

***CHX Holdings, Inc.
and Subsidiary***

*Consolidated Financial Statements for the
Years Ended December 31, 2006 and 2005 and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of CHX Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of CHX Holdings, Inc. and subsidiary (the "Exchange") as of December 31, 2006 and 2005 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Exchange's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the CHX Holdings, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte | Touche LLP

March 16, 2007

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,108,000	\$ 4,995,000
Investment securities	10,086,000	13,940,000
Accounts receivable (net)	4,542,000	4,991,000
Prepaid expenses	839,000	968,000
Other current assets	127,000	211,000
<i>Total current assets</i>	<u>34,702,000</u>	<u>25,105,000</u>
Investment securities	-	994,000
Equipment, leasehold improvements, software and other capitalized costs (net)	13,775,000	13,087,000
Prepaid pension	6,149,000	5,239,000
Other noncurrent assets	38,000	-
<i>Total assets</i>	<u>\$ 54,664,000</u>	<u>\$ 44,425,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Section 31 fees payable	\$ 6,121,000	\$ 7,008,000
Other accounts payable	677,000	707,000
Other current liabilities	4,092,000	4,348,000
<i>Total current liabilities</i>	<u>10,890,000</u>	<u>12,063,000</u>
Noncurrent liabilities	<u>9,981,000</u>	<u>12,126,000</u>
<i>Total liabilities</i>	<u>20,871,000</u>	<u>24,189,000</u>
Shareholders' equity		
Preferred stock, \$0.01 par value, 25,000 shares authorized; 2,250 shares of Series A convertible stock, convertible into 225,000 shares of common stock, issued and outstanding at December 31, 2006 with warrants contingently convertible into 600 shares of Series A convertible preferred stock; aggregate liquidation preference of \$20.0 million at December 31, 2006	18,328,000	-
Common stock, \$0.01 par value, 900,000 and 750,000 shares authorized at December 31, 2006 and December 31, 2005, respectively, 450,000 issued and outstanding	5,000	5,000
Additional paid-in-capital	23,705,000	23,705,000
Accumulated other comprehensive loss	(226,000)	(372,000)
Accumulated deficit	(8,019,000)	(3,102,000)
<i>Total shareholders' equity</i>	<u>33,793,000</u>	<u>20,236,000</u>
<i>Total liabilities and shareholders' equity</i>	<u>\$ 54,664,000</u>	<u>\$ 44,425,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Operations
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Transaction fees (Net of Floor Broker credits of \$2,909,000 and \$2,985,000)	\$ 15,775,000	\$ 16,877,000
Participant services and fees	9,224,000	11,431,000
Trading permit fees	1,555,000	1,995,000
Market data fees (Net of Specialist credits of \$934,000 and \$1,339,000)	1,370,000	1,870,000
Listing fees	565,000	498,000
Interest	1,080,000	651,000
	<u>29,569,000</u>	<u>33,322,000</u>
<i>Total revenues</i>		
Expenses		
Employee compensation and benefits	14,114,000	15,310,000
Communications, equipment and related costs	5,468,000	6,498,000
Depreciation and amortization	5,240,000	4,550,000
Facilities rent, maintenance and utilities	4,654,000	4,539,000
Professional and other outside services	4,053,000	3,971,000
General and administrative	1,659,000	1,961,000
Gain on excess leased space	(547,000)	(352,000)
	<u>34,641,000</u>	<u>36,477,000</u>
<i>Total expenses</i>		
Loss before income taxes	(5,072,000)	(3,155,000)
Income tax expense (benefit)	(155,000)	120,000
	<u>(5,227,000)</u>	<u>(3,035,000)</u>
<i>Net loss</i>		
	\$ (4,917,000)	\$ (3,275,000)
Minimum pension liability adjustment	146,000	(63,000)
	<u>146,000</u>	<u>(63,000)</u>
<i>Comprehensive loss</i>		
	<u>\$ (4,771,000)</u>	<u>\$ (3,338,000)</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2006 and 2005

	Preferred stock		Common stock		Additional paid-in capital	Equity of Members	Accumulated deficit	Accumulated other comprehensive loss	Total shareholders'/ members' equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2004	-	\$ -	-	\$ -	\$ -	\$ 23,883,000	\$ -	\$ (309,000)	\$ 23,574,000
Allocation of equity of members and pre-demutualization loss to additional paid-in-capital	-	-	-	-	23,705,000	(23,878,000)	173,000	-	-
Allocation of equity of members to common stock	-	-	450,000	5,000	-	(5,000)	-	-	-
Net loss	-	-	-	-	-	-	(3,275,000)	-	(3,275,000)
Other comprehensive loss	-	-	-	-	-	-	-	(63,000)	(63,000)
<i>Total comprehensive loss</i>									(3,338,000)
<i>Balance, December 31, 2005</i>	-	\$ -	450,000	\$ 5,000	\$ 23,705,000	\$ -	\$ (3,102,000)	\$ (372,000)	\$ 20,236,000
Issuance of Series A Preferred Stock	2,250	18,328,000	-	-	-	-	-	-	18,328,000
Net loss	-	-	-	-	-	-	(4,917,000)	-	(4,917,000)
Other comprehensive gain	-	-	-	-	-	-	-	146,000	146,000
<i>Total comprehensive loss</i>									(4,771,000)
<i>Balance, December 31, 2006</i>	2,250	\$ 18,328,000	450,000	\$ 5,000	\$ 23,705,000	\$ -	\$ (8,019,000)	\$ (226,000)	\$ 33,793,000

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net loss	\$ (4,917,000)	\$ (3,275,000)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	5,240,000	4,550,000
Amortization of investment securities	(240,000)	-
Gain on excess leased space	(547,000)	(352,000)
Changes in:		
Accounts receivable (net)	449,000	1,779,000
Prepaid expenses	129,000	38,000
Other current assets	84,000	21,000
Prepaid pension	(910,000)	(1,048,000)
Other noncurrent assets	(38,000)	-
Section 31 fees payable	(887,000)	3,009,000
Other accounts payable	(30,000)	-
Other current liabilities	(246,000)	(356,000)
Noncurrent liabilities	<u>(1,150,000)</u>	<u>(1,482,000)</u>
<i>Net cash flows from operating activities</i>	<u>(3,063,000)</u>	<u>2,884,000</u>
Cash flows from investing activities		
Purchases of investment securities	(19,192,000)	(23,889,000)
Proceeds from maturities of investment securities	24,280,000	24,000,000
Capital expenditures	<u>(6,240,000)</u>	<u>(4,605,000)</u>
<i>Net cash flows from investing activities</i>	<u>(1,152,000)</u>	<u>(4,494,000)</u>
Cash flows from financing activities		
Proceeds from sale of preferred stock, net	<u>18,328,000</u>	<u>-</u>
<i>Net cash flows from financing activities</i>	<u>18,328,000</u>	<u>-</u>
Net change in cash and cash equivalents	14,113,000	(1,610,000)
Cash and cash equivalents, beginning of year	<u>4,995,000</u>	<u>6,605,000</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 19,108,000</u>	<u>\$ 4,995,000</u>
Supplemental disclosures		
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

CHX Holdings, Inc. (“CHX Holdings”) is a for-profit, Delaware stock corporation. The Chicago Stock Exchange, Inc. (“CHX”) is an equity exchange in the United States of America. The consolidated financial statements include the accounts of CHX Holdings, Inc. and its wholly owned subsidiary the Chicago Stock Exchange, Inc. (collectively the “Exchange”). On February 9, 2005 CHX demutualized and was converted from a Delaware non-stock corporation into a Delaware stock corporation, as more fully described in note 13.

All significant inter-company balances and transactions have been eliminated in consolidation.

In July 2006, CHX Holdings entered into a strategic transaction in connection with the investment by Banc of America Strategic Investments Corporation; Bear REX, Inc., an affiliate of Bear, Stearns & Co., Inc.; E*Trade Capital Markets Execution Services, LLC; and The Goldman Sachs Group, Inc. (together, the “Investors”). The transaction involved the issuance of 2,250 shares of Series A Convertible Preferred Stock, \$.01 par value per share (“Series A Preferred”) and warrants to purchase up to 600 additional shares of Series A Preferred to the Investors for the purchase price of \$20 million. These securities are further discussed in Note 7.

As shown in the financial statements, the Exchange incurred significant losses of \$4,771,000 and \$3,338,000 during the years ended December 31, 2006 and 2005, respectively. Management, in 2004, reviewed CHX’s business model and overall operations and presented a revised business plan to the Board of Directors. The Board of Directors approved the plan, which included significant investment, to reposition CHX and its operations.

The Exchange in 2005 incurred approximately \$1,825,000 of capital expenditures related to a new trading model. In late 2005, management reviewed the industry’s changing environment and determined that in order to remain competitive and a viable entity, it was necessary to incorporate additional changes to its new trading model. The Board of Directors approved a plan revising the trading model in early 2006. The Exchange in 2006 incurred approximately \$5,261,000 of additional capital expenditures related to the new trading model. The Exchange has budgeted approximately \$3,320,000 of additional capital expenditures for the new trading model in 2007. CHX completed the conversion to the new trading model in January 2007.

In order to meet the additional investment required, the Exchange initiated certain expense reduction plans in 2006, including an approximate 30% reduction in work force. The Exchange was also successful in securing strategic partners which provided \$18,328,000 (after issuance costs of \$1,672,000) of additional capital in exchange for preferred stock and warrants, as noted above.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION continued

The cash and investment securities balances available at December 31, 2006 are expected to be sufficient to fund the operations and investments of the revised business plan during its implementation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents — Cash equivalents consist principally of U.S. Government agency obligations with maturities when purchased of 90 days or less, and money market funds which invest in U.S. Treasury bills, notes, bonds and other U.S. obligations issued or guaranteed by the U.S. Treasury and securities purchased under resale agreements collateralized by U.S. Government securities.

Investment Securities — Investment securities consist of U.S. Government agency securities. The Exchange has the ability and the positive intent to hold these securities to maturity and therefore they are carried at amortized cost.

Depreciation and Amortization — Depreciation is provided on the straight-line method, over useful lives of generally three to five years for computer equipment and four to ten years for other equipment and office furnishings. Leasehold improvements are amortized over the shorter of the life of the asset or the term of the lease. Capitalized labor costs are amortized using a straight-line method typically over three to five years, consistent with the life of the underlying asset (primarily software).

Impairment of Long-lived Assets — Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates that the carrying amount of a long-lived asset is not recoverable, the carrying amount is reduced to the estimated recoverable value.

Income Taxes — Income tax expense is calculated under the liability method. Accordingly, deferred tax assets and liabilities are determined based upon the differences between financial statement carrying amounts and the tax bases of existing assets and liabilities, and are measured at the tax rates that will be in effect when these differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized against future taxable income.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue Recognition — *Transaction fees* are imposed on certain trades executed on CHX and are recorded as of the trade date. Floor brokers earn a monthly transaction fee credit based upon a formula that incorporates the total number of shares executed on CHX by the floor broker for which CHX received a transaction fee. *Participant services and fees* consist principally of fixed fees charged to specialists based upon assigned stocks, purchases of services by CHX and rebilled to participants, trading floor space rent, clearing fees and other fees. Such fees are recognized over the period the fees are earned. *Trading permit fees* are recognized on an accrual basis when earned. *Market data fees* are earned on the sale of market transaction information and are derived from market share data. Market data fees are recorded on an accrual basis when earned. Specialists earn a monthly market data fee credit based upon a percentage of monthly CHX market data fee revenue from the Consolidated Tape Association, generated by a particular stock. *Listing fees* represent fees charged to security issuers for listing on CHX and are recognized ratably over the year for maintenance listings and as incurred for additional listings.

Estimates — The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual amounts realized may differ from those estimates.

New Accounting Pronouncements – In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an Exchange’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Exchange as of January 1, 2007. The Exchange has not completed its assessment of the impact of the adoption of FIN 48 on the Exchange’s consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“Statement No. 157”). Statement No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement No. 157 is effective for the Exchange as of January 1, 2008. The adoption of Statement No. 157 is not expected to have a material impact on the Exchange’s consolidated financial position or results of operations.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("Statement No. 158"). Statement No. 158 requires an employer to recognize the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. Statement No. 158 is effective for the Exchange for the year ending December 31, 2007. The Exchange has not completed its assessment of the impact of the adoption of Statement No. 158 on the Exchange's consolidated financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("Statement No. 159"). Statement No. 159 permits an entity to choose, at specified election dates, to measure eligible items at fair value. Statement No. 159 is effective for the Exchange for the year ending December 31, 2007. The Exchange has not completed its assessment of the impact of the adoption of Statement No. 159 on the Exchange's consolidated financial position or results of operations.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

3. INVESTMENT SECURITIES

The fair values of investment securities were determined using closing market prices. Such prices were attained from an independent pricing source. The Exchange classifies held-to-maturity securities as current if they mature within the next twelve months. All other held-to-maturity securities are classified as non-current. Investment securities consisted of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
U.S. Government agency obligations held-to-maturity at December 31, 2006				
<i>Current</i>	<u>\$10,086,000</u>	<u>\$ 1,000</u>	<u>\$(2,000)</u>	<u>\$10,085,000</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
U.S. Government agency obligations held-to-maturity at December 31, 2005				
<i>Current</i>	<u>\$13,940,000</u>	<u>\$ 12,000</u>	<u>\$(63,000)</u>	<u>\$13,889,000</u>
<i>Noncurrent</i>	<u>\$ 994,000</u>	<u>\$ -</u>	<u>\$ (2,000)</u>	<u>\$ 992,000</u>

4. ACCOUNTS RECEIVABLE (NET)

Accounts receivable (net) consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Receivables from participants	\$3,681,000	\$4,145,000
Market data fees receivable	531,000	598,000
Income taxes receivable	31,000	29,000
Other receivables	<u>433,000</u>	<u>296,000</u>
Subtotal	4,676,000	5,068,000
Allowance	<u>(134,000)</u>	<u>(77,000)</u>
<i>Total</i>	<u>\$4,542,000</u>	<u>\$4,991,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

5. EQUIPMENT, LEASEHOLD IMPROVEMENTS, SOFTWARE AND OTHER CAPITALIZED COSTS

Equipment, leasehold improvements, software and other capitalized costs consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Equipment and office furnishings	\$ 6,680,000	\$ 9,570,000
Leasehold improvements	6,597,000	7,758,000
Software and other capitalized costs	<u>13,628,000</u>	<u>11,092,000</u>
	26,905,000	28,420,000
Less accumulated depreciation and amortization	<u>(13,130,000)</u>	<u>(15,333,000)</u>
<i>Total</i>	<u>\$13,775,000</u>	<u>\$13,087,000</u>

Software and other capitalized costs include purchased computer software, external costs specifically identifiable to the implementation of new systems, and certain payroll and payroll-related costs for employees who are directly associated with developing computer software for internal use.

During 2005, approximately \$1,700,000 of capitalized costs were determined to have a useful life ending with the implementation of the new trading model. The amortization on such assets was accelerated accordingly to reflect a useful life of one year from the determination date. In 2006, the implementation of the new trading model was delayed and accordingly, the amortization period was extended to coincide with the revised implementation date. As a result, \$132,000 of amortization expense will be recognized in 2007.

6. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Accrued rent	\$ 983,000	\$1,781,000
Accrued incentive compensation	32,000	139,000
Accrued vacation	147,000	124,000
Accrued severance payable	54,000	46,000
Accrued operating expense	<u>2,876,000</u>	<u>2,258,000</u>
<i>Total</i>	<u>\$4,092,000</u>	<u>\$4,348,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

6. OTHER CURRENT LIABILITIES continued

The Exchange incurred severance costs related to the elimination of certain officer and staff positions of \$1,019,000 and \$0 during 2006 and 2005, respectively. The 2006 severance is included in employee compensation and benefits, and other outside services, for cash payments and job placement assistance, respectively, within the statement of operations. Severance in the amounts of \$54,000 and \$46,000 remain unpaid at December 31, 2006 and 2005, respectively.

7. SHAREHOLDERS' EQUITY

Preferred Stock and Warrants— CHX Holdings has authorized 25,000 shares of \$.01 par value preferred stock. In July 2006, as part of a strategic transaction, 3,563 shares of preferred stock were designated Series A Preferred. Each share is convertible into 100 shares of common stock. In July 2006, CHX Holdings issued 2,250 shares of Series A Preferred to certain investors. In connection with the Series A Preferred issuance, CHX Holdings issued warrants to the Investors. The warrants entitle the holders to purchase in the aggregate, 600 shares of Series A Preferred at a purchase price of \$1.00 per share, subject to certain adjustments. The warrants vest at a time that CHX Holdings issues shares of preferred stock to an additional investor for an investment of not less than \$5,000,000 and at a price and terms not less beneficial to CHX Holdings than the July 2006 issuance, including other specific parameters. The warrants are cancelled one year from the original issuance date. The probability of the attainment of the contingencies associated with the warrants is not reasonably estimable and accordingly no value has been allocated.

The Certificate of Designations sets forth the privileges and restrictions of the Series A Preferred. In the event of any liquidation as defined in the Certificate of Designations, the holders of the Series A Preferred are entitled to either (i) be paid out of the assets of the Company available for distribution to its shareholders and before any payment shall be made to holders of junior securities, an amount per share equal to the Series A Preferred original issue price of \$8,888.89 plus dividends declared but not paid or (ii) convert their Series A Preferred into common stock and participate in the distribution of assets on a pro rata basis with the holders of common stock.

Common Stock – CHX Holdings has authorized 750,000 shares of \$.01 par value common stock. In July 2006, as part of a strategic transaction, an additional 150,000 shares were authorized. As a result, 900,000 shares of common stock were authorized and 450,000 shares were outstanding at December 31, 2006.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

8. CONTINGENCIES

The Exchange has resolved one or more claims incidental to its business and the amounts associated with those resolutions are included in the expenses set out in the financial statements.

From time to time, the Exchange is involved in litigation that is incidental to its business. While the ultimate outcome of any litigation is uncertain, in the opinion of management, based on consultations with counsel and the information available, management is not aware of any on-going litigation that would have a material adverse effect on the financial position or results of operations of the Exchange.

CHX's participants are regulated by CHX and by the Securities and Exchange Commission ("SEC"). Both of these organizations can conduct investigations of participant conduct and sanction participants for violations of CHX and SEC rules, as well as for violations of the federal securities laws. In addition to other enforcement work, the SEC and CHX currently are conducting investigations of certain trading activity by the former CHX specialist firms, focusing on instances where a former specialist firm might have traded for its own account to the disadvantage of customer orders. These investigations are on-going and no formal actions have been taken against firms as a result of the investigations.

Due to the potentially large amount of disgorgement that might result from the investigations, if any regulatory actions result from the investigations, such actions could have an effect, and potentially a material effect, on the CHX's former specialists and the business that the CHX receives from those participant firms. However, because the CHX's new trading model does not rely on a single specialist firm to handle customer orders, the role of these firms is not as central to the CHX's operations as it once was.

In the course of the investigation and any proceedings that might result from it, CHX's former specialist firms likely will assert that their conduct resulted, in part, from the operation of the CHX's trading systems. These assertions and the on-going investigation could harm the CHX's reputation, subject the CHX to further SEC scrutiny, and result in litigation against CHX, which could have a material impact on the CHX. CHX would vigorously defend against any such claims that are made.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

9. INCOME TAXES

The provision for income taxes for the years ended December 31 consisted of the following:

	<u>2006</u>	<u>2005</u>
Current:		
Federal	\$ (155,000)	\$ 104,000
State		16,000
Total	<u>(155,000)</u>	<u>120,000</u>
Deferred:		
Federal	-	-
State	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>
<i>Income tax expense (benefit)</i>	<u>\$ (155,000)</u>	<u>\$ 120,000</u>

The provision for federal income taxes differed from that obtained at the statutory rate as follows:

	<u>2006</u>	<u>2005</u>
Federal income tax benefit, at statutory rate of 34 percent	\$ (1,725,000)	\$ (1,073,000)
State income tax expense, net of federal tax effect	-	10,000
True up of prior year taxes	(1,000)	47,000
Valuation and reserve adjustments	1,562,000	1,123,000
Nondeductible expenses	<u>9,000</u>	<u>13,000</u>
<i>Income tax expense (benefit)</i>	<u>\$ (155,000)</u>	<u>\$ 120,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

9. INCOME TAXES continued

The gross deferred tax assets and liabilities at December 31 were:

	<u>2006</u>	<u>2005</u>
Deferred tax assets		
Pension and FAS106 accruals	\$2,554,000	\$2,516,000
Accrued loss on excess leased space	-	397,000
Accrued rent	280,000	567,000
Accrued vacation	45,000	26,000
Net operating loss carryforward	8,264,000	4,735,000
AMT credit carryforward	91,000	91,000
Charitable contribution carryforward	11,000	11,000
Other	<u>1,037,000</u>	<u>915,000</u>
Sub-total	12,282,000	9,258,000
Valuation allowance	<u>(9,374,000)</u>	<u>(7,360,000)</u>
<i>Total deferred tax assets</i>	<u>2,908,000</u>	<u>1,898,000</u>
Deferred tax liabilities		
Basis difference in fixed assets	(2,593,000)	(1,538,000)
Prepaid expenses	<u>(315,000)</u>	<u>(360,000)</u>
<i>Total deferred tax liabilities</i>	<u>(2,908,000)</u>	<u>(1,898,000)</u>
<i>Net deferred tax assets</i>	\$ <u> -</u>	\$ <u> -</u>

The Exchange believes that it is more likely than not that as of December 31, 2006 and 2005 all of the net deferred tax assets will not be recognized and will not provide a financial statement benefit in the future. Based upon consideration of the Exchange's recent history of operating losses and the uncertainty of overall Exchange profitability in the future, management believes that the valuation allowance of \$9,374,000 and \$7,360,000 at December 31, 2006 and 2005, respectively was sufficient to reduce the net deferred tax assets to \$0.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. EMPLOYEE BENEFIT PLANS

The Exchange has qualified and nonqualified defined benefit pension plans, and a retiree medical plan that cover all eligible employees as defined. The nonqualified pension plan, with an aggregate projected benefit obligation of \$3,001,000 and \$3,194,000 as of December 31, 2006 and 2005, respectively, are unfunded. In September 2004, the Exchange froze the future benefit accruals for the qualified and nonqualified defined benefit pension plans. The elimination of future benefit accruals triggered a curtailment event under Statement of Financial Accounting Standards No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

A curtailment has been reflected as of December 31, 2006 for the retiree medical plan as a result of a reduction in force during 2006. The accumulated postretirement benefit obligation decreased by \$154,000 but no curtailment expense was required to be recognized.

A reconciliation of beginning and ending balances of the benefit obligations, certain actuarial assumptions, fair value of plan assets, the funded status of the plans and the components of pension cost are indicated below:

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$34,632,000	\$32,530,000	\$3,944,000	\$3,459,000
Service cost	-	-	351,000	252,000
Interest cost	1,879,000	1,827,000	216,000	197,000
Plan participants' contributions	-	-	27,000	26,000
Net actuarial loss (gain)	(2,264,000)	1,417,000	60,000	219,000
Benefits paid	(1,186,000)	(1,142,000)	(224,000)	(209,000)
Curtailment gain	<u>-</u>	<u>-</u>	<u>(154,000)</u>	<u>-</u>
 <i>Benefit obligation at end of year</i>	 <u>\$33,061,000</u>	 <u>\$34,632,000</u>	 <u>\$4,220,000</u>	 <u>\$3,944,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. EMPLOYEE BENEFIT PLANS continued

Weighted-average assumptions used to determine benefit obligations at December 31

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Discount rate	6.00%	5.50%	6.00%	5.50%
Rate of compensation increase	N/A	N/A	N/A	N/A

The accumulated benefit obligation for all defined benefit pension plans at December 31, 2006 and 2005 was \$33,061,000 and \$34,632,000, respectively.

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Change in Plan Assets:				
Fair value of plan assets at beginning of year	\$31,452,000	\$31,144,000	\$ -	\$ -
Actual return on plan assets	3,788,000	1,220,000	-	-
Employer contribution	222,000	231,000	197,000	184,000
Plan participants' contributions	-	-	27,000	26,000
Benefits paid	<u>(1,186,000)</u>	<u>(1,143,000)</u>	<u>(224,000)</u>	<u>(210,000)</u>
<i>Fair value of plan assets at end of year</i>	<u>\$34,276,000</u>	<u>\$31,452,000</u>	<u>\$ -</u>	<u>\$ -</u>

Funded status at December 31	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Funded status	\$1,215,000	\$(3,180,000)	\$(4,220,000)	\$(3,944,000)
Unrecognized net actuarial loss (gain)	<u>2,159,000</u>	<u>5,597,000</u>	<u>109,000</u>	<u>203,000</u>
<i>Net amount recognized</i>	<u>\$3,374,000</u>	<u>\$2,417,000</u>	<u>\$(4,111,000)</u>	<u>\$(3,741,000)</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. EMPLOYEE BENEFIT PLANS continued

Amounts recognized in the statement of financial position consist of:

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Prepaid benefit cost	\$6,149,000	\$5,239,000	\$ -	\$ -
Accrued benefit liability	(3,001,000)	(3,194,000)	(4,111,000)	(3,741,000)
Accumulated other comprehensive income	<u>226,000</u>	<u>372,000</u>	<u>-</u>	<u>-</u>
<i>Net amount recognized</i>	<u>\$3,374,000</u>	<u>\$2,417,000</u>	<u>\$(4,111,000)</u>	<u>\$(3,741,000)</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31:

	<u>Pension Plans</u>	
	<u>2006</u>	<u>2005</u>
Projected benefit obligation	\$3,001,000	\$3,194,000
Accumulated benefit obligations	\$3,001,000	\$3,194,000
Fair value of plan assets	-	-

Components of Net Periodic Benefit Cost

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service cost	\$ -	\$ -	\$351,000	\$252,000
Interest cost	1,880,000	1,827,000	216,000	197,000
Expected return on plan assets	(2,712,000)	(2,704,000)	-	-
Recognized net actuarial loss (gain)	<u>97,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net periodic benefit cost</i>	<u>\$(735,000)</u>	<u>\$(877,000)</u>	<u>\$567,000</u>	<u>\$449,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. EMPLOYEE BENEFIT PLANS continued

Estimated future benefit payments, which reflect expected future service, are as follows:

	<u>Pension Plans</u>	<u>Postretirement Benefit Plan</u>
2007	\$1,277,000	\$204,000
2008	1,359,000	202,000
2009	1,439,000	212,000
2010	1,156,000	217,000
2011	1,613,000	228,000
Years 2012 – 2016	9,501,000	1,507,000

Weighted – average assumptions used to determine net periodic benefit costs for the years ended December 31:

	<u>Pension Plans</u>		<u>Postretirement Benefit Plan</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Discount rate	5.50%	5.75%	5.50%	5.75%
Expected long-term return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

Assumed health care cost trend rates at December 31:

	<u>2006</u>	<u>2005</u>
Health care cost trend rates assumed for next year	10.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2012	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1 - Percentage - Point Increase</u>	<u>1 - Percentage - Point Decrease</u>
Effect on total of service and interest cost components	\$126,000	\$ (99,000)
Effect on post retirement benefit obligation	\$669,000	\$(549,000)

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

10. EMPLOYEE BENEFIT PLANS continued

Plan Assets

The CHX's pension plan weighted – average asset allocation ranges at December 31, 2006 and 2005, by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets at December 31</u>	
	<u>2006</u>	<u>2005</u>
Equities	50.0% - 80.0%	50.0% - 80.0%
Fixed income	20.0% - 40.0%	20.0% - 40.0%
Cash equivalents	0.0% - 10.0%	0.0% - 10.0%

The pension plan's total return is expected to equal the composite performance of the security markets on an annual basis. The security markets are represented by the returns on various domestic and international stock and bond indices. These returns are weighted according to the allocation of plan assets to each market and measured individually.

The Exchange maintains a savings plan pursuant to Section 401(k) of the Internal Revenue Code whereby all employees are participants and have the option to contribute to the plan. In April 1998, the Exchange amended the savings plan to provide an enhanced matching contribution for newly hired employees in lieu of eligibility for participation in the qualified defined benefit pension plan. In September 2004, after freezing the future benefit accruals for the qualified defined benefit pension plan, the Exchange amended the savings plan to provide for a single matching contribution for all employees. The Exchange's contributions to the savings plan were \$270,000 and \$291,000 for 2006 and 2005, respectively.

The Exchange also has future obligations under deferred compensation arrangements with certain executives, which vest in three years and are unfunded. These obligations total approximately \$74,000 and \$181,000 as of December 31, 2006 and 2005, respectively, and are included in other current and noncurrent liabilities.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

11. NONCURRENT LIABILITIES

The components of noncurrent liabilities, included in the balance sheets at December 31 were:

	<u>2006</u>	<u>2005</u>
Nonqualified pension plans	\$2,789,000	\$3,194,000
Retiree medical plan	3,907,000	3,741,000
Tenant improvement allowance	1,983,000	2,657,000
Excess leased space	-	1,037,000
Accrued rent	1,260,000	1,456,000
Other	<u>42,000</u>	<u>41,000</u>
<i>Total</i>	<u>\$9,981,000</u>	<u>\$12,126,000</u>

12. LEASE ARRANGEMENTS AND COMMITMENTS

The Exchange leases facilities and equipment under operating leases expiring at various dates through 2015. Certain leases contain renewal options and escalation clauses.

In December 2000, the Exchange amended and consolidated its space leases under a master leasing arrangement expiring in 2015. The amended lease became effective August 1, 2002. As an incentive for the Exchange to sign the new lease agreement, the lessor provided a tenant improvement allowance of approximately \$4,000,000. The Exchange used this allowance to pay for the cost of certain equipment, office furnishings and leasehold improvements. The allowance is included in other current and noncurrent liabilities and is being recognized as a reduction of rental expense on a straight-line basis over the term of the new lease or the estimated life of the related asset. The amended lease agreement also included a contraction option, which under certain terms and conditions, allowed the Exchange to reduce its leased space.

From 2002 through 2004, the Exchange determined it had excess office space under its master lease arrangement and accordingly recognized losses applicable to excess space. The losses represented the present value of the excess of expected rental payments under the lease and other costs over anticipated sublease rentals.

During 2005, the Exchange entered into a sublease agreement for a portion of its excess space. Accordingly, the Exchange adjusted the excess space liability and reversed \$352,000 of the loss in 2005. The reversal represents the present value of the increase in expected sublease rentals over the previously anticipated sublease rentals.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

12. LEASE ARRANGEMENTS AND COMMITMENTS continued

In November 2006, the Exchange amended its December 2000 restated lease. This amendment allowed for the Exchange to surrender 39,145 square feet of leased space. Accordingly, the Exchange adjusted the previously recorded excess space liability and reversed \$547,000 of the previously recorded liability in 2006. The reversal represents the net present value of the reduced contraction fee and rent accruals less expected rental payments and other costs. A contraction fee of \$1,000,000 was paid in 2006 and the space will be surrendered July 1, 2007.

In accordance with the sale in 1996 of its former wholly-owned subsidiaries Midwest Securities Trust Company and Midwest Clearing Corporation, the Exchange assigned to the buyer future lease obligations that expired in 2005.

Minimum lease commitments, exclusive of taxes, maintenance and other related costs applicable to existing operating leases, at December 31, 2006 were:

<u>Year</u>	<u>Gross Operating Leases</u>	<u>Sub-Lease Rentals</u>	<u>Net Operating Leases</u>
2007	\$3,558,000	\$(201,000)	\$3,357,000
2008	3,016,000	-	3,016,000
2009	2,866,000	-	2,866,000
2010	2,875,000	-	2,875,000
2011	2,947,000	-	2,947,000
Later years	<u>10,895,000</u>	<u>-</u>	<u>10,895,000</u>
<i>Total</i>	<u>\$26,157,000</u>	<u>\$(201,000)</u>	<u>\$25,956,000</u>

Net rent expense for 2006 and 2005 was \$4,046,000 and \$4,330,000, respectively. Rent expense includes taxes, maintenance and other costs related to leased property.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

13. DEMUTUALIZATION

On February 9, 2005 (“Effective Date”), CHX’s plan of demutualization took effect. Under this plan, CHX (formerly a not-for-profit, non-stock corporation owned by its members) became a wholly-owned subsidiary of a holding company, CHX Holdings, Inc. CHX Holdings was formed as a for-profit, stock corporation owned by its shareholders, the former member-owners of CHX. The demutualization plan was approved by CHX’s Board of Governors on August 5, 2004, by its members on November 11, 2004 and by the SEC on February 8, 2005. Under the new demutualized structure, CHX continues to operate as a national securities exchange, registered with the SEC.

As a result of the demutualization, CHX Holdings was authorized to issue 750,000 shares of common stock with a par value of \$.01 per share and 25,000 shares of preferred stock with a par value of \$.01 per share. On the Effective Date, each former member-owner of CHX received 1,000 shares of common stock for each membership that the former member or other person owned as of the Effective Date. CHX Holdings issued 450,000 shares of its common stock because CHX had 450 outstanding memberships on the Effective Date. The remaining 300,000 shares of common stock and all of the authorized preferred shares were available for possible future issuance.

CHX Holdings common stock is a restricted security under the Securities Act of 1933 and is subject to specific ownership, voting and transfer restrictions. Subject to applicable limitations under Delaware law, holders of CHX Holdings common stock are entitled to receive such dividends or other distributions as may be declared by the Board of Directors out of funds legally available for those purposes. As long as the only business of CHX Holdings consists of owning CHX, the only source of funds for dividends would be distributions received from CHX.

As a result of demutualization, trading privileges on CHX are represented by trading permits issued to qualified persons for a periodic fee. All qualified trading members of CHX in good standing immediately prior to the demutualization were given the opportunity to obtain trading permits, and CHX is authorized to issue additional trading permits to individuals who seek membership and trading privileges.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Exchange's financial instruments included in cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of their short-term nature.

The estimated fair value of investment securities held to maturity is based on quoted market prices. The fair value of investment securities was \$10,085,000 and \$14,881,000 at December 31, 2006 and 2005, respectively.

15. SUBSEQUENT EVENTS

In March 2007, the Board of Directors of Holdings voted to approve a plan to terminate the CHX defined benefits pension plan effective May 31, 2007. Management has not completed its assessment of the impact the termination will have on the Exchange's consolidated financial position or results of operations.