

CHX Holdings, Inc. and Subsidiary

Consolidated Financial Statements for the
Years Ended December 31, 2008 and 2007, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of CHX Holdings, Inc.
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of CHX Holdings, Inc. and subsidiary (the "Exchange") as of December 31, 2008 and 2007, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 11, 2009

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,906,000	\$ 17,488,000
Accounts receivable - net	3,240,000	2,715,000
Prepaid expenses	1,112,000	833,000
Prepaid pension	-	1,428,000
Other current assets	<u>20,000</u>	<u>56,000</u>
<i>Total current assets</i>	11,278,000	22,520,000
Equipment, leasehold improvements, software, and other capitalized costs - net	11,154,000	13,802,000
Other noncurrent assets	<u>59,000</u>	<u>43,000</u>
<i>Total assets</i>	<u>\$ 22,491,000</u>	<u>\$ 36,365,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Section 31 fees payable	\$ 932,000	\$ 2,098,000
Other accounts payable	108,000	323,000
Accrued compensation	682,000	1,974,000
Other current liabilities	<u>2,490,000</u>	<u>3,120,000</u>
<i>Total current liabilities</i>	4,212,000	7,515,000
Noncurrent liabilities	<u>5,632,000</u>	<u>10,868,000</u>
<i>Total liabilities</i>	<u>9,844,000</u>	<u>18,383,000</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
1,500 shares authorized and 267.38 shares of Series B convertible stock, convertible into 26,378 shares of common stock, issued and outstanding at December 31, 2008	-	-
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 deficit	(28,901,000)	(23,142,000)
Accumulated other comprehensive loss	<u>(490,000)</u>	<u>(914,000)</u>
<i>Total shareholders' equity</i>	<u>12,647,000</u>	<u>17,982,000</u>
<i>Total liabilities and shareholders' equity</i>	<u>\$ 22,491,000</u>	<u>\$ 36,365,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Revenues:		
Transaction fees — net of institutional broker credits of \$2,416,000 and \$2,832,000	\$ 14,520,000	\$ 14,648,000
Participant services and fees	4,165,000	4,420,000
Market data fees — net of specialist credits of \$0 and \$13,000	1,443,000	1,730,000
Trading permit fees	1,092,000	1,186,000
Listing fees	314,000	414,000
Interest	<u>279,000</u>	<u>1,147,000</u>
<i>Total revenues</i>	<u>21,813,000</u>	<u>23,545,000</u>
Expenses:		
Employee compensation and benefits	13,265,000	14,848,000
Qualified pension plan	201,000	4,721,000
Facilities rent, maintenance, and utilities	5,273,000	4,897,000
Professional and other outside services	3,876,000	4,615,000
Communications, equipment, and related costs	3,862,000	4,001,000
Depreciation and amortization	3,695,000	3,794,000
General and administrative	1,315,000	1,788,000
Write off of other capitalized costs	419,000	-
Retiree medical plan termination	<u>(4,335,000)</u>	<u>-</u>
<i>Total expenses</i>	<u>27,571,000</u>	<u>38,664,000</u>
Loss before income taxes	(5,758,000)	(15,119,000)
Income tax expense	<u>1,000</u>	<u>4,000</u>
<i>Net loss</i>	(5,759,000)	(15,123,000)
Minimum pension liability adjustment	<u>424,000</u>	<u>116,000</u>
<i>Comprehensive loss</i>	<u><u>\$ (5,335,000)</u></u>	<u><u>\$ (15,007,000)</u></u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>Balance, January 1, 2007</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
Issuance of Series B Preferred Stock	-	-	267	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(5,759,000)	-	(5,759,000)
Other comprehensive gain	-	-	-	-	-	-	-	-	424,000	424,000
<i>Total comprehensive loss</i>										(5,335,000)
<i>Balance, December 31, 2008</i>	2,250	\$ 18,328,000	267	\$ -	450,000	\$ 5,000	\$ 23,705,000	\$ (28,901,000)	\$ (490,000)	\$ 12,647,000

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Net loss	\$ (5,759,000)	\$ (15,123,000)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Write off of other capitalized costs	419,000	-
Depreciation and amortization	3,695,000	3,794,000
Amortization of investment securities	-	(314,000)
Changes in:		
Accounts receivable — net	(525,000)	1,827,000
Prepaid expenses	(279,000)	6,000
Prepaid pension — current	1,428,000	(1,428,000)
Other current assets	36,000	71,000
Prepaid pension — noncurrent	-	6,149,000
Other noncurrent assets	(16,000)	(5,000)
Section 31 fees payable	(1,166,000)	(4,023,000)
Other accounts payable	(215,000)	(354,000)
Accrued compensation	(1,292,000)	1,350,000
Other current liabilities	(630,000)	(348,000)
Noncurrent liabilities	<u>(4,812,000)</u>	<u>199,000</u>
<i>Net cash flows used in operating activities</i>	<u>(9,116,000)</u>	<u>(8,199,000)</u>
Cash flows from investing activities:		
Purchases of investment securities	-	(12,800,000)
Proceeds from maturities of investment securities	-	23,200,000
Capital expenditures	<u>(1,466,000)</u>	<u>(3,821,000)</u>
<i>Net cash flows from (used in) investing activities</i>	<u>(1,466,000)</u>	<u>6,579,000</u>
Net change in cash and cash equivalents	(10,582,000)	(1,620,000)
Cash and cash equivalents, beginning of year	<u>17,488,000</u>	<u>19,108,000</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 6,906,000</u>	<u>\$ 17,488,000</u>
Supplemental disclosures		
Cash paid during the year for income taxes	<u>\$ 1,000</u>	<u>\$ 2,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF THE BUSINESS

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.

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., which was subsequently acquired by JPMorganChase, Inc.; E*Trade Capital Markets Execution Services, LLC; and The Goldman Sachs Group, Inc. (collectively, 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.

2. BASIS OF PRESENTATION

As shown in the consolidated financial statements, the Exchange has continued to incur significant losses of \$5,335,000 and \$15,007,000 for the years ended December 31, 2008 and 2007, respectively, which had a significant negative impact on its cash position. In addition, the Exchange, in order to remain competitive, incurred approximately \$10,348,000 of capital expenditures through December 31, 2008 related to building and improving its electronic matching system. CHX completed the conversion to the new electronic matching system in January 2007 and will continue to upgrade the system as necessary. The Exchange has budgeted less than \$100,000 of additional capital expenditures for upgrades to the new electronic matching system in 2009.

In 2008, management hired an investment banker to assist in considering financial and strategic alternatives. Management also continued to reduce expenses through a 14% reduction in headcount. The Exchange realized additional savings from cost cutting efforts in professional and other outside services and general and administrative expenses. The Exchange also terminated its retiree medical plan which will provide future savings and received \$1.2 million from the termination of its pension plan, of which \$333,000 will be used to make non-elective contributions to the savings plan. As a result of the pension plan termination, the Exchange paid \$190,000 to pay certain nonqualified defined benefit pension plan participants lump sum distributions. See Note 10.

In 2009, the Exchange initiated additional expense saving initiatives including, in the aggregate, an average 11% salary reduction effective in March 2009, and a headcount reduction to reduce employee compensation and benefits expense by approximately \$1,500,000 annualized effective May 2009. In March 2009, the Exchange amended its December 2000 restated lease, as further discussed in Note 14.

Management continues to explore and implement cost savings measures and other efforts to conserve cash. Management believes that the cash and cash equivalents balances available at December 31, 2008, are sufficient to fund the operations and investments of the Exchange during 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation— All CHX Holdings and CHX intercompany balances and transactions have been eliminated in consolidation.

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.

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.

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 floor 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 in the consolidated statements of operations. *Participant services and fees* consist principally of purchases of services by CHX and rebilled to participants, connectivity fees, trading space rent, clearing 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual amounts realized may differ from those estimates.

Fair Value Measurements — In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 did not have a material impact on the Exchange's consolidated financial position or results of operations. All financial instruments are Level 1 assets and represent fair value.

Fair Value Option — 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.

New Accounting Pronouncements — In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* (FIN 48). FIN 48 provides clarification of FASB 109 *Accounting for Income Taxes*, with respect to the recognition of income tax benefits of uncertain income tax positions in the consolidated financial statements. FIN 48 requires uncertain income tax positions to be reviewed and assessed with recognition and measurement of the income tax benefit related to such uncertain income tax position on a "more likely than not" standard. Income tax benefits of uncertain income tax positions taken on income tax returns which do not qualify for consolidated financial statement recognition are required to be disclosed in the consolidated financial statements. FIN 48 also provides guidance on derecognition, classification, interest, and penalties, disclosure, and transition. On December 30, 2008, FASB staff position (FSP) FIN 48-3 was issued deferring implementation of FIN 48 for non-public companies to fiscal years beginning after December 15, 2008. In accordance with FIN 48-3, the Exchange has elected to defer the implementation of FIN 48 until January 1, 2009. The Exchange currently uses FASB Statement No. 5, *Accounting for Contingencies* for evaluating uncertain tax positions. 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 May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (Statement No. 162). Statement No. 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements for nongovernmental entities in conformity with generally accepted accounting principles. Management does not expect this pronouncement to have a material impact on the Exchange's consolidated financial statements.

4. ACCOUNTS RECEIVABLE — NET

Accounts receivable — net consisted of the following at December 31:

	2008	2007
Receivables from participants	\$2,655,000	\$ 2,190,000
Market data fees receivable	235,000	281,000
Income taxes receivable	28,000	28,000
Other receivables	<u>437,000</u>	<u>374,000</u>
Subtotal	3,355,000	2,873,000
Allowance	<u>(115,000)</u>	<u>(158,000)</u>
Total	<u>\$3,240,000</u>	<u>\$ 2,715,000</u>

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

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

	2008	2007
Equipment and office furnishings	\$ 5,154,000	\$ 5,869,000
Leasehold improvements	6,721,000	6,758,000
Software and other capitalized costs	<u>10,813,000</u>	<u>14,138,000</u>
	22,688,000	26,765,000
Less accumulated depreciation and amortization	<u>(11,534,000)</u>	<u>(12,963,000)</u>
Total	<u>\$ 11,154,000</u>	<u>\$ 13,802,000</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.

The Exchange capitalized costs for computer software development in the amounts of \$325,000 and \$2,006,000 for the years ended December 31, 2008 and 2007, respectively. Amortization expense for computer software development was \$2,255,000 and \$1,941,000 for 2008 and 2007, respectively. For the years 2009 through 2013, the remaining estimated total amortization expense will be approximately \$5,712,000.

In 2008, CHX wrote off \$419,000 external and internal costs specifically identified to the implementation of new systems and certain payroll-related costs for employees directly associated with the development of computer software for internal use.

6. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

	2008	2007
Credits to participants and other payables	\$ 1,201,000	\$ 1,198,000
Accrued operating expenses	758,000	1,204,000
Tenant improvement allowance (Note 12)	264,000	264,000
Accrued retiree benefits	247,000	454,000
Accrued rent	20,000	-
	<u>2,490,000</u>	<u>3,120,000</u>
Total	<u>\$ 2,490,000</u>	<u>\$ 3,120,000</u>

7. SHAREHOLDERS' EQUITY

Preferred Stock and Warrants — CHX Holdings has authorized 25,000 shares of \$.01 par value preferred stock.

Series A - 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 could have vested at a time that CHX Holdings issued 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 2008 and 2007, no dividends were declared or paid on the Series A Preferred.

Series B - In October 2007, the Board of Directors of CHX Holdings, as part of the CHX Holdings Long Term Incentive Plan ("LTIP"), authorized the designation of 1,500 shares of preferred stock as Series B Convertible Preferred Stock. An aggregate of 1,050 shares 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 Convertible Preferred Stock was designed to act as a common stock equivalent. Each share 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

7. SHAREHOLDERS' EQUITY (continued)

Holdings), with or without accelerated vesting; or (iii) cause all outstanding awards, with or without accelerated vesting, to be canceled 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. In June 2008, the Series A Preferred stockholders approved the LTIP and the Certificate of Designations was filed with the Delaware secretary of state.

In April 2008, CHX Holdings granted, conditioned upon Series A Preferred stockholders approval, an aggregate of 351.61 shares of restricted Series B Convertible Preferred Stock under the LTIP. 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. During 2008, 94.23 shares were canceled as a result of employee terminations and an additional 10 shares were granted. There were 267.38 shares of Series B Preferred stock issued and outstanding as of December 31, 2008, and none of the shares were vested. During 2008, no dividends were declared or paid on the Series B Preferred Stock.

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, 2008 and 2007. 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 2008 and 2007, no dividends were declared or paid on the common stock.

8. CONTINGENCIES

From time to time, the Exchange is involved in litigation that is incidental to its business. Management is not aware of any ongoing litigation involving CHX.

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. The SEC and CHX were currently 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.

On March 4, 2009, the SEC announced that it had settled civil injunctive actions against six of the former CHX specialist firms that were being investigated. While the SEC's investigation continues with respect to certain other firms, the recent settlements cover the majority of the trading activity that was the subject of the investigation. CHX management is not aware of any pending or threatened litigation related to this matter that would have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Exchange.

9. INCOME TAXES

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

	2008	2007
Current:		
Federal	\$ -	\$ -
State	<u>1,000</u>	<u>4,000</u>
Total	<u>1,000</u>	<u>4,000</u>
Deferred:		
Federal	-	-
State	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 1,000</u>	<u>\$ 4,000</u>

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

	2008	2007
Federal income tax benefit — at statutory rate of 34%	\$(1,958,000)	\$ (5,141,000)
State income tax expense — net of federal tax effect	1,000	3,000
Valuation and reserve adjustments	1,947,000	5,134,000
Nondeductible expenses	<u>11,000</u>	<u>8,000</u>
Income tax expense	<u>\$ 1,000</u>	<u>\$ 4,000</u>

9. INCOME TAXES (continued)

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

	2008	2007
Deferred tax assets		
Current:		
Accrued professional fees	\$ 85,000	\$ 131,000
Deferred compensation	44,000	68,000
Allowance for bad debts	44,000	61,000
Other	<u>51,000</u>	<u>131,000</u>
Total current	224,000	391,000
Noncurrent:		
Pension and FAS 106 accruals	1,168,000	2,294,000
Net operating loss carryforward	16,882,000	14,055,000
AMT credit carryforward	91,000	91,000
Charitable contribution carryforward	5,000	11,000
Other	<u>1,292,000</u>	<u>748,000</u>
Total noncurrent	<u>19,438,000</u>	<u>17,199,000</u>
Subtotal	19,662,000	17,590,000
Valuation allowance	<u>(17,778,000)</u>	<u>(14,932,000)</u>
Total deferred tax assets	<u>1,884,000</u>	<u>2,658,000</u>
Deferred tax liabilities:		
Current:		
Prepaid expenses	(259,000)	(248,000)
Noncurrent:		
Basis difference in fixed assets	<u>(1,625,000)</u>	<u>(2,410,000)</u>
Total deferred tax liabilities	<u>(1,884,000)</u>	<u>(2,658,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The Exchange believes that it is more likely than not that as of December 31, 2008 and 2007, all of the net deferred tax assets will not be recognized and will not provide a consolidated 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 \$17,778,000 and \$14,932,000 at December 31, 2008 and 2007, respectively, was sufficient to reduce the net deferred tax assets to zero.

At December 31, 2008, 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 \$33,968,000 expire at various dates between 2024 and 2027. The gross state net operating loss carryforwards of \$41,136,000 expire at various dates between 2015 and 2027. The Exchange has additional estimated gross federal and state net operating loss carryforwards for 2008 in the amounts of \$8,662,000 and \$8,684,000, respectively, which will expire at various dates between 2020 and 2028.

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 \$3,022,000 and \$2,846,000 as of December 31, 2008 and 2007, respectively, is unfunded. In September 2004, the Exchange froze the future benefit accruals for the 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*.

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 substantially all 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 who were receiving a monthly benefit had annuities purchased for them which continued their benefit under the same terms and conditions.

At December 31, 2007, the qualified plan had \$1,428,000 of assets remaining after the distribution to participants. The assets were held at MetLife, the custodian of the plan assets, in a separate account. In June 2008, CHX received the final Internal Revenue Service determination letter and subsequently made the final plan disbursements. Approximately \$39,000 of the remaining assets was paid to participants and approximately \$220,000 was paid to CHX for reimbursement of certain plan expenses. The remaining assets which were subject to an excise tax reverted back to the plan sponsor. CHX, in order to qualify for a reduced excise tax of 20% on the funds reverting back to it, transferred \$333,000 of the assets to a replacement benefit plan (if a transfer of less than 25% was made to a replacement plan, the excise tax rate would have been 50%). The remaining \$836,000 which was paid to CHX was subject to the 20% excise tax of approximately \$167,000. In 2009, CHX received a \$62,000 premium adjustment related to annuities purchased for certain plan participants. The premium adjustment was subject to the 20% excise tax of approximately \$12,000.

In July 2008, the Board of Directors approved the termination of the retiree medical plan for current employees and retirees and offered an "access only" option effective January 1, 2009, to current covered individuals who pay the full premium cost for benefits. As a result, the accumulated postretirement benefit obligation was reduced to zero at December 31, 2008.

10. EMPLOYEE BENEFIT PLANS (continued)

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>	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 2,846,000	\$ 33,061,000	\$ 5,384,000	\$ 4,220,000
Service cost	-	-	190,000	360,000
Interest cost	190,000	1,939,000	254,000	298,000
Plan participants' contributions	-	-	30,000	30,000
Net actuarial loss (gain)	401,000	(257,000)	-	734,000
Benefits paid	(225,000)	(35,055,000)	(274,000)	(258,000)
Settlement (gain) loss	<u>(190,000)</u>	<u>3,158,000</u>	<u>(5,584,000)</u>	<u>-</u>
Benefit obligation at end of year	<u>\$ 3,022,000</u>	<u>\$ 2,846,000</u>	<u>\$ -</u>	<u>\$ 5,384,000</u>

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

	<u>Pension Plans</u>		<u>Retiree Medical Plan</u>	
	2008	2007	2008	2007
Discount rate	6.25%	6.50%	N/A	6.50%
Rate of compensation increase	N/A	N/A	N/A	N/A

10. EMPLOYEE BENEFIT PLANS (continued)

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 1,428,000	\$ 34,276,000	\$ -	\$ -
Actual return on plan assets	(220,000)	1,993,000	-	-
Employer contribution	415,000	214,000	* 245,000	228,000
Reversion to employer	(898,000)			
Transfer to savings plan	(333,000)			
Plan participants' contributions	-	-	30,000	30,000
Settlements *	(190,000)	-	-	-
Benefits paid	(264,000)	(35,055,000)	(275,000)	(258,000)
Other	62,000	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ 1,428,000</u>	<u>\$ -</u>	<u>\$ -</u>

*Nonqualified defined benefit plan

Funded status at December 31:

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Funded status	\$ (3,022,000)	\$ (1,418,000)	\$ -	\$ (5,384,000)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ (3,022,000)</u>	<u>\$ (1,418,000)</u>	<u>\$ -</u>	<u>\$ (5,384,000)</u>

Amounts recognized in the consolidated balance sheets consist of:

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Current assets	\$ -	\$ 1,428,000	\$ -	\$ -
Noncurrent assets	-	-	-	-
Current liabilities	(247,000)	(207,000)	-	(247,000)
Noncurrent liabilities	<u>(2,775,000)</u>	<u>(2,639,000)</u>	<u>-</u>	<u>(5,137,000)</u>
Net amount recognized	<u>\$ (3,022,000)</u>	<u>\$ (1,418,000)</u>	<u>\$ -</u>	<u>\$ (5,384,000)</u>

10. EMPLOYEE BENEFIT PLANS (continued)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Net actuarial loss (gain)	\$ 380,000 *	\$ (116,000)	\$ (804,000)	\$ 804,000 **
Net amount recognized	\$ 380,000	\$ (116,000)	\$ (804,000)	\$ 804,000

*Nonqualified defined benefit plan

**Adjustment for adoption of 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)*

The accumulated benefit obligation for all defined benefit pension plans was \$3,022,000 and \$2,846,000 at December 31, 2008 and 2007, respectively. Information for the nonqualified pension plan which had an accumulated benefit obligation in excess of plan assets at December 31 is as follows:

	Pension Plan	
	2008	2007
Projected benefit obligation	\$ 3,022,000	\$ 2,846,000
Accumulated benefit obligations	3,022,000	2,846,000
Fair value of plan assets	-	-

Components of net periodic benefit cost:

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Service cost	\$ -	\$ -	\$ 190,000	\$ 360,000
Interest cost	190,000	1,939,000	254,000	298,000
Amortization of prior service cost	-	-	(191,000)	-
Expected return on plan assets	-	(2,709,000)	-	-
Recognized net actuarial loss	-	-	16,000	38,000
Net periodic benefit cost	\$ 190,000	\$ (770,000)	\$ 269,000	\$ 696,000

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

	Nonqualified Pension Plan	Retiree Medical Plan
2009	\$ 254,000	\$ -
2010	251,000	-
2011	257,000	-
2012	253,000	-
2013	249,000	-
Years 2014–2018	1,259,000	-

10. EMPLOYEE BENEFIT PLANS (continued)

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

	Pension Plans		Retiree Medical Plan	
	2008	2007	2008	2007
Discount rate	6.50%	6.00%	6.50%	6.00%
Expected long-term return on plan assets	N/A	8.25%	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:

	2008	2007
Health care cost trend rates assumed for next year	N/A	10.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	5.00 %
Year that the rate reaches the ultimate trend rate	N/A	2013

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:

	Point Increase	Point Decrease
Effect on total of service and interest cost components	\$ 73,000	\$ (60,000)
Effect on postretirement benefit obligation	-	-

Plan Assets — The CHX's pension plan weighted-average asset allocation ranges at December 31, 2008 and 2007, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2008	2007
Equities	N/A	0
Fixed income	N/A	0
Cash equivalents	N/A	100 %

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.

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. The Exchange contributed a discretionary employer matching contribution in an amount approved by the Board of Directors which, since September 2004, was up to 3% for eligible participating employees. The Exchange's discretionary employer matching contributions to the savings plan were \$236,000 and \$211,000 for 2008 and 2007, respectively.

10. EMPLOYEE BENEFIT PLANS (continued)

In July 2008, the Exchange, in connection with the termination of the qualified defined benefits pension plan (discussed above), amended the savings plan to provide for a non-elective contribution which will replace the current discretionary match in the savings plan. The non-elective contributions will be made from the \$333,000 transferred from terminated qualified defined benefits pension plan and will not exceed 3% of eligible employee's eligible compensation. The non-elective contributions under the amended plan commenced January 2009, at which time discretionary employer matching contributions were suspended.

The Exchange has future obligations under deferred compensation arrangements with certain executives, which vest pursuant to the respective plans, and are unfunded. One agreement vested in three years and was fully vested and terminated in January 2008 upon payment of the award. Two agreements vested and terminated in January 2009 upon payment of the awards. The remaining agreements vest and are paid annually over three and four year periods and terminate in January 2011. The agreements vest pro rata on January 1, provided that the employee remains continuously employed through the vesting date. These obligations total approximately \$115,000 and \$177,000 as of December 31, 2008 and 2007, respectively, and are included in accrued compensation.

See Note 7 for discussion of LTIP and Series B Convertible and Preferred Stock.

11. NONCURRENT LIABILITIES

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

	2008	2007
Nonqualified pension plan	\$ 2,775,000	\$ 2,639,000
Tenant improvement allowance (Note 12)	1,454,000	1,718,000
Accrued rent	1,403,000	1,374,000
Retiree medical plan	<u>-</u>	<u>5,137,000</u>
Total	<u>\$ 5,632,000</u>	<u>\$ 10,868,000</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. (See Note 14)

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 at December 31, 2008 and 2007, is \$1,718,000 and \$1,982,000, 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.

12. LEASE ARRANGEMENTS AND COMMITMENTS (continued)

Minimum lease commitments, exclusive of taxes, maintenance, and other related costs applicable to existing operating leases, at December 31, 2008, were:

Year	Operating Leases
2009	\$ 3,243,000
2010	3,183,000
2011	3,048,000
2012	3,020,000
2013	3,096,000
Later years	<u>4,779,000</u>
Total	<u>\$ 20,369,000</u>

Net rent expense for 2008 and 2007 was \$5,158,000 and \$4,692,000, 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.

14. SUBSEQUENT EVENTS

In March 2009, the Exchange amended its December 2000 restated lease. The amendment allowed for the Exchange to surrender 87,433 square feet of its current leased space and to lease an additional 24,426 square feet. The original lease expiration date of June 30, 2015 remains unchanged. As an incentive for the Exchange to sign the lease amendment, the lessor provided rent abatement of approximately \$4.0 million in 2009 all of which will be used by the Exchange to pay for the cost of certain equipment, office furnishings, and leasehold improvements. A portion of the rent abatement will be repaid to the lessor in monthly installments in 2010 (\$661,000) and 2011 (\$607,000). In addition, in consideration of the lessor's agreeing to terminate the lease with respect to the surrendered space, the Exchange executed an interest bearing promissory note in the amount of \$6.0 million. The note is due on March 1, 2019, and is interest free until March 1, 2011, at which time the annual interest rate is 8%. Interest is payable quarterly in arrears, the first day of June, September, December, and March for the immediately preceding calendar quarter, with the first payment due June 1, 2011. The effects of the lease amendment are not reflected in the consolidated financial statements.

The Exchange implemented, in the aggregate, an average 11% salary reduction effective in March 2009 and a headcount reduction to reduce employee compensation and benefits expense by approximately \$1,500,000 annualized effective May 2009.

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