

# CHX Holdings, Inc.

April 29, 2011

To the Shareholders of CHX Holdings Inc.

Dear Shareholders,

Enclosed please find the audited financial statements for CHX Holdings Inc. (“CHX Holdings”) for 2010 and 2009. During 2010, the CHX concentrated on solidifying the benefits of our past expense reduction efforts in order to sustain stability and improvement in the financial condition of the company. Our reported \$55,000 in comprehensive income for 2010 reflects the results of these efforts. More importantly, we are also reporting a \$2,268,000 increase in liquid assets (cash and cash equivalents minus Section 31(a) fees payable to the federal government) from \$3,557,000 at December 31, 2009 to \$5,825,000 at December 31, 2010.

In a comparison of overall expenses incurred in 2009 and 2010 (excluding certain non-recurring expenses in 2009 relating to the modification of our primary real estate lease and the impairment of other capitalized costs arising out of that modification), CHX expenses were reduced by 16.6% from \$23,724,000 to \$19,776,000. Contributing factors in the expense reduction were:

- “Employee Compensation and Benefits” expenses fell from \$10,385,000 in 2009 to \$9,421,000 in 2010 as 2009 results did not reflect the full impact of an across the board salary reduction and reduction in force as well as approximately \$300,000 in associated severance expense.
- “Communication, Equipment” expenses fell from \$3,438,000 to \$2,411,000 through careful management of maintenance expenditures and reduced reliance on leased equipment.
- “Facilities” expenses fell from \$2,668,000 to \$1,837,000, due primarily to the reduction in leased space.
- “Professional and Outside Service” expenses fell from \$2,226,000 to \$1,247,000 due to careful management of use of consultants, reduced need for outside legal counsel and reductions in internal and external audit expenses.

CHX revenues declined by 6.7% from \$20,909,000 to \$19,512,000 as trading activity declined in the second half of the year. Dominant contributors on the revenue side were:

- Transaction Fees fell from \$14,006,000 in 2009 to \$13,019,000 in 2010 as the CHX suffered from reduction in overall industry activity.
- Market Data Fees fell from \$2,018,000 in 2009 to \$1,639,000 in 2010 as low market volatility reduced trading and quoting opportunities in securities that have traditionally contributed heavily to CHX market data revenue.

Last year we continued to improve our offerings and functionality. Examples of these improvements include:

- Implementation of functionality to reject short sales that would violate industry wide guidelines.
- Implementation of single stock circuit breaker functionality designed to reduce extreme market volatility.
- Continued additions to the list of securities eligible for trading on the CHX.
- System initiatives to support 2011 implementation of outbound order routing and a “CHX Only” order type designed to automatically reprice certain orders and thereby reduce rejection of orders from the exchange.

During 2010 the CHX and our customers have benefited from the exchange’s ability to submit customer trades that do not execute on the CHX to the clearing agencies for clearance through the CHX submission to those agencies. Although monthly income generated from this activity varies greatly, the loss of our ability to support this function could have a significant impact on CHX financial performance.

The CHX has been in communication with the SEC staff regarding the staff’s view that CHX rules have not specifically detailed the circumstances in which the CHX is able to perform this function. While we have continued offering this service, we have been working with the SEC to file a temporary rule that will clarify our practice in order to address any SEC staff concerns. If the SEC accepts our temporary filing we will follow with a rule filing that, if approved, would grant us permanent approval (the second filing would be subject to a longer SEC review process).

In 2011 we will take steps designed to attract additional business to the CHX Matching Engine in order to reduce our dependence on IB transaction fees. We are considering placement of CHX equipment in a common data center in New Jersey allowing for reduced message transmission time for customers located on the east coast. This location should make it easier for new customers to connect to the CHX as we will be able to take advantage of cross-connectivity possibilities within the data center. We also plan to implement outbound order routing and new CHX order types designed to meet the evolving needs of the marketplace. Finally, although our formal process to identify a strategic transaction ended in 2009, we remain interested in exploring strategic alliances and/or transactions that might increase the value of the CHX and CHX Holdings.

Very truly yours,

A handwritten signature in black ink, appearing to read 'D. A. Herron', with a long horizontal flourish extending to the right.

David A. Herron  
CEO

## **Cautionary Note Regarding Forward-Looking Statements**

This document contains forward-looking statements. Such forward-looking statements include, but are not limited to, statements concerning CHX's and CHX Holdings' plans, objectives, expectations and intentions and other statements that are not historical or current facts. Forward-looking statements are based on CHX's and CHX Holdings' current expectations and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Factors that could cause CHX's and CHX Holdings' results to differ materially from current expectations include, but are not limited to: CHX's and CHX Holdings' ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk and competition, and other factors. In addition, these statements are based on a number of assumptions that are subject to change. Accordingly, actual results may be materially higher or lower than those projected. The inclusion of such projections herein should not be regarded as a representation by CHX and CHX Holdings that the projections will prove to be correct. This document speaks only as of this date. CHX and CHX Holdings disclaim any duty to update the information herein.