

CHX Holdings, Inc. And Subsidiary

Consolidated Financial Statements for the Years
Ended December 31, 2007 and 2006 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, 2007 and 2006 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, 2007 and 2006, 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

April 22, 2008

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,488,000	\$ 19,108,000
Investment securities	-	10,086,000
Accounts receivable (net)	2,715,000	4,542,000
Prepaid expenses	833,000	839,000
Prepaid pension	1,428,000	-
Other current assets	56,000	127,000
<i>Total current assets</i>	<u>22,520,000</u>	<u>34,702,000</u>
Equipment, leasehold improvements, software and other capitalized costs (net)	13,802,000	13,775,000
Prepaid pension	-	6,149,000
Other noncurrent assets	43,000	38,000
<i>Total assets</i>	<u>\$ 36,365,000</u>	<u>\$ 54,664,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Section 31 fees payable	\$ 2,098,000	\$ 6,121,000
Other accounts payable	323,000	677,000
Accrued compensation	1,974,000	624,000
Other current liabilities	3,120,000	3,468,000
<i>Total current liabilities</i>	<u>7,515,000</u>	<u>10,890,000</u>
Noncurrent liabilities	<u>10,868,000</u>	<u>9,981,000</u>
<i>Total liabilities</i>	<u>18,383,000</u>	<u>20,871,000</u>
Shareholders' equity		
Preferred stock, \$0.01 par value, 25,000 shares authorized; 3,563 shares authorized and 2,250 shares of Series A convertible stock, convertible into 225,000 shares of common stock, issued and outstanding with warrants contingently convertible into 600 shares of Series A convertible preferred stock; warrants expired in September 2007; aggregate liquidation preference of \$20.0 million	18,328,000	18,328,000
Common stock, \$0.01 par value, 900,000 shares authorized; 450,000 shares issued and outstanding	5,000	5,000
Additional paid-in-capital	23,705,000	23,705,000
Accumulated other comprehensive loss	(914,000)	(226,000)
Accumulated deficit	(23,142,000)	(8,019,000)
<i>Total shareholders' equity</i>	<u>17,982,000</u>	<u>33,793,000</u>
<i>Total liabilities and shareholders' equity</i>	<u>\$ 36,365,000</u>	<u>\$ 54,664,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Operations
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Transaction fees (net of institutional broker credits of \$2,832,000 and \$2,909,000)	\$ 14,648,000	\$ 15,775,000
Participant services and fees	4,420,000	9,224,000
Market data fees, (net of specialist credits of \$13,000 and \$934,000)	1,730,000	1,370,000
Trading permit fees	1,186,000	1,555,000
Listing fees	414,000	565,000
Interest	1,147,000	1,080,000
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<i>Total revenues</i>	23,545,000	29,569,000
Expenses		
Employee compensation and benefits	14,848,000	15,024,000
Qualified pension plan	4,721,000	(910,000)
Facilities rent, maintenance and utilities	4,897,000	4,654,000
Professional and other outside services	4,615,000	4,053,000
Communications, equipment and related costs (net of telephone rebills of \$178,000 and \$426,000)	4,001,000	5,468,000
Depreciation and amortization	3,794,000	5,240,000
General and administrative	1,788,000	1,659,000
Gain on excess leased space	-	(547,000)
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<i>Total expenses</i>	38,664,000	34,641,000
Loss before income taxes	(15,119,000)	(5,072,000)
Income tax expense (benefit)	4,000	(155,000)
	<hr/>	<hr/>
<i>Net loss</i>	\$ (15,123,000)	\$ (4,917,000)
Minimum pension liability adjustment	116,000	146,000
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<i>Comprehensive loss</i>	<u>\$ (15,007,000)</u>	<u>\$ (4,771,000)</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2007 and 2006

	Preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amount	Shares	Amount				
<i>Balance, January 1, 2006</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
Net loss	-	-	-	-	-	(15,123,000)	-	(15,123,000)
Other comprehensive gain	-	-	-	-	-	-	116,000	116,000
<i>Total comprehensive loss</i>								(15,007,000)
Cumulative effect of adoption of FAS 158	-	-	-	-	-	-	(804,000)	(804,000)
<i>Balance, December 31, 2007</i>	2,250	\$ 18,328,000	450,000	\$ 5,000	\$ 23,705,000	\$ (23,142,000)	\$ (914,000)	\$ 17,982,000

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net loss	\$ (15,123,000)	\$ (4,917,000)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	3,794,000	5,240,000
Amortization of investment securities	(314,000)	(240,000)
Gain on excess leased space	-	(547,000)
Changes in:		
Accounts receivable (net)	1,827,000	449,000
Prepaid expenses	6,000	129,000
Prepaid pension, current	(1,428,000)	-
Other current assets	71,000	84,000
Prepaid pension, noncurrent	6,149,000	(910,000)
Other noncurrent assets	(5,000)	(38,000)
Section 31 fees payable	(4,023,000)	(887,000)
Other accounts payable	(354,000)	(30,000)
Accrued compensation	1,350,000	(207,000)
Other current liabilities	(348,000)	(39,000)
Noncurrent liabilities	199,000	(1,150,000)
	<u>(8,199,000)</u>	<u>(3,063,000)</u>
<i>Net cash flows used in operating activities</i>		
Cash flows from investing activities		
Purchases of investment securities	(12,800,000)	(19,192,000)
Proceeds from maturities of investment securities	23,200,000	24,280,000
Capital expenditures	(3,821,000)	(6,240,000)
	<u>6,579,000</u>	<u>(1,152,000)</u>
<i>Net cash flows from (used in) investing activities</i>		
Cash flows from financing activities		
Proceeds from sale of preferred stock, net	-	18,328,000
	<u>-</u>	<u>18,328,000</u>
<i>Net cash flows from financing activities</i>		
Net change in cash and cash equivalents	(1,620,000)	14,113,000
Cash and cash equivalents, beginning of year	19,108,000	4,995,000
<i>Cash and cash equivalents, end of year</i>	<u>\$ 17,488,000</u>	<u>\$ 19,108,000</u>
Supplemental disclosures		
Cash paid during the year for income taxes	<u>\$ 2,000</u>	<u>\$ -</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

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.

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 has continued to incur significant losses of \$15,007,000 and \$4,771,000 for the years ended December 31, 2007 and 2006, respectively. In 2005 the Exchange 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 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. In accordance with the plan, in 2006 and 2007, the Exchange incurred approximately \$5,261,000 and \$2,597,000, respectively, of additional capital expenditures related to the new trading model. CHX completed the conversion to the new trading model in January 2007 and will continue to upgrade the new trading model as necessary. The Exchange has budgeted approximately \$912,000 of additional capital expenditures for upgrades to the new trading model in 2008.

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 also

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION continued

secured 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.

Management continues to explore and implement cost savings measures and continues to make efforts to conserve cash. In 2008, management hired an investment banker to assist in considering financial and strategic alternatives.

Management believes that the cash and cash equivalents balances available at December 31, 2007 are sufficient to fund the operations and investments of the Exchange during 2008.

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. The Exchange held no investment securities at December 31, 2007.

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 internally developed 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.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

Revenue Recognition — *Transaction fees* are imposed on certain trades executed on CHX and are recorded as of the trade date. Institutional brokers earn a monthly transaction fee credit based upon a formula that incorporates the total number of shares executed on CHX by the institutional broker for which CHX received a transaction fee. *Liquidity fees* and rebates are imposed on trades executed in the CHX matching system. Fees are charged if liquidity is taken from the matching system and rebates are credited if liquidity is provided to the matching system. Such fees and rebates are included in transaction fees on the consolidated statements of operations. *Participant services and fees* consist principally of fixed fees which were based upon assigned stocks and charged to specialists through January 2007, purchases of services by CHX and rebilled to participants, connectivity fees, 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, through January 2007, earned 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.

Reclassifications – Certain reclassifications have been made of prior year amounts to conform to current year presentation.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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. On February 1, 2008, FASB staff position (“FSP”) FIN 48-2 was issued deferring implementation of FIN 48 for non-public companies to fiscal years beginning after December 15, 2007. FIN 48 is effective for the Exchange as of January 1, 2008. The adoption of FIN 48 is not expected to have a material impact 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.

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 fiscal periods beginning after November 15, 2007. The Exchange does not intend to adopt Statement No. 159.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

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. The Exchange held no investment securities at December 31, 2007. Investment securities consisted of the following at December 31, 2006:

	<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>

4. ACCOUNTS RECEIVABLE (NET)

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

	<u>2007</u>	<u>2006</u>
Receivables from participants	\$2,190,000	\$3,681,000
Market data fees receivable	281,000	531,000
Income taxes receivable	28,000	31,000
Other receivables	<u>374,000</u>	<u>433,000</u>
Subtotal	2,873,000	4,676,000
Allowance	<u>(158,000)</u>	<u>(134,000)</u>
<i>Total</i>	<u>\$2,715,000</u>	<u>\$4,542,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

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>2007</u>	<u>2006</u>
Equipment and office furnishings	\$ 5,869,000	\$ 6,680,000
Leasehold improvements	6,758,000	6,597,000
Software and other capitalized costs	<u>14,138,000</u>	<u>13,628,000</u>
	26,765,000	26,905,000
Less accumulated depreciation and amortization	<u>(12,963,000)</u>	<u>(13,130,000)</u>
<i>Total</i>	<u>\$13,802,000</u>	<u>\$13,775,000</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.

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 was recognized in 2007.

The Exchange capitalized costs for computer software development in the amounts of \$2,006,000 and \$5,474,000 for the years ended December 31, 2007 and 2006, respectively. Amortization expense for computer software development was \$1,941,000 and \$2,672,000 for 2007 and 2006, respectively. For the years 2008 through 2012, the remaining estimated total amortization expense will be approximately \$7,642,000.

6. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Other payables	\$1,198,000	\$ 202,000
Accrued retiree benefits	454,000	416,000
Accrued rent	264,000	983,000
Accrued severance payable	-	54,000
Accrued operating expenses	<u>1,204,000</u>	<u>1,813,000</u>
<i>Total</i>	<u>\$3,120,000</u>	<u>\$3,468,000</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

6. OTHER CURRENT LIABILITIES continued

The Exchange incurred severance costs related to the elimination of certain officer and staff positions of \$0 and \$1,019,000 during 2007 and 2006, 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 consolidated statement of operations. Severance in the amounts of \$0 and \$54,000 remain unpaid at December 31, 2007 and 2006, 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 entitled 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. Since the probability of the attainment of the contingencies associated with the warrants was not reasonably estimable, no value was allocated to them. The warrants expired in September 2007.

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.

During 2007 and 2006 no dividends were declared or paid on the Series A Preferred.

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

7. SHAREHOLDERS' EQUITY continued

Common Stock – In July 2006, as part of a strategic transaction, an additional 150,000 shares of \$.01 par value common stock were authorized. As a result, 900,000 shares of common stock were authorized and 450,000 shares were outstanding at December 31, 2007 and 2006. 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.

During 2007 and 2006 no dividends were declared or paid on the common stock.

8. CONTINGENCIES

The Exchange has resolved one or more claims incidental to its business and the amounts associated with those resolutions are included in professional and other outside services in the consolidated statements of operations.

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.

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, 2007 and 2006

9. INCOME TAXES

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

	<u>2007</u>	<u>2006</u>
Current:		
Federal	\$ -	\$(155,000)
State	<u>4,000</u>	<u>-</u>
Total	<u>4,000</u>	<u>(155,000)</u>
Deferred:		
Federal	-	-
State	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>
<i>Income tax expense (benefit)</i>	<u>\$4,000</u>	<u>\$(155,000)</u>

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

	<u>2007</u>	<u>2006</u>
Federal income tax benefit, at statutory rate of 34 percent	\$(5,141,000)	\$(1,725,000)
State income tax expense, net of federal tax effect	3,000	-
True up of prior year taxes	-	(1,000)
Valuation and reserve adjustments	5,134,000	1,562,000
Nondeductible expenses	<u>8,000</u>	<u>9,000</u>
<i>Income tax expense (benefit)</i>	<u>\$ 4,000</u>	<u>\$(155,000)</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

9. INCOME TAXES continued

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

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Current:		
Accrued rent	\$ 5,000	\$280,000
Accrued vacation	20,000	45,000
Other	<u>366,000</u>	<u>293,000</u>
Total current	<u>391,000</u>	<u>618,000</u>
Noncurrent:		
Pension and FAS106 accruals	2,294,000	2,554,000
Net operating loss carryforward	14,055,000	8,264,000
AMT credit carryforward	91,000	91,000
Charitable contribution carryforward	11,000	11,000
Other	<u>748,000</u>	<u>744,000</u>
Total noncurrent	<u>17,199,000</u>	<u>11,664,000</u>
Sub-total	17,590,000	12,282,000
Valuation allowance	<u>(14,932,000)</u>	<u>(9,374,000)</u>
<i>Total deferred tax assets</i>	<u>2,658,000</u>	<u>2,908,000</u>
Deferred tax liabilities		
Current:		
Prepaid expenses	(248,000)	(315,000)
Noncurrent:		
Basis difference in fixed assets	<u>(2,410,000)</u>	<u>(2,593,000)</u>
<i>Total deferred tax liabilities</i>	<u>(2,658,000)</u>	<u>(2,908,000)</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, 2007 and 2006 all of the net deferred tax assets will not be recognized and will not provide a consolidated financial statement benefit in the future. As a result, during the year ended December 31, 2007, the Exchange increased the deferred tax asset valuation allowance by \$5,558,000. 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 \$14,932,000 and \$9,374,000 at December 31, 2007 and 2006, respectively, was sufficient to reduce the net deferred tax assets to \$0.

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9. INCOME TAXES continued

At December 31, 2007 the Exchange has federal and state net operating loss carryforwards available for reduction of future income tax liabilities. The gross federal net operating loss carryforwards of \$20,598,000 expire at various dates between 2024 and 2026. The gross state net operating loss carryforwards of \$26,568,000 expire at various dates between 2015 and 2026. The Exchange has additional estimated gross federal and state net operating loss carryforwards for 2007 in the amounts of \$14,946,000 and \$15,051,000, respectively, which will expire at various dates between 2019 and 2027.

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 \$2,846,000 and \$3,001,000 as of December 31, 2007 and 2006, 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.

In March 2007, the Board of Directors of CHX Holdings voted to approve a plan to terminate the qualified defined benefits pension plan effective May 31, 2007. In December 2007, pursuant to the termination of the qualified defined benefits pension plan, the custodian of plan distributed a significant portion of the assets in accordance to the directions of the Plan Administrator and plan participants. Participants who were entitled to future benefits had the option to take an immediate lump sum distribution or annuity, or to receive a deferred annuity upon retirement. Retired participants currently receiving a monthly benefit had annuities purchased for them which will continue their benefit under the same terms and conditions.

The qualified plan had \$1,428,000 of assets remaining at December 31, 2007, after the distribution to participants. The assets are held at Metlife, the custodian of the plan assets, in a separate account. Final disbursements of plan assets are anticipated to be made in 2008 after CHX receives the final Internal Revenue Service determination letter. Approximately \$164,000 of the remaining assets is due to CHX for reimbursement of certain plan expenses. The remaining assets

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10. EMPLOYEE BENEFIT PLANS continued

which are subject to an excise tax revert back to the plan sponsor. CHX, in order to qualify for a reduced excise tax of 20% on the funds reverting back to it, intends to transfer \$325,000 of the assets to a replacement benefit plan. If a transfer of less than 25% is made to a replacement plan the excise tax rate would be 50%. The remaining \$939,000 of plan assets is subject to the 20% excise tax of approximately \$188,000.

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>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$33,061,000	\$34,632,000	\$4,220,000	\$3,944,000
Service cost	-	-	360,000	351,000
Interest cost	1,939,000	1,879,000	298,000	216,000
Plan participants' contributions	-	-	30,000	27,000
Net actuarial loss (gain)	(257,000)	(2,264,000)	734,000	60,000
Benefits paid	(35,055,000)	(1,186,000)	(258,000)	(224,000)
Curtailment gain	-	-	-	(154,000)
Settlement loss	<u>3,158,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Benefit obligation at end of year</i>	<u>\$ 2,846,000</u>	<u>\$33,061,000</u>	<u>\$5,384,000</u>	<u>\$4,220,000</u>

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

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Discount rate	6.50%	6.00%	6.50%	6.00%
Rate of compensation increase	N/A	N/A	N/A	N/A

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10. EMPLOYEE BENEFIT PLANS continued

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Change in Plan Assets:				
Fair value of plan assets at beginning of year	\$34,276,000	\$31,452,000	\$ -	\$ -
Actual return on plan assets	1,993,000	3,788,000	-	-
Employer contribution *	214,000	222,000	228,000	197,000
Plan participants' contributions	-	-	30,000	27,000
Benefits paid	(35,055,000)	(1,186,000)	(258,000)	(224,000)
Fair value of plan assets at end of year	\$ <u>1,428,000</u>	\$ <u>34,276,000</u>	\$ <u>-</u>	\$ <u>-</u>

* Nonqualified defined benefit plan

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
Funded status at December 31	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Funded status	\$(1,418,000)	\$1,215,000	\$(5,384,000)	\$(4,220,000)
Unrecognized net actuarial loss	<u>-</u>	<u>2,159,000</u>	<u>-</u>	<u>109,000</u>
<i>Net amount recognized</i>	\$ <u>(1,418,000)</u>	\$ <u>3,374,000</u>	\$ <u>(5,384,000)</u>	\$ <u>(4,111,000)</u>

Amounts recognized in the consolidated balance sheets consist of:

	<u>Pension Plans</u>	<u>Retiree Medical Plan</u>
	<u>2007</u>	<u>2007</u>
Current assets	\$ 1,428,000	\$ -
Current liabilities	(207,000)	(247,000)
Noncurrent liabilities	(2,639,000)	(5,137,000)
<i>Net amount recognized</i>	\$ <u>(1,418,000)</u>	\$ <u>(5,384,000)</u>

CHX HOLDINGS, INC. AND SUBSIDIARY
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10. EMPLOYEE BENEFIT PLANS continued

Amounts recognized in the consolidated balance sheets consist of:

	<u>Pension Plans</u> <u>2006</u>	<u>Retiree Medical Plan</u> <u>2006</u>
Prepaid benefit cost	\$6,149,000	\$ -
Accrued benefit liability	(3,001,000)	(4,111,000)
Accumulated other comprehensive income	<u>226,000</u>	<u>-</u>
<i>Net amount recognized</i>	<u>\$3,374,000</u>	<u>\$(4,111,000)</u>

Amounts recognized in accumulated other comprehensive income consist of:

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net actuarial gain	\$ <u>116,000</u> *	\$ <u>226,000</u> *	\$ -	\$ -
<i>Net amount recognized</i>	<u>\$116,000</u>	<u>\$226,000</u>	<u>\$ -</u>	<u>\$ -</u>

* Nonqualified defined benefit plan

The accumulated benefit obligation for all defined benefit pension plans was \$2,846,000 and \$33,061,000 at December 31, 2007 and 2006, respectively. Information for the nonqualified pension plan which had an accumulated benefit obligation in excess of plan assets at December 31 is as follows:

	<u>Pension Plan</u>	
	<u>2007</u>	<u>2006</u>
Projected benefit obligation	\$2,846,000	\$3,001,000
Accumulated benefit obligations	\$2,846,000	\$3,001,000
Fair value of plan assets	-	-

CHX HOLDINGS, INC. AND SUBSIDIARY
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10. EMPLOYEE BENEFIT PLANS continued

Components of Net Periodic Benefit Cost

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ -	\$ -	\$360,000	\$351,000
Interest cost	1,939,000	1,880,000	298,000	216,000
Expected return on plan assets	(2,709,000)	(2,712,000)	-	-
Recognized net actuarial loss	<u>-</u>	<u>97,000</u>	<u>38,000</u>	<u>-</u>
<i>Net periodic benefit cost</i>	<u>\$ (770,000)</u>	<u>\$ (735,000)</u>	<u>\$696,000</u>	<u>\$567,000</u>

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

	<u>Nonqualified Pension Plan</u>	<u>Retiree Medical Plan</u>
2008	\$214,000	\$255,000
2009	235,000	270,000
2010	232,000	279,000
2011	233,000	300,000
2012	232,000	334,000
Years 2013 – 2017	1,170,000	2,162,000

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

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	5.50%	6.00%	5.50%
Expected long-term return on plan assets	8.25%	8.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

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10. EMPLOYEE BENEFIT PLANS continued

Assumed health care cost trend rates at December 31:

	<u>2007</u>	<u>2006</u>
Health care cost trend rates assumed for next year	10.00%	10.00%
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	2013	2012

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	\$124,000	\$(100,000)
Effect on post retirement benefit obligation	\$762,000	\$(638,000)

Plan Assets

The CHX's pension plan weighted – average asset allocation ranges at December 31, 2007 and 2006, by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets at December 31</u>	
	<u>2007</u>	<u>2006</u>
Equities	-	50.0% - 80.0%
Fixed income	-	20.0% - 40.0%
Cash equivalents	100%	0.0% - 10.0%

The 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.

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10. EMPLOYEE BENEFIT PLANS 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)* ("FAS 158"). SFAS 158 requires an employer to recognize the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. The Exchange adopted the recognition and related disclosure provisions of SFAS 158 on December 31, 2007.

The cumulative effect of applying Statement 158 to the Retiree Medical Plan on the consolidated statement of financial condition at December 31, 2007 was as follows:

	<u>Before SFAS 158 Adoption</u>	<u>Adjustments</u>	<u>After SFAS 158 Adoption</u>
Retiree Medical Plan Liability	\$4,580,000	\$804,000	\$5,384,000
Accumulated Other Comprehensive Loss	\$ -	\$804,000	\$ 804,000

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 \$211,000 and \$270,000 for 2007 and 2006, respectively.

The Exchange also has future obligations under deferred compensation agreements with certain executives, which vest in three years or annually, pursuant to the respective plans, and are unfunded. One agreement vests in three years and is fully vested and terminates in January 2008 upon payment of the award. The remaining agreements vest and are paid pro rata annually over a four year period and terminate in January 2011. The agreements vest pro rata on January 1, provided that the employee remains continuously employed through the vesting date. Amounts accrued under these agreements total approximately \$177,000 and \$74,000 as of December 31, 2007 and 2006, respectively, and are included in accrued compensation in 2007 and accrued compensation and noncurrent liabilities in 2006.

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Notes to Consolidated Financial Statements
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10. EMPLOYEE BENEFIT PLANS continued

Amounts reflected in employee compensation and benefits expense in the consolidated statements of operations under these agreements in 2007 and 2006 were \$135,000 and 33,000, respectively. In the event that CHX Holdings implements an equity based compensation plan pursuant to which CHX Holdings is authorized to grant restricted shares of stock to key employees, CHX Holdings may elect to convert any unvested portion of the deferred compensation into restricted shares of stock. (See discussion below).

In October 2007, the Board of Directors of CHX Holdings approved the CHX Holdings Long Term Incentive Plan ("LTIP"). An aggregate of 1,050 shares of Series B Convertible Preferred Stock ("Series B") would be available for awards under the plan, which may be granted in the form of nonqualified stock options, restricted stock, restricted stock units and bonus stock. Awards may vest based on continued service, satisfaction of performance goals, or both service and performance. The Series B was designed to act as a common stock equivalent. Each share of Series B may be converted into 100 shares of common stock by a majority vote of the Board of Directors. The Compensation Committee of the Board or the Board may select eligible persons to receive awards and determine the form, amount and timing of each award and all other terms and conditions of each award, including the number of shares subject to the award and the vesting period and applicable performance goals. Upon a change in control of CHX, the Board, in its discretion, may (i) cause some or all outstanding awards to become fully vested and/or exercisable, (ii) cause outstanding awards to be converted into awards relating to the stock of CHX resulting from the transaction (or CHX Holdings), with or without accelerated vesting, or (iii) cause all outstanding awards, with or without accelerated vesting, to be cancelled in exchange for a cash payment equal to, in the case of an option, the intrinsic value, at the time of the change in control or, in the case of a restricted stock or restricted stock unit award, the value of the award at the time of the change in control. The plan will terminate 10 years after its effective date, unless terminated earlier by the Board.

The Series B Certificate of Designations was approved by the Board conditioned on receipt of approval of at least 55% of the Series A Preferred Stock. As of December 31, 2007 such approval has not been received and the Certificate of Designations has not been filed with the Delaware secretary of state. (See Note 14).

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11. NONCURRENT LIABILITIES

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

	<u>2007</u>	<u>2006</u>
Retiree medical plan	\$5,137,000	\$3,907,000
Nonqualified pension plan	2,639,000	2,789,000
Tenant improvement allowance	1,718,000	1,983,000
Accrued rent	1,374,000	1,260,000
Other	-	<u>42,000</u>
<i>Total</i>	<u>\$10,868,000</u>	<u>\$9,981,000</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. At December 31, 2007 and 2006 the remaining unamortized balance is \$1,982,000 and \$2,246,000, respectively and 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
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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 was surrendered July 1, 2007.

Minimum lease commitments, exclusive of taxes, maintenance and other related costs applicable to existing operating leases, at December 31, 2007 were:

<u>Year</u>	<u>Operating Leases</u>
2008	\$ 3,167,000
2009	3,018,000
2010	2,955,000
2011	2,947,000
2012	3,020,000
Later years	<u>7,875,000</u>
<i>Total</i>	<u>\$22,982,000</u>

Net rent expense for 2007 and 2006 was \$4,692,000 and \$4,046,000, respectively. Rent expense includes taxes, maintenance and other costs related to leased property

13. 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 \$0 and \$10,085,000 at December 31, 2007 and 2006, respectively.

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14. SUBSEQUENT EVENTS

In January 2008, CHX Holdings adopted a sale incentive plan (“SIP”) to compensate four members of management for their efforts in connection with a potential sale of CHX, payable only on completion of such a transaction. SIP compensation is based upon the purchase price of the transaction. The term of the SIP is from January 17, 2008 and could extend to no later than December 31, 2008. No transaction was completed and no SIP awards were made. SIP will be replaced by the LTIP once the holders of Series A Convertible Preferred Stock approve the designation of Series B Convertible Preferred Stock, as discussed in Note 10 to the consolidated financial statements.

On April 17, 2008, CHX Holdings granted an aggregate of 351.61 shares of restricted Series B Convertible Preferred Stock (“Series B”) under CHX Holdings’ LTIP, subject to approval of the designation of Series B Convertible Preferred Stock by the holders of Series A Convertible Preferred Stock. Such approval has not been received. (For purposes of awarding Series B shares, the CHX Holdings Board of Directors assigned a value of \$7,600 per share (unaudited) which is based on a valuation of CHX Holdings as of May 1, 2007, provided by a third party and on other factors reviewed by management with the Board of Directors.) Such number of shares includes shares which may be issued upon conversion of certain deferred compensation into restricted stock. The 351.61 shares are convertible into 35,161 shares of common stock. (See Note 10). One-third of the restricted shares may become vested on each of December 31, 2008, December 31, 2009 and December 31, 2010, provided the restricted stockholder remains continuously employed through the applicable vesting date and that CHX Holdings meets certain cash thresholds. The employees are responsible for all required federal and state withholding taxes and may require CHX Holdings to withhold shares of stock equal to the required tax payments.

On April 17, 2008, CHX Holdings granted cash bonus awards in the amount of \$190,000 to two employees, subject to the terms of an Incentive Bonus Agreement. One-third of the award will vest on each of December 31, 2008, December 31, 2009 and December 31, 2010, provided each employee remains continuously employed through the applicable vesting date. The employees are responsible for all required federal and state withholding taxes.