions of \$1,773 in 2010 and \$699 in 2009. Property and equipment purchases in both years were primarily related to purchases of computer equipment and software, and to a lesser degree, leasehold improvements.

Financing Activities. Financing activities provided cash of \$1,524 in the nine months ended September 30, 2010, as compared to using \$8,617 in the comparable period in 2009. Funds provided in the nine months ended September 30, 2010 were primarily from net borrowings under the non-interest bearing floor plan financing (\$686), proceeds from shares issued under the Employee Stock Purchase Plan (\$573), and excess tax benefits from stock option exercises (\$611). The funds used in the comparable 2009 period were primarily from net payments under the non-interest bearing floor plan financing (\$8,708).

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of certain members of our management, including our Chief Executive Officer and Chief Financial Officer, we completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation and as further set forth below, we believe our disclosure controls and procedures were not effective as of September 30, 2010.

Management's Assessment of Disclosure Controls and Procedures

As a result of the material weaknesses in our internal control over financial reporting discussed below, we have concluded that our disclosure controls and procedures at September 30, 2010 were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

In addition to our material weaknesses in internal control over financial reporting as set forth in our management report below, we also determined that our disclosure controls and procedures had not been designed to ensure that information required to be disclosed by us in these reports was accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosures. We determined that our disclosure controls were not effective, as follows:

1. We have been over reliant on a few select employees, and have not developed and implemented sufficient management training programs to educate our key managers on matters related to the Exchange Act reporting and disclosure requirements.
2. We did not have in place information and communication structures that were sufficient to ensure that reportable events regarding our business operations were communicated completely, accurately and timely as required by the Exchange Act.

Disclosure Controls and Procedures Remediation Initiatives

With respect to our training of management personnel, our remediation efforts will include, but not be limited to, the implementation of training programs for the appropriate key managers who are integral to our disclosure controls. This training will include initial management training as well as on-going education on the reporting requirements of the Exchange Act.

With respect to improving our disclosure reporting structure and internal communication, our remediation efforts will include, but will not be limited to, designing, documenting and implementing processes to internally report, both on a periodic and routine on-going basis, items that could impact disclosure and reporting requirements that will keep management apprised of key events that may impact our reporting under the Exchange Act.

In light of the ineffectiveness of our disclosure controls and procedures described above, we performed additional procedures to ensure that our disclosures are presented in accordance with the requirements of the Exchange Act. Accordingly, we believe that the information included in this report meets the requirements set forth in the Exchange Act.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2010.

In conducting the evaluation, our management used the criteria based on the framework of Internal Control over Financial Reporting —Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation, we believe that, as of September 30, 2010, our internal control over financial reporting was not effective based on those criteria.

We have identified the following material weaknesses in our system of internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected in a timely basis.

Overview

Like many other smaller reporting companies, our business was founded on an entrepreneurial spirit focused on seizing a business opportunity and driving revenue. We have grown in size to where today we have over \$300 million in revenue and are quickly approaching 500 employees. Over the course of time, we modified our business strategy and acquired other businesses. Compared to only a few years ago, we are now operating a more complex business model placing an even greater requirement on the efficient and effective execution of our business processes, financial processes and systems.

As we grew we endeavored to have our business processes, financial processes and systems keep pace with the developing complexity of our business. Nonetheless, we did not adequately invest in maintaining and developing the appropriate processes, technology and human resources to execute our business model efficiently and effectively from a business and financial reporting perspective which adversely impacts our internal controls over financial reporting. We are currently undertaking efforts to assess and improve our policies and procedures. We are reviewing our human capital requirements with a focus on the appropriate qualifications, supervision, lines of reporting and communication, and the related assignment of authority and responsibility.

Revenue Accounting

As previously disclosed in our Current Report on Form 8-K filed with the SEC on March 26, 2010, we announced that we were delaying our fourth quarter earnings release (for the year ended December 31, 2009) and would not file our Annual Report on Form 10-K for the fiscal year 2009 by the due date in order to allow us additional time for the reexamination of our revenue recognition under Accounting Standards Codification (ASC) 605-25, Revenue Recognition, Multiple-Element Arrangements, previously referred to as Emerging Issues Task Force No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21").

In our Current Report on Form 8-K filed with the SEC on June 21, 2010, we announced that the Audit Committee of our Board of Directors, upon the recommendation of management, had determined that our previously issued financial statements included in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, our Quarterly Report for the quarter ended March 31, 2009 on Form 10-Q/A and for the quarters ended June 30, 2009 and September 30, 2009 on Form 10-Q, should no longer be relied upon as a result of certain errors affecting the timing of recognition of revenues and costs of revenues.

In the contemporaneously filed 2010 Form 10-K and Form 10-Qs for the first three quarters of 2010, we restate our financial statements for the 2008 quarterly and annual periods and the first three quarters of 2009.

We identified the following material weaknesses with respect to our legacy revenue accounting:

1. We did not employ sufficiently qualified staff, and did not design sufficient documentation and review procedures to appropriately apply EITF 00-21, Revenue Arrangements with Multiple Deliverables, now referred to as ASC 605-25 Revenue Recognition, Multiple-Element Arrangements.
2. We did not have sufficient procedures with respect to contract reviews to appropriately assess the impact of customer acceptance provisions when determining if delivery had occurred in order to recognize revenue.
3. We did not have sufficient procedures to identify and assess product sales that should be accounted for on a net presentation basis in accordance with EITF 99-19, now ASC 605-45. In addition, we lacked sufficient controls over our products database to monitor the appropriateness of any changes related to net/gross presentation.
4. We did not have sufficient policies, procedures, training, or staffing criteria, with respect to our sales order entry process to correctly capture the applicable shipping terms for our sales transactions.
5. We did not have sufficient policies and procedures, training, or staffing criteria, with respect to linking customer orders into arrangements when negotiated as a package and requiring, collecting and maintaining sufficient written documentation when consummating a customer order and proceeding with the sales order entry process.
6. We did not effectively operate our control associated with the review of the service revenue accrual, resulting in computational errors.

With respect to the efforts we undertook to perform the revenue restatement we identified the following material weaknesses:

1. We did not have sufficient procedures to test the software code developed to perform certain revenue recognition calculations.
2. We did not have sufficient procedures to control the accuracy and completeness of data uploaded into our database for revenue recognition calculation purposes.
3. We did not sufficiently assess and apply certain aspects of ASC 605-25 Revenue Recognition, Multiple-Element Arrangements to the particular facts and circumstances of our revenue arrangements.

Technical Accounting and Other

We identified the following additional material weaknesses.

Contingent Consideration Related to Business Acquisitions

We did not maintain effective internal controls to ensure the appropriate recording and reporting of certain business acquisition related payments. Specifically, our controls were not designed to ensure that the redistribution of such contingent acquisition-related payments from the selling shareholders to certain of our employees was correctly accounted for in accordance with GAAP. In addition we did not adequately assess this GAAP accounting requirement. As a consequence we did not correctly recognize non-cash expense for certain redistributed contingent acquisition-related payments which had already been correctly recognized as

additional goodwill at the time of the payments.

Income Tax Valuation Allowance

We did not have sufficiently qualified staff to properly assess releasing the income tax valuation allowance. We originally determined to maintain a full income tax valuation allowance against our net deferred tax assets based on our three year cumulative losses before taxes. We did not adequately assess the other stronger evidence which when considered with the positive evidence indicated a release of the valuation allowance was appropriate, including: (a) the realization of all net operating loss carry forwards, (b) the current period taxable income and (c) our expectations of future earnings.

Goodwill and Other Long-Lived Asset Valuations

We did not sufficiently design our internal controls to ensure that our goodwill and other long-lived asset valuation calculations were correct, as follows:

1. We did not adequately document the assumptions used for our internal projections.
2. Our internal financial model was not reviewed in detail by someone other than the preparer.
3. We did not establish review procedures to adequately supervise and review the work of the outside valuation firm we hired to prepare the valuations.
4. We did not establish a procedure to determine if the outside valuation firm retained by us had adequate controls and review procedures to assess the quality and accuracy of their own work prior to delivering their reports to us.

Management's Internal Control Over Financial Reporting Remediation Initiatives

Revenue Accounting

To address the material weaknesses related to our revenue accounting, our remediation efforts will include, but will not be limited to, the following.

Our efforts to remediate our revenue accounting material weaknesses will involve a holistic restructuring of our entire revenue accounting process beginning with sales order entry through cash collection. We will develop policies and procedures including documentation requirements, for the entire revenue process, addressing both technical accounting matters and the related business processes. We will hire appropriate staff, develop and implement training, and conduct routine assessments of compliance with our new procedures.

We intend to implement a solution that leverages the use of our technology resources, beginning with the tracking of sales opportunities and will include a database system that facilitates the contract review process, enables linkage of multiple customer orders into arrangements when negotiated as a package and documents delivery of orders.

With respect to the service revenue accrual material weakness, we will implement an additional follow-up procedure to confirm the control as designed was performed, and we will modify access to underlying project reports to implement a cut-off control and prevent data changes.

Technical Accounting and Other

Contingent Consideration Related to Business Acquisitions

To address the material weaknesses in our accounting for contingent consideration related to our business acquisitions, our remediation efforts will include, but will not be limited to, the following:

1. We will include a provision in our future business combination agreements requiring selling shareholders to timely inform us if any contingent consideration is redistributed to our employees, including a certification document to be executed at the time contingent consideration is disbursed.
2. We will enhance our accounting capabilities and knowledge with respect to accounting for contingent consideration as required by GAAP.
3. In future employment agreements with individuals that become employees as a result of business acquisitions, we will include a provision requiring disclosure to us with respect to their receipt of any redistributed acquisition related payments.

Income Tax Valuation Allowance

To address our material weakness with respect to the accounting for our income tax valuation allowance we will provide additional training to our staff and implement a review procedure to be performed by someone with the necessary knowledge and experience to correctly conclude on the assessment of the need for a valuation allowance.

Goodwill and Other Long-Lived Asset Valuations

To address our material weaknesses in our goodwill and other long-lived asset valuation calculations our remediation efforts will include, but not be limited to, the following:

1. We will develop and implement a comprehensive set of documentation requirements regarding our forecast assumptions.
2. We will develop and implement a detailed financial model review and approval process.
3. We will develop and implement a detailed set of review procedures to assess the work product provided by our external valuation services firm.
4. We will develop and implement procedures to assess the quality and completeness of the internal controls performed by our external valuation services firm prior to their delivery of work product to us.

We anticipate these actions will improve our internal control over financial reporting and will address the related material weaknesses identified above. We are currently planning and initiating efforts to implement these improvements in our internal control over financial reporting. However, because the institutionalization of the internal control process requires repeatable process execution, the successful execution of these controls, for at least several periods, may be required prior to management being able to definitively conclude that the material weaknesses have been fully remediated.

In light of the material weaknesses described above related to our internal control over financial reporting, we performed significant additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present in all material respects, our financial condition, results of operations, changes in shareholders' equity and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

During the third quarter of 2010, there have been no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

The certifications of INX's Principal Executive Officer and Principal Financial Officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning INX's disclosure controls and procedures and internal controls over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10 to condensed consolidated financial statements in Part I, Item 1, which is incorporated herein by reference.

Item 6. Exhibits

See exhibit list in the Index to Exhibits, which is incorporated herein by reference as the list of exhibits required as part of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INX Inc.

Date: June 3, 2011

By: /s/ PHILIP RYDZEWSKI
Philip Rydzewski
Chief Financial Officer

Index to Exhibits

Exhibit No.	Description	Filed Herewith or Incorporated by Reference From:
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	Filed herewith.
32.1	Section 1350 Certification of Principal Executive Officer	Filed herewith.
32.2	Section 1350 Certification of Principal Financial Officer	Filed herewith.

Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer

I, Mark T. Hilz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of INX Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2011

By: /s/ MARK T. HILZ
Mark T. Hilz,
Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer

I, Philip Rydzewski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of INX Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2011

By: /s/ PHILIP RYDZEWSKI
Philip Rydzewski
Chief Financial Officer

Section 1350 Certification of Principal Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of INX Inc. (the "Company") on Form 10-Q for the period ended September 30, 2010 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Mark T. Hilz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 3, 2011

By: /s/ MARK T. HILZ

Mark T. Hilz
Chief Executive Officer

Section 1350 Certification of Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of INX Inc. (the "Company") on Form 10-Q for the period ended September 30, 2010 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Philip Rydzewski, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 3, 2011

By: /s/ PHILIP RYDZEWSKI

Philip Rydzewski
Chief Financial Officer