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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, 2011

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 9,762,473 shares of common stock outstanding as of November 1, 2011.

**INX Inc.**  
**FORM 10-Q for the Quarter Ended September 30, 2011**

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited):**

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,076	\$ 12,089
Accounts receivable, net of allowance of \$885 and \$651	79,917	64,493
Inventory, net	8,953	3,239
Deferred costs	7,253	2,767
Deferred income taxes	7,612	4,146
Other current assets	1,154	960
<b>Total current assets</b>	<b>111,965</b>	<b>87,694</b>
Property and equipment, net of accumulated depreciation of \$8,977 and \$7,312	5,213	4,793
Goodwill	12,490	13,532
Intangible assets, net of accumulated amortization of \$2,424 and \$1,946	269	1,015
Deferred income taxes	4,492	2,029
Other assets	193	75
<b>Total assets</b>	<b>\$ 134,622</b>	<b>\$ 109,138</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 93	\$ 178
Accounts payable floor plan	58,901	41,129
Accounts payable	6,975	9,423
Accrued payroll and related costs	9,091	7,145
Accrued expenses	3,498	4,189
Deferred revenue	8,139	4,055
Other current liabilities	2,268	1,461
<b>Total current liabilities</b>	<b>88,965</b>	<b>67,580</b>
Non-current liabilities:		
Non-current portion of capital lease obligations	—	55
Other liabilities	920	659
<b>Total liabilities</b>	<b>89,885</b>	<b>68,294</b>
Commitments and contingencies (Note 10)		
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, 9,760,973 and 9,514,542 issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	97	95
Additional paid-in capital	60,013	57,777
Accumulated deficit	(15,373)	(17,028)
<b>Total stockholders' equity</b>	<b>44,737</b>	<b>40,844</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 134,622</b>	<b>\$ 109,138</b>

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

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

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Revenue:		
Products	\$ 84,689	\$ 74,027
Services	14,040	10,886
Total revenue	98,729	84,913
Cost of goods and services:		
Products	68,254	57,355
Services	10,557	8,407
Total cost of goods and services	78,811	65,762
Gross profit	19,918	19,151
Selling, general and administrative expenses	18,732	17,392
Operating income	1,186	1,759
Interest and other income (expense), net	4	(12)
Income before income taxes	1,190	1,747
Income tax expense (benefit)	(1,423)	820
Net income	\$ 2,613	\$ 927
Net income per share:		
Basic	\$ 0.27	\$ 0.10
Diluted	\$ 0.25	\$ 0.09
Weighted average shares – basic	9,739,308	9,294,873
Weighted average shares – diluted	10,312,818	9,880,852

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

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

	Nine Months Ended September 30,	
	2011	2010
Revenue:		
Products	\$ 257,691	\$ 209,191
Services	36,902	29,825
Total revenue	294,593	239,016
Cost of goods and services:		
Products	208,099	166,521
Services	28,433	23,743
Total cost of goods and services	236,532	190,264
Gross profit	58,061	48,752
Selling, general and administrative expenses	59,058	46,510
Operating (loss) income	(997)	2,242
Interest and other income, net	35	68
(Loss) income before income taxes	(962)	2,310
Income tax benefit	(2,617)	(4,443)
Net income	\$ 1,655	\$ 6,753
Net income per share:		
Basic	\$ 0.17	\$ 0.73
Diluted	\$ 0.16	\$ 0.69
Weighted average shares – basic	9,644,100	9,201,862
Weighted average shares – diluted	10,233,511	9,798,140

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

INX INC.  
 CONDENSED 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, 2010	9,514,542	\$ 95	\$ 57,777	\$ (17,028)	\$ 40,844
Issuance of vested restricted common stock	135,564	1	194	—	195
Share-based compensation expense related to stock options and restricted stock grants	—	—	1,428	—	1,428
Exercise of common stock options and warrants	25,255	—	68	—	68
Purchase price consideration issued for NetTek's acquisition	113,182	1	727	—	728
Purchase and retirement of stock resulting from grantee election to fund payroll taxes out of restricted stock grant	(27,570)	—	(181)	—	(181)
Net income	—	—	—	1,655	1,655
Balance at September 30, 2011	<u>9,760,973</u>	<u>\$ 97</u>	<u>\$ 60,013</u>	<u>\$ (15,373)</u>	<u>\$ 44,737</u>

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

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 1,655	\$ 6,753
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,253	2,135
Share-based compensation expense	1,584	1,645
Deferred income taxes	(5,929)	(5,745)
Excess tax benefits from stock option exercises	—	(611)
Impairment charges	1,188	594
Adjustment to estimated acquisition contingent consideration	15	(254)
Provision for doubtful accounts	281	366
Loss on disposal of property and equipment	—	11
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable, net	(15,705)	(16,550)
Inventory	(5,714)	5,159
Accounts payable	(2,448)	2,290
Other assets and liabilities	2,910	4,099
Net cash used in operating activities	(19,910)	(108)
Cash flows from investing activities:		
Purchases of property and equipment	(1,796)	(1,345)
Acquisition of NetTek Technology Consultants, Inc.	(850)	(1,500)
Acquisition of Access Flow, Inc.	—	(273)
Proceeds from sale of property and equipment	32	1
Net cash used in investing activities	(2,614)	(3,117)
Cash flows from financing activities:		
Borrowings under non-interest bearing floor plan financing, net	17,772	686
Excess tax benefits from stock option exercises	—	611
Proceeds from shares issued under Employee Stock Purchase Plan	—	573
Exercise of common stock options	68	10
Payments on other borrowings	(148)	(152)
Purchase of stock resulting from grantee election	(181)	(204)
Net cash provided by financing activities	17,511	1,524
Net decrease in cash and cash equivalents	(5,013)	(1,701)
Cash and cash equivalents at beginning of period	12,089	13,247
Cash and cash equivalents at end of period	\$ 7,076	\$ 11,546
Supplemental disclosure of non-cash finance and investing activities:		
Contractual obligations	\$ 285	\$ —
Purchase of software for debt	\$ 146	\$ —
Acquisition of NetTek Technology Consultants, Inc.	\$ 728	\$ —
Acquisition of Access Flow, Inc.	\$ —	\$ 249
Issuance of vested restricted common stock	\$ 195	\$ 842

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

**INX INC.**  
**NOTES TO CONDENSED 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 technology services infrastructure solutions 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 services with certain manufacturer’s products to address our customers’ needs. Our professional services include consulting, planning and design engineering, implementation engineering, and 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, 2011 and for the three-month and nine-month periods ended September 30, 2011 and 2010 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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, 2010 Condensed 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 Financial Statements should be read in conjunction with the Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

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, 2011, results of operations for the three-month and nine-month periods ended September 30, 2011 and 2010, cash flows for the nine months ended September 30, 2011 and 2010, and stockholders’ equity for the nine months ended September 30, 2011, have been included. The results of the interim periods are not necessarily indicative of results for the full year or any future period.

Certain amounts in the balance sheet as of December 31, 2010 presented herein have been reclassified to conform to the current period presentation.

**3. Recently Adopted and New Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board (“FASB”) amended the Accounting Standards Codifications (“ASC”) for multiple deliverable revenue arrangements (formerly Emerging Issues Task Force No. 08-1) to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling prices (“ESP”) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (“VSOE”) or third-party evidence of selling price (“TPE”); and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

In October 2009, the FASB also amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product’s essential functionality from the scope of industry specific software revenue recognition guidance. The Company adopted the new guidance on a prospective basis as of the beginning of fiscal 2011 for revenue arrangements entered into or materially modified on or after January 1, 2011.

The new guidance generally did not change the units of accounting for the Company’s revenue transactions as products and services qualified as separate units of accounting in most transactions under the historical guidance. Under both the historical and new guidance, the Company has vendor-specific objective evidence (“VSOE”) of fair value for product and professional service deliverables and does not have VSOE or third-party evidence of fair value for managed services deliverables. Because the Company did not have the ability to establish the fair value of managed services deliverables under historical guidance, multiple element arrangements that contain managed services were recognized ratably over the initial term of the managed services contract that is part of the arrangement because managed services are always the last element to be delivered in the arrangement. The costs of products and services and commission costs directly related to multiple element arrangements containing managed services were deferred and recognized ratably over the initial term of the managed services contract. Beginning January 1, 2011 for new or materially modified arrangements, the Company can establish the selling price for managed services using ESP and therefore account for all elements within multiple-element arrangements containing managed services as separate units of accounting.

Under the new guidance, the Company allocates the total arrangement consideration to each separable deliverable of an arrangement based on the relative selling price method of each deliverable and revenue is recognized upon delivery or completion of those units of accounting. As a result of adopting the new guidance, net revenues for the three month and nine month periods ended September 30, 2011 were not materially different from the net revenues that would have been recorded under the historical accounting guidance. The Company cannot reasonably estimate the effect of adopting the new guidance on future financial periods as the impact will vary depending on the nature and volume of new or materially modified multiple deliverable arrangements in any given period.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, (“ASU 2011-04”). ASU 2011-04 amends Accounting Standards Codification (“ASC”) 820, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 will be effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material effect on the Company’s financial statements, but may require certain additional disclosures.

In June 2011, the FASB issued new guidance related to the presentation of comprehensive income. The guidance requires that all non-owner changes in stockholder’s equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option for companies to present components of other comprehensive income as part of the statement of changes in stockholder’s equity. This becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not believe this will have a material impact on our disclosures.

In September 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other: Testing Goodwill for Impairment* (“ASU 2011-08”). ASU 2011-08 permits registrants to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test included in U.S. GAAP. A registrant would not be required to calculate the fair value of a reporting unit unless it is determined that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for years beginning after December 15, 2011, with early adoption permitted. Management will adopt this guidance for its annual and interim goodwill impairment testing during 2012.

#### **4. Acquisitions, Goodwill and Impairment Charges**

##### **(a) Additional Purchase Consideration**

The Company completed two acquisitions in 2009 for which additional purchase consideration may be payable in future periods. The estimated amount payable was accrued at the respective acquisition dates and is 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.

##### *Marketware Inc.*

On December 31, 2009, the Company purchased the operations and certain assets, and assumed specified liabilities of Marketware Inc. (“Marketware”), a Sacramento-based provider of Cisco IP-network-based physical security and networking solutions. Under the terms of the asset purchase agreement, additional purchase consideration may be payable based on the Northern California region’s operating income contribution during 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. As of September 30, 2011 and December 31, 2010, the estimated additional purchase consideration payable was zero.

##### *AdvancedNetworX, Inc.*

On July 17, 2009, the Company purchased the operations and certain assets, and assumed specified liabilities of AdvancedNetworX, Inc. (“ANX”), a Raleigh, North Carolina-based network consulting organization. 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, 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. As of September 30, 2011 and December 31, 2010, estimated additional purchase consideration payable of \$148 and \$11 are classified as accrued expenses. As of December 31, 2010, \$122 was classified as other non-current liabilities and as of September 30, 2011, \$148 was classified as a current liability. The classifications are based on when the amounts are expected to be earned. The increase in estimated additional purchase consideration payable of \$15 for the nine month period ended September 30, 2011, was recorded as an increase in selling, general and administrative expenses.

In 2008, the Company purchased the operations and certain assets, and assumed specified liabilities of NetTek Technology Consultants, Inc. (“NetTek”). Final purchase price consideration of \$1,700 was earned by NetTek for exceeding the New England region operating income contribution target for the year ending December 31, 2010, which was recorded as goodwill and a component of accrued expenses at December 31, 2010. The final consideration was paid in April 2011, consisting of a cash payment of \$850 and the issuance of 113,182 shares of the Company’s common stock that were valued at \$728.

(b) Goodwill

The changes in the carrying value of goodwill during 2011 consisted of the following:

	Gross	Impairment Losses	Net
Balance, December 31, 2010	\$ 13,532	\$ —	\$ 13,532
Acquisitions	—	—	—
Additional purchase price earned under acquisition agreements	—	—	—
Purchase price adjustments	(122)	—	(122)
Impairment charge	—	(920)	(920)
Balance, September 30, 2011	<u>\$ 13,410</u>	<u>\$ (920)</u>	<u>\$ 12,490</u>

(c) Impairment Charge

During the second quarter of 2011, the Company performed an assessment of its Northern California reporting unit (“NCA”) as a result of 2011 operating performance being below forecast. The Company performed a review of NCA’s second quarter bookings estimates, a review of its operating results compared to previous forecasts, and an evaluation of the NCA management team. This review resulted in the termination of NCA’s manager during the second quarter of 2011. As a result of this review and termination, management revised downward the forecasted future operating results of the NCA reporting unit, concluding that these factors were a triggering event requiring an interim second quarter goodwill impairment test. In connection with this triggering event, the Company tested the recoverability of NCA’s long-lived assets and concluded the carrying values of intangible assets were no longer recoverable. Consequently, during the second quarter of 2011, the Company recorded an impairment charge totaling \$1,188 to reduce the carrying values of NCA’s goodwill and intangible assets to their estimated fair values. The goodwill impairment charge of \$920 and intangible assets impairment charge of \$268 were reported as a component of selling, general and administrative expenses. There were no triggering events during the third quarter of 2011.

During the first two quarters of 2010, NCA 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 of 2010.

**5. 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,	
	2011	2010	2011	2010
Numerator for basic and diluted earnings per share:				
Net income (loss)	\$ 2,613	\$ 927	\$ 1,655	\$ 6,753
Denominator for basic earnings per share — weighted-average shares outstanding				
	9,739,308	9,294,873	9,644,100	9,201,862
Effect of dilutive securities — shares issuable from assumed conversion of common stock options, restricted stock, and warrants				
	573,510	585,979	589,411	596,278
Denominator for diluted earnings per share — weighted-average shares outstanding				
	10,312,818	9,880,852	10,233,511	9,798,140

For 2011, the computation of diluted earnings per share excludes outstanding stock options with exercise prices greater than the average market price of the Company's common shares, because the inclusion of such options would be anti-dilutive and are not considered participating securities. 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. 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.

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,	
	2011	2010	2011	2010
Warrants	—	40,000	—	40,000
Stock options	391,188	541,568	391,188	560,468
Restricted stock	—	—	—	—
Weighted-average shares considered antidilutive	391,188	581,568	391,188	600,468

## 6. Share-Based Compensation

The Company recognized share-based compensation expense for stock options, restricted stock grants, and the employee stock purchase plan of \$702 and \$628 during the three months ended September 30, 2011 and 2010, respectively and \$1,623 and \$1,591 during the nine months ended September 30, 2011 and 2010, respectively. The unrecognized compensation cost related to the Company's unvested stock options as of September 30, 2011 and 2010 was \$164 and \$538, respectively and is expected to be recognized over a weighted-average period of 0.8 and 1.1 years, respectively. The unrecognized compensation cost related to the Company's unvested restricted shares as of September 30, 2011 and 2010 was \$4,222 and \$1,956, respectively, and is expected to be recognized over a weighted-average period of 2.0 and 1.8 years, respectively.

## 7. Senior Credit Facility

The Company has a \$100,000 maximum aggregate line of credit with Castle Pines Capital LLC ("CPC") under a senior credit facility. The CPC senior credit facility ("Facility") is used primarily for inventory financing and working capital requirements and is collateralized by substantially all assets of the Company. CPC authorized a temporary increase in the Facility to \$100,000 during the period from June 27, 2011 to September 30, 2011 to accommodate the Company's current sales levels. Subsequent to September 30, 2011, the CPC maximum aggregate line of credit returned to the \$70,000 level. At September 30, 2011, \$58,901 was outstanding under the Facility and reported under accounts payable floor plan, and the unused availability was \$6,244. At December 31, 2010, \$41,129 was outstanding under the Facility and reported under accounts payable floor plan, and the unused availability was \$7,186.

At June 30, 2011, the Company was operating under a waiver from CPC requiring compliance with the loan covenants as the Company had not filed its required Form 10-Q for the quarterly period ended March 31, 2011, which was filed with the SEC on July 18, 2011. The Company was in compliance with all loan covenants at September 30, 2011.

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 Facility could be accelerated and the Company could be required to seek other sources of financing.

## 8. 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 the three month period ended September 30, 2011, the effective tax rate was 120%. 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 state tax expense. For the three month period ended September 30, 2010, before considering the impact of releasing the valuation allowance, 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. In addition, 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.

For the nine month period ended September 30, 2011, the effective tax rate was 272%. 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 state tax expense. 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 as noted previously, the Company released the valuation allowance in full and recognized an income tax benefit of \$5,492.

## 9. Stockholders' Equity

In January 2006, the Company issued warrants to the investment banker of the Stratasoft, Inc. sale to purchase up to 40,000 shares of common stock at an exercise price equal to \$6 per share expiring January 27, 2011. The warrants were exercised in full on January 26, 2011 by cashless exercise resulting in the issuance of 3,855 shares of common stock.

On January 5, 2010, the Company entered into a service agreement with an investor relations firm and per the terms of the agreement the Company issued to them 5,000 shares of Common Stock valued at \$28 on February 1, 2010 and an additional 5,000 shares of Common Stock valued at \$25 on July 1, 2010. The Company recognized expense based on the fair value of the shares issued by multiplying the shares issued by the closing price per share on the respective date the shares were issued.

## 10. Commitments and Contingencies

On April 15, 2011, a former Company employee filed a lawsuit against INX in the State of California Superior Court, which was subsequently moved to United States District Court for the District of Southern California, alleging breach of contract, failure to pay all wages upon termination, retaliation, wrongful termination, and other claims. The lawsuit seeks unspecified general, compensatory and punitive damages plus loss of earnings, interest, attorney fees, and costs of suit. The Company believes the claims are without merit and is vigorously defending against them, and maintains insurance coverage applicable to certain allegations of the lawsuit. However, the Company cannot predict the final outcome of this matter, including whether it could have a materially adverse effect on its results of operations, financial position, or cash flows.

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 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"), which was denied. 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 are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include contingent consideration whose fair value is determined using projected income estimates for businesses acquired which require significant management judgment or estimation.

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Estimated Contingent Consideration:				
Balance at December 31, 2010	\$ —	\$ —	\$ 133	\$ 133
Adjustment of estimate	—	—	15	15
Balance at September 30, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 148</u>	<u>\$ 148</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Estimated Contingent Consideration:				
Balance at December 31, 2009	\$ —	\$ —	\$ 1,411	\$ 1,411
Adjustment of estimate	—	—	(254)	(254)
Balance at September 30, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,157</u>	<u>\$ 1,157</u>

The Company's other non-financial assets include goodwill, intangible assets and property and equipment, 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. The following table summarizes the changes in the fair value of the Company's other non-financial assets resulting from impairment charges recorded during the nine months ended September 30.

Description	Fair Value Measurements Using				Total Gains (Losses)
	Quarter Ended September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Goodwill	\$ 12,490	\$ —	\$ —	\$ 12,490	\$ (920)
Intangible assets, net	269	—	—	269	(268)
Property and equipment, net	5,213	—	—	5,213	—
Total					\$ (1,188)

Description	Fair Value Measurements Using				Total Gains (Losses)
	Quarter 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)

## 12. Subsequent Event

On November 1, 2011, the Company announced that it had entered into a Plan of Merger Agreement with Presidio, Inc., a Georgia corporation ("Parent") and Indigo Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"). Upon the closing of the Plan of Merger Agreement, INX common stock, excluding shares owned by INX, Parent or Merger Sub and other than those shares with respect to which appraisal rights are properly exercised and not withdrawn but including shares issued pursuant to a restricted stock award or a restricted stock unit award and otherwise subject to a risk of forfeiture, will be cancelled and automatically converted into the right to receive \$8.75 in cash, without interest.

On November 4, 2011, Jean Neustadt, III, on behalf of himself and purportedly other stockholders, filed a class action suit in the Court of Chancery of the State of Delaware, captioned Jean Neustadt, III v. INX, Inc., et al., C.A. No. 7017 (the "Neustadt Complaint"). The plaintiff in the Neustadt Complaint alleges, among other things, that INX and the members of the board of directors breached their fiduciary duties to INX's public stockholders by authorizing the merger for inadequate consideration and pursuant to an inadequate process. The Neustadt Complaint seeks, among other things, an order enjoining the defendants from consummating the merger, an award for compensatory damages and an award of fees, expenses and costs.

## 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. Amounts are presented in thousands except for share, percent 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 ("SEC") 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.

### Recently Adopted and New Accounting Pronouncements

In October 2009, the FASB amended the Accounting Standards Codifications ("ASC") for multiple deliverable revenue arrangements (formerly Emerging Issues Task Force No. 08-1) to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

In October 2009, the FASB also amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry specific software revenue recognition guidance. We adopted the new guidance on a prospective basis as of the beginning of fiscal 2011 for revenue arrangements entered into or materially modified on or after January 1, 2011.

The new guidance generally did not change our units of accounting for revenue transactions as products and services qualified as separate units of accounting in most transactions under the historical guidance. Under both the historical and new guidance, we have vendor-specific objective evidence ("VSOE") of fair value for product and professional service deliverables and do not have VSOE or third-party evidence of fair value for managed services deliverables. Because we did not have the ability to establish the fair value of managed services deliverables under historical guidance, multiple element arrangements that contain managed services were recognized ratably over the initial term of the managed services contract that is part of the arrangement because managed services are always the last element to be delivered in the arrangement. The costs of products and services and commission costs directly related to multiple element arrangements containing managed services were deferred and recognized ratably over the initial term of the managed services contract. Beginning January 1, 2011 for new or materially modified arrangements, we can establish the selling price for managed services using ESP and therefore account for all elements within multiple-element arrangements containing managed services as separate units of accounting.

Under the new guidance, we allocate the total arrangement consideration to each separable deliverable of an arrangement based upon the relative selling price of each deliverable and revenue is recognized upon delivery or completion of those units of accounting. As a result of adopting the new guidance, net revenues for the three month and nine month periods ended September 30, 2011 were not materially different from the net revenues that would have been recorded under the historical accounting guidance. We cannot reasonably estimate the effect of adopting the new guidance on future financial periods as the impact will vary depending on the nature and volume of new or materially modified multiple deliverable arrangements in any given period.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, ("ASU 2011-04"). ASU 2011-04 amends Accounting Standards Codification ("ASC") 820, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 will be effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material effect on our financial statements, but may require certain additional disclosures.

In June 2011, the FASB issued new guidance related to the presentation of comprehensive income. The guidance requires that all non-owner changes in stockholder's equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option for companies to present components of other comprehensive income as part of the statement of changes in stockholder's equity. This becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not believe this will have a material impact on our disclosures.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other: Testing Goodwill for Impairment (“ASU 2011-08”). ASU 2011-08 permits registrants to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test included in U.S. GAAP. A registrant would not be required to calculate the fair value of a reporting unit unless it is determined that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for years beginning after December 15, 2011, with early adoption permitted. Management will adopt this guidance for its annual and interim goodwill impairment testing during 2012.

## Results of Operations

*Period Comparisons.* The following tables set forth, for the periods indicated, certain financial data derived from our condensed 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, 2011 Compared To the Three Months Ended September 30, 2010

	Three Months Ended September 30,			
	2011		2010	
	Amount	%	Amount	%
Revenue:				
Products	\$ 84,689	85.8	\$ 74,027	87.2
Services	14,040	14.2	10,886	12.8
Total revenue	98,729	100.0	84,913	100.0
Gross profit:				
Products	16,435	19.4	16,672	22.5
Services	3,483	24.8	2,479	22.8
Total gross profit	19,918	20.2	19,151	22.6
Selling, general and administrative expenses	18,732	19.0	17,392	20.5
Operating income	1,186	1.2	1,759	2.1
Interest and other income (expense), net	4	—	(12)	—
Income tax expense (benefit)	(1,423)	(1.4)	820	1.0
Net income	\$ 2,613	2.6	\$ 927	1.1

*Revenue.* Total revenue increased by \$13,816, or 16.3%, to \$98,729 from \$84,913. Products revenue increased \$10,662, or 14.4% to \$84,689 from \$74,027. The increase in products revenue was primarily due to higher sales in the New England (\$5,802), Southwest (\$2,295), North Carolina (\$1,362), and Gulf Coast (\$980) regions, of which a significant portion was in the school district, health care, state, school district and energy industries. Services revenue increased \$3,154 or 29.0% to \$14,040 from \$10,886, primarily due to increases in the Gulf Coast (\$1,429), North Texas (\$1,007) and Central Texas (\$704) regions.

*Gross Profit.* Total gross profit increased by \$767, or 4.0%, to \$19,918 from \$19,151 and gross profit as a percentage of revenue decreased to 20.2% from 22.6%. Gross profit on the products sales component decreased \$237 or (1.4)%, to \$16,435 from \$16,672 and, as a percentage of sales, decreased to 19.4% from 22.5%, primarily due to a large volume, low margin orders in the school district and energy industries. Gross profit on services revenue increased \$1,004 or 40.5% to \$3,483 from \$2,479 and gross profit as a percent of services revenue increased to 24.8% from 22.8%, primarily due to improved engineer utilization.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$1,340, or 7.7% to \$18,732 from \$17,392. As a percentage of total revenue, these expenses decreased to 19.0% in 2011 versus 20.5% in 2010. 2011 expenses increased primarily due to increased compensation costs, higher professional fees and higher stock based compensation expense related to the appointment of new members to the Board of Directors.

*Operating Income.* Operating income decreased \$573 to \$1,186 from \$1,759, primarily due to the growth in sales and gross profit, partially offset by higher professional fees and increased compensation related expenses.

*Interest and Other Income (Expense), Net.* Interest and other income (expense), net, increased by \$16 to income of \$4 from expense of \$12.

*Income Tax Expense (Benefit).* Income tax expense (benefit) decreased \$2,243 to a benefit of \$1,423 in 2011 compared to expense of \$820 in 2010. The income tax benefit is the result of a change in our effective tax rate. The effective tax rate was 120%. 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 state tax expense.

*Net Income.* Net income increased \$1,686 to \$2,613 from \$927, primarily due to the income tax benefit of \$1,423 higher 2011 sales and gross profit, partially offset by higher compensation related expenses and higher professional fees.

**Nine Months Ended September 30, 2011 Compared To the Nine Months Ended September 30, 2010**

	Nine Months Ended September 30,			
	2011		2010	
	Amount	%	Amount	%
Revenue:				
Products	\$ 257,691	87.5	\$ 209,191	87.5
Services	36,902	12.5	29,825	12.5
Total revenue	294,593	100.0	239,016	100.0
Gross profit:				
Products	49,592	19.2	42,670	20.4
Services	8,469	22.9	6,082	20.4
Total gross profit	58,061	19.7	48,752	20.4
Selling, general and administrative expenses	59,058	20.0	46,510	19.5
Operating (loss) income	(997)	(0.3)	2,242	0.9
Interest and other income, net	35	—	68	0.0
Income tax benefit	(2,617)	(0.9)	(4,443)	(1.9)
Net income	\$ 1,655	0.6	\$ 6,753	2.8

*Revenue.* Total revenue increased by \$55,577, or 23.3%, to \$294,593 from \$239,016. Products revenue increased \$48,500, or 23.2% to \$257,691 from \$209,191. The increase in products revenue was primarily due to higher sales in the North Texas (\$16,701), Central Texas (\$9,056), Gulf Coast (\$5,829), Northwest (\$2,810), North Carolina (\$3,119), Southwest (\$3,541) and New England (\$9,229) regions, of which a significant portion was in the school district, health care, and energy industries. Services revenue increased \$7,077 or 23.7% to \$36,902 from \$29,825, primarily due to increases in the Gulf Coast (\$2,982), Northwest (\$1,449), and North Texas (\$1,550) regions.

*Gross Profit.* Total gross profit increased by \$9,309, or 19.1%, to \$58,061 from \$48,752 and gross profit as a percentage of revenue decreased to 19.7% from 20.4%. Gross profit on the products sales component increased \$6,922 or 16.2%, to \$49,592 from \$42,670 and, as a percentage of sales, decreased to 19.2% from 20.4%. Gross profit on services revenue increased \$2,387 or 39.2% to \$8,469 from \$6,082 and gross profit as a percent of services revenue increased to 22.9% from 20.4%, primarily due to improved engineer utilization.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$12,548, or 27.0% to \$59,058 from \$46,510. As a percentage of total revenue, these expenses increased to 20.0% in 2011 versus 19.5% in 2010. Excluding restatement costs of \$4,986 and \$2,095 and impairment charges of \$1,188 and \$594 in 2011 and 2010, respectively, selling, general and administrative expenses represented 17.9% and 18.3% of total revenue in 2011 and 2010. In addition to the restatement costs and impairment charge, 2011 expenses increased due to higher compensation related expenses. 2010 expenses were increased by restatement costs of \$717 and a \$594 impairment charge, partially offset by a \$254 adjustment to estimated contingent purchase price consideration for the ANX acquisition and a \$198 legal settlement.

*Operating (Loss) Income.* Operating (loss) income changed by \$3,239 to a loss of \$997 from income of \$2,242, primarily due to the increased 2011 restatement costs of \$2,891 and impairment charge of \$594, partially offset by higher 2011 sales and gross profit.

*Interest and Other Income, Net.* Interest and other income, net, decreased by \$33 to income of \$35 from income of \$68, primarily due to a special discount program in 2010 for payment of borrowings under our senior credit facility within the free interest period sponsored by Cisco.

*Income Tax Benefit.* Income tax benefit was \$2,617 in 2011 compared to \$4,443 in 2010. An income tax benefit was recognized for the 2011 loss compared to the release of the valuation reserve in the second quarter of 2010 as discussed further under “Deferred Tax Assets” below. For the nine month period ended September 30, 2011, the effective tax rate was 272%. 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 state tax expense. 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 as noted previously, the Company released the valuation allowance in full and recognized an income tax benefit of \$5,492.

*Net Income.* Net income decreased by \$5,098 to income of \$1,655 from income of \$6,753, primarily due to the increased 2011 restatement costs and impairment charges and decrease in the income tax benefit, partially offset by higher 2011 sales and gross profit.

*Impairment Charge.* During the second quarter of 2011, we performed an assessment of our Northern California reporting unit (“NCA”) as a result of 2011 operating performance being below forecast. We performed a review of NCA’s second quarter bookings estimates, a review of its operating results compared to previous forecasts, and an evaluation of the NCA management team. This review resulted in the termination of NCA’s manager during the second quarter of 2011. As a result of this review and termination, management revised downward the forecasted future operating results of the NCA reporting unit, concluding that these factors were a triggering event requiring an interim second quarter goodwill impairment test. In connection with this triggering event, we tested the recoverability of NCA’s long-lived assets and concluded the carrying values of intangible assets were no longer recoverable. Consequently, during the second quarter of 2011, we recorded an impairment charge totaling \$1,188 to reduce the carrying values of NCA’s goodwill and intangible assets to their estimated fair values, which was reported as a component of selling, general and administrative expenses.

During the first two quarters of 2010, NCA 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 of 2010.

*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 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. We 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 our deferred tax assets will be realized.

## **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 slightly to \$23,000 at September 30, 2011 from \$20,114 at December 31, 2010.

The total Credit Facility is \$100,000 with an additional \$10,000 credit facility specifically for acquisitions (“Acquisition Facility”). CPC had authorized a temporary increase in the Credit Facility to \$100,000 during the period from June 27, 2011 to September 30, 2011 to accommodate our current sales levels. 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, 2011 or December 31, 2010. The Credit Facility is collateralized by substantially all of our assets and is for a one year period with automatic one year renewals, except as otherwise provided. Termination date of the senior 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, 2011, borrowing capacity and availability were as follows:

Total Credit Facility	\$	100,000
Borrowing base limitation		(34,855)
Total borrowing capacity		65,145
Less interest-bearing borrowings		—
Less non-interest bearing advances		(58,901)
Total unused availability	\$	6,244

In addition to unused borrowing availability, liquidity at September 30, 2011 included our cash balance of \$7,076. 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, 2011 or December 31, 2010. The interest rate of the Credit Facility is the prime rate plus 0.5% (3.75% at September 30, 2011) and the interest rate of the Acquisition Facility is the prime rate plus 2.0% (5.25% at September 30, 2011).

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, with which we were in compliance at September 30, 2011. At June 30, 2011, we were operating under a waiver from CPC requiring compliance with the loan covenants we had not filed our required Form 10-Q for the quarterly period ended March 31, 2011, which was filed with the SEC on July 18, 2011. 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, 2011, our cash decreased by \$5,013. Operating activities used cash of \$19,910, investing activities used \$2,614, and financing activities provided \$17,511.

*Operating Activities.* Operating activities used \$19,910 in the nine months ended September 30, 2011, as compared to using cash of \$108 in the comparable 2010 period. During the nine months ended September 30, 2011, net income and noncash adjustments to net income provided \$1,047 and changes in asset and liability accounts used cash of \$20,957, primarily due to increased accounts receivable and inventory resulting from higher sales and decreasing accounts payable. 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 increased accounts receivable resulting from higher sales, partially offset by lower payables.

*Investing Activities.* Investing activities used \$2,614 in the nine months ended September 30, 2011, compared to \$3,117 used during the comparable period in 2010. Our investing activities primarily consisted of capital expenditures of \$1,796 in 2011 and \$1,345 in 2010 and additional cash purchase price for the NetTek's acquisition of \$850 in 2011 and \$1,500 in 2010. Capital expenditures in both years were primarily related to purchases of computer equipment and software.

*Financing Activities.* Financing activities provided \$17,511 in the nine months ended September 30, 2011, compared to providing \$1,524 in the comparable 2010 period. Funds provided in the nine months ended September 30, 2011 were primarily from net borrowings under the floor plan financing of \$17,772 compared to funds provided for net borrowings in the nine months ended September 30, 2010 of \$686.

#### **Critical Accounting Policies**

There were no significant changes during the nine months ended September 30, 2011 to our critical accounting policies as disclosed in Part I, Item 7 of our 2010 Annual Report on Form 10-K, except for recently adopted accounting guidance as discussed in Note 3, “Recently Adopted and New Accounting Pronouncements” of Notes to Condensed Financial Statements in Part I, Item I. Also, there were no significant changes in our estimates associated with those policies.

#### **Item 4. Controls and Procedures**

INX management is responsible for establishing and maintaining effective disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15 (e).

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, 2011.

As a result of the material weaknesses in our internal control over financial reporting identified as of December 31, 2010 and September 30, 2011 and discussed below, we have concluded that our disclosure controls and procedures at September 30, 2011 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 and Material Weaknesses Remediation Initiatives**

Other than the material weakness noted during the quarter ended September 30, 2011, the material weaknesses in our internal control over financial reporting and weaknesses in our disclosure controls and procedures, were identified during the restatement of our prior period financial statements which was completed in June 2011. Our remediation efforts were commenced after the identification of the weaknesses, which were generally subsequent to June 30, 2011. The remediation efforts on the material weakness identified in the quarter ended September 30, 2011 began upon identification.

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.

The following material weaknesses in our system of internal controls over financial reporting were identified by management:

#### ***Revenue Accounting***

As a result of our previously announced restatements, we identified the following material weaknesses with respect to our revenue accounting:

1. We did not employ sufficiently qualified staff, and did not design sufficient documentation and review procedures to appropriately apply Accounting Standards Codification ("ASC") 605-25 Revenue Recognition, Multiple-Element Arrangements, previously referred to as Emerging Issues Task Force ("EITF") No. 00-21, Revenue Arrangements with Multiple Deliverables.
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.

In the 2010 Form 10-K filing and in the contemporaneously filed Form 10-Q's for the first three quarters of 2010, we restated our financial statements for the 2008 quarterly and annual periods and the first three quarters of 2009. 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 we developed to perform certain calculations.
2. We did not have sufficient procedures to control the accuracy and completeness of data uploaded into our database for 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 accounting principles generally accepted in the United States of America ("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 tax liability 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.

#### Cut-Off of Accounts Payable

We did not maintain effective internal controls to ensure non accounts payable floor plan related liabilities were recorded in the proper periods. Specifically, our controls were not designed to ensure that invoices and liabilities were identified and recorded in the proper period.

#### **Management's Internal Control Over Financial Reporting Remediation Initiatives**

Other than the material weakness regarding cut-off of accounts payable noted during the quarter ended September 30, 2011, the material weaknesses in our internal control over financial reporting were identified during the restatement of our prior period financial statements which was completed in June 2011. Our remediation efforts were commenced after the identification of the weaknesses, which were generally subsequent to June 30, 2011.

#### ***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 2011, there have been no changes in our internal controls 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 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: November 17, 2011

By: /s/ JAMES H. LONG

James H. Long  
Executive Chairman and  
Chief Financial Officer

**Index to Exhibits**

<b>Exhibit No.</b>	<b>Description</b>	<b>Filed Herewith or Incorporated by Reference From:</b>
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.
101.INS**	XBRL Instance	
101.SCH**	XBRL Taxonomy Extension Schema	
101.CAL**	XBRL Taxonomy Extension Calculation	
101.DEF**	XBRL Taxonomy Extension Definition	
101.LAB**	XBRL Taxonomy Extension Labels	
101.PRE**	XBRL Taxonomy Extension Presentation	

\*\* XBRL *Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.*

**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: November 17, 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, James H. Long, 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: November 17, 2011

By: /s/ JAMES H. LONG

James H. Long  
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, 2011 (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.

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

November 17, 2011

**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, 2011 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, James H. Long, 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.

By: /s/ JAMES H. LONG  
James H. Long  
Chief Financial Officer

November 17, 2011