

CHX Holdings, Inc. and Subsidiary

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2009 and 2008, 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, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Exchange's management. Our responsibility is to express an opinion on these 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 consolidated financial statements present fairly, in all material respects, the financial position of the Exchange as of December 31, 2009 and 2008, 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

April 26, 2010

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,281,000	\$ 6,906,000
Accounts receivable — net	3,205,000	3,240,000
Prepaid expenses	816,000	1,112,000
Other current assets	<u>20,000</u>	<u>20,000</u>
<i>Total current assets</i>	<u>11,322,000</u>	<u>11,278,000</u>
Noncurrent assets:		
Equipment, leasehold improvements, software and other capitalized costs — net	9,830,000	11,154,000
Other noncurrent assets	<u>3,000</u>	<u>59,000</u>
<i>Total noncurrent assets</i>	<u>9,833,000</u>	<u>11,213,000</u>
<i>Total assets</i>	<u>\$ 21,155,000</u>	<u>\$ 22,491,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Section 31 fees payable	\$ 3,724,000	\$ 932,000
Other accounts payable	63,000	108,000
Accrued compensation	252,000	682,000
Other current liabilities	<u>2,705,000</u>	<u>2,490,000</u>
<i>Total current liabilities</i>	<u>6,744,000</u>	<u>4,212,000</u>
Noncurrent liabilities:		
Note payable	4,659,000	-
Other noncurrent liabilities	<u>6,360,000</u>	<u>5,632,000</u>
<i>Total noncurrent liabilities</i>	<u>11,019,000</u>	<u>5,632,000</u>
<i>Total liabilities</i>	<u>17,763,000</u>	<u>9,844,000</u>
Shareholders' equity:		
Preferred stock, \$0.01 par value — 25,000 shares authorized:		
Series A — 3,563 shares authorized and 2,250 shares of Series A convertible stock, convertible into 225,000 shares of common stock, issued and outstanding; aggregate liquidation preference of \$20 million	18,328,000	18,328,000
Series B — 1,500 shares authorized and 267.38 shares of Series B convertible stock, convertible into 26,378 shares of common stock, issued and outstanding	-	-
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	(38,006,000)	(28,901,000)
Accumulated other comprehensive loss	<u>(640,000)</u>	<u>(490,000)</u>
<i>Total shareholders' equity</i>	<u>3,392,000</u>	<u>12,647,000</u>
<i>Total liabilities and shareholders' equity</i>	<u>\$ 21,155,000</u>	<u>\$ 22,491,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenues:		
Transaction fees — net of institutional broker credits of \$2,563,000 and \$2,416,000	\$ 14,006,000	\$ 14,520,000
Participant services and fees	3,539,000	4,165,000
Market data fees	2,018,000	1,443,000
Trading permit fees	977,000	1,092,000
Listing fees	341,000	314,000
Interest	28,000	279,000
	<u>20,909,000</u>	<u>21,813,000</u>
<i>Total revenues</i>		
Expenses:		
Employee compensation and benefits	10,385,000	13,265,000
Qualified pension plan	-	201,000
Retiree medical plan termination	-	(4,335,000)
Lease termination cost	4,324,000	-
Depreciation and amortization	3,803,000	3,695,000
Communications, equipment, and related costs	3,438,000	3,862,000
Facilities rent, maintenance, and utilities	2,668,000	5,273,000
Professional and other outside services	2,226,000	3,876,000
General and administrative	869,000	1,315,000
Interest expense	335,000	-
Impairment of other capitalized costs	1,965,000	419,000
	<u>30,013,000</u>	<u>27,571,000</u>
<i>Total expenses</i>		
Loss before income taxes	(9,104,000)	(5,758,000)
Income tax expense	1,000	1,000
	<u>(9,105,000)</u>	<u>(5,759,000)</u>
<i>Net loss</i>		
Minimum pension liability adjustment	(150,000)	424,000
	<u>\$ (9,255,000)</u>	<u>\$ (5,335,000)</u>
<i>Comprehensive loss</i>		

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive (Loss) Gain	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>Balance — January 1, 2008</i>	2,250	\$18,328,000	-	\$ -	450,000	\$ 5,000	\$23,705,000	\$ (23,142,000)	\$(914,000)	<u>\$17,982,000</u>
Issuance of Series B Preferred Stock	-	-	267	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(5,759,000)	-	(5,759,000)
Other comprehensive gain	-	-	-	-	-	-	-	-	424,000	<u>424,000</u>
<i>Total comprehensive loss</i>	-	-	-	-	-	-	-	-	-	<u>(5,335,000)</u>
<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
Net loss	-	-	-	-	-	-	-	(9,105,000)	-	(9,105,000)
Other comprehensive loss	-	-	-	-	-	-	-	-	(150,000)	<u>(150,000)</u>
<i>Total comprehensive loss</i>	-	-	-	-	-	-	-	-	-	<u>(9,255,000)</u>
<i>Balance — December 31, 2009</i>	<u>2,250</u>	<u>\$18,328,000</u>	<u>267</u>	<u>\$ -</u>	<u>450,000</u>	<u>\$ 5,000</u>	<u>\$23,705,000</u>	<u>\$ (38,006,000)</u>	<u>\$(640,000)</u>	<u>\$ 3,392,000</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Net loss	\$ (9,105,000)	\$ (5,759,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,803,000	3,695,000
Loss on sale of equipment	26,000	-
Impairment of other capitalized costs	1,965,000	419,000
Lease termination cost	4,324,000	-
Interest expense	335,000	-
Changes in:		
Accounts receivable — net	35,000	(525,000)
Prepaid expenses	296,000	(279,000)
Prepaid pension — current	-	1,428,000
Other current assets	-	36,000
Other noncurrent assets	56,000	(16,000)
Section 31 fees payable	2,792,000	(1,166,000)
Other accounts payable	(45,000)	(215,000)
Accrued compensation	(430,000)	(1,292,000)
Other current liabilities	215,000	(630,000)
Noncurrent liabilities	<u>578,000</u>	<u>(4,812,000)</u>
<i>Net cash provided by (used in) operating activities</i>	<u>4,845,000</u>	<u>(9,116,000)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(4,499,000)</u>	<u>(1,466,000)</u>
Cash flows from financing activities:		
Proceeds from sales of equipment	<u>29,000</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	375,000	(10,582,000)
Cash and cash equivalents — beginning of year	<u>6,906,000</u>	<u>17,488,000</u>
<i>Cash and cash equivalents — end of year</i>	<u>\$ 7,281,000</u>	<u>\$ 6,906,000</u>
Supplemental disclosure of cash flow information —		
Cash paid during the year for income taxes	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Supplemental disclosure of noncash financing activities —		
Issuance of note payable	<u>\$ 4,324,000</u>	<u>\$ -</u>

See notes to consolidated financial statements.

CHX HOLDINGS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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).

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. The transaction involved the issuance of 2,250 shares of Series A Convertible Preferred Stock, \$0.01 par value per share (Series A Preferred). 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 \$9,255,000 and \$5,335,000 for the years ended December 31, 2009 and 2008, respectively, which had a minimal impact on its cash position in 2009 and significant negative impact in 2008. In 2009, CHX generated \$375,000 of cash and cash equivalents. In addition, the Exchange, in order to remain competitive, incurred approximately \$10,420,000 of capital expenditures through December 31, 2009, 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.

In 2009, the Exchange initiated additional expense-saving initiatives, including, in the aggregate, an average 11% salary reduction effective March 2009, and a 21% headcount reduction to reduce employee compensation and benefits expense effective May 2009. In March 2009, the Exchange amended its December 2000 restated lease, as further discussed in Note 13.

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, 2009, are sufficient to fund the operations and investments of the Exchange during 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements — In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that established the FASB Accounting Standards Codification (ASC), which effectively amended the hierarchy of accounting principles generally accepted in the United States of America (GAAP) and established only two levels of GAAP, authoritative and nonauthoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the U.S. Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the ASC became nonauthoritative. The ASC was intended to provide access to the authoritative guidance related to a

particular topic in one place. New guidance issued subsequent to June 30, 2009, will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Exchange adopted and applied the provisions of the ASC and has eliminated references to pre-ASC accounting standards throughout the consolidated financial statements. The adoption of the ASC did not have a material impact on the consolidated financial statements.

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 3 to 5 years for computer equipment and 4 to 10 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.

In July 2006, the FASB issued certain provisions of ASC 740, *Income Taxes*, related to accounting for uncertainty in income taxes (formerly, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*). ASC 740 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. ASC 740 requires the evaluation of tax positions taken in the course of preparing the tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. Management has adopted ASC 740 in the current year. The adoption of ASC 740 did not have a significant impact on the Exchange’s consolidated financial position, results of operations, or cash flows. CHX records interest and penalties on uncertain tax positions as income tax expense. CHX had no such interest or penalties expense in 2009 nor upon adoption.

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, and other fees. Such fees are recognized over the period the fees are 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. *Trading permit fees* are recognized on an accrual basis when earned. *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.

In 2009 and 2008, CHX generated revenues from numerous customers, most of which routed trades through a limited number of intermediaries.

Estimates — The preparation of the consolidated financial statements in accordance with GAAP 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 2008, the Exchange adopted ASC 820, *Fair Value Measurements and Disclosures* (formerly, FASB Statement No. 157, *Fair Value Measurement*). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted in active market. The adoption of ASC 820 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.

4. ACCOUNTS RECEIVABLE — NET

Accounts receivable — net at December 31, 2009 and 2008, consisted of the following:

	2009	2008
Receivables from participants	\$2,713,000	\$2,655,000
Market data fees receivable	420,000	235,000
Income taxes receivable	2,000	28,000
Other receivables	<u>127,000</u>	<u>437,000</u>
Subtotal	3,262,000	3,355,000
Allowance	<u>(57,000)</u>	<u>(115,000)</u>
Total	<u>\$3,205,000</u>	<u>\$3,240,000</u>

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

Equipment, leasehold improvements, software, and other capitalized costs at December 31, 2009 and 2008, consisted of the following:

	2009	2008
Equipment and office furnishings	\$ 4,306,000	\$ 5,154,000
Leasehold improvements	5,957,000	6,721,000
Software and other capitalized costs	<u>10,018,000</u>	<u>10,813,000</u>
Subtotal	20,281,000	22,688,000
Less accumulated depreciation and amortization	<u>(10,451,000)</u>	<u>(11,534,000)</u>
Total	<u>\$ 9,830,000</u>	<u>\$ 11,154,000</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 \$71,000 and \$325,000 for the years ended December 31, 2009 and 2008, respectively. Amortization expense for computer software development was \$1,912,000 and \$2,255,000 for 2009 and 2008, respectively. For the years 2010 through 2014, the remaining estimated total amortization expense will be approximately \$3,871,000.

In 2009, CHX incurred impairment charges of \$1,965,000 related to capitalized costs specifically identified to the surrendered space related to the amended lease (see Note 13).

In 2008, CHX wrote off \$419,000 of external and internal labor 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 at December 31, 2009 and 2008, consisted of the following:

	2009	2008
Credits to participants and other payables	\$ 649,000	\$ 1,201,000
Accrued operating expenses	597,000	758,000
Accrued rent	575,000	20,000
Rent abatement (Note 13)	373,000	-
Tenant improvement allowance (Note 13)	264,000	264,000
Nonqualified pension plan	<u>247,000</u>	<u>247,000</u>
Total	<u>\$2,705,000</u>	<u>\$2,490,000</u>

7. SHAREHOLDERS' EQUITY

Preferred Stock — CHX Holdings has authorized 25,000 shares of \$0.01 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.

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 2009 and 2008, no dividends were declared or paid on the Series A Preferred.

Series B — In October 2007, the Board of Directors (the "Board") 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. The Compensation Committee of 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 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, 2010, 2009, and 2008, 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 Convertible Preferred stock issued and outstanding as of December 31, 2009 and 2008, and none of the shares were vested. During 2009 and 2008, no dividends were declared or paid on the Series B Convertible Preferred Stock.

Common Stock — In July 2006, as part of a strategic transaction, an additional 150,000 shares of \$0.01 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, 2009 and 2008, respectively. 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 out of funds legally available for those purposes. During 2009 and 2008, 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 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's 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, 2009 and 2008, consisted of the following:

	2009	2008
Current:		
Federal	\$ -	\$ -
State	<u>1,000</u>	<u>1,000</u>
Total	<u>1,000</u>	<u>1,000</u>
Deferred:		
Federal	-	-
State	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 1,000</u>	<u>\$ 1,000</u>

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

	2009	2008
Federal income tax benefit — at statutory rate of 34%	\$ (3,095,000)	\$ (1,958,000)
State income tax expense — net of federal tax effect	1,000	1,000
Valuation and reserve adjustments	3,091,000	1,947,000
Nondeductible expenses	<u>4,000</u>	<u>11,000</u>
Income tax expense	<u>\$ 1,000</u>	<u>\$ 1,000</u>

The gross deferred tax assets and liabilities at December 31, 2009 and 2008, were as follows:

	2009	2008
Deferred tax assets:		
Current:		
Accrued rent	\$ 203,000	\$ 12,000
Accrued professional fees	83,000	85,000
Deferred compensation	24,000	44,000
Allowance for bad debts	20,000	44,000
Other	<u>34,000</u>	<u>39,000</u>
Total current	<u>364,000</u>	<u>224,000</u>
Noncurrent:		
Net operating loss carryforward	13,428,000	16,882,000
Basis difference in fixed assets	3,386,000	-
Deferred rent	1,709,000	-
Pension and ASC 715 accruals	1,075,000	1,168,000
Alternative Minimum Tax credit carryforward	91,000	91,000
Charitable contribution carryforward	3,000	5,000
Other	<u>670,000</u>	<u>1,292,000</u>
Total noncurrent	<u>20,362,000</u>	<u>19,438,000</u>
Subtotal	20,726,000	19,662,000
Valuation allowance	<u>(20,497,000)</u>	<u>(17,778,000)</u>
Total deferred tax assets	<u>229,000</u>	<u>1,884,000</u>
Deferred tax liabilities:		
Current — prepaid expenses	(229,000)	(259,000)
Noncurrent — basis difference in fixed assets	<u>-</u>	<u>(1,625,000)</u>
Total deferred tax liabilities	<u>(229,000)</u>	<u>(1,884,000)</u>
Net deferred tax assets and liabilities	<u>\$ -</u>	<u>\$ -</u>

The Exchange believes that it is more likely than not that as of December 31, 2009 and 2008, 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 history of operating losses and the uncertainty of the overall Exchange profitability in the future, management believes that the valuation allowance of \$20,497,000 and \$17,778,000 at December 31, 2009 and 2008, respectively, was sufficient to reduce the net deferred tax assets to \$0.

At December 31, 2009, the Exchange has federal and state net operating loss (NOL) carryforwards available for reduction of future income tax liabilities. The gross federal NOL carryforwards of \$42,764,000 expire at various dates between 2024 and 2029. The post-apportionment state NOL carryforwards of \$42,210,000 expire at various dates between 2015 and 2029. The Exchange expects to generate estimated gross federal and post-apportionment state NOL carryforwards for 2009 in the amounts of \$133,000 and \$20,000, respectively.

The statute of limitations is normally three years from the extended due date of the return for federal and state tax purposes; however, for taxpayers with NOLs, the statute is effectively open to any year in which an NOL was generated. The statute of limitations for CHX is effectively open for the years of 2004 through 2009 and 2003 through 2009 for federal and state tax purposes, respectively.

CHX's 2005 and 2006 federal tax returns were examined by the Internal Revenue Service (IRS) with no adjustments to taxable income. CHX's 2004, 2007, and 2008 federal tax returns have not been examined by the IRS.

CHX's 2004 and 2005 Illinois tax returns were examined by the State of Illinois with no adjustments to taxable income. CHX's 2003 and 2006–2008 Illinois tax returns have not been examined by the State of Illinois.

At December 31, 2009, CHX had no pending federal or state tax income tax audits.

10. EMPLOYEE BENEFIT PLANS

The Exchange has a nonqualified defined benefit pension plan that covers all eligible employees as defined. The Exchange also had a qualified defined benefit pension plan and a retiree medical plan which were terminated in 2007 and 2008, respectively.

The nonqualified pension plan, with an aggregate projected benefit obligation of \$3,113,000 and \$3,022,000 as of December 31, 2009 and 2008, respectively, is unfunded. In September 2004, the Exchange froze the future benefit accruals for the nonqualified defined benefit pension plan. The elimination of future benefit accruals triggered a curtailment event under ASC 715, *Compensation — Retirement of Benefits* (formerly, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*).

In March 2007, the Board 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 IRS 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 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 \$0 at December 31, 2008.

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 at December 31, 2009 and 2008, are indicated below:

	Nonqualified Pension Plan		Retiree Medical Plan	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation — at beginning of year	\$ 3,022,000	\$ 2,846,000	\$ -	\$ 5,384,000
Service cost	-	-	-	190,000
Interest cost	181,000	190,000	-	254,000
Plan participants’ contributions	-	-	-	30,000
Net actuarial loss	160,000	401,000	-	-
Benefits paid	(250,000)	(225,000)	-	(274,000)
Settlement gain	-	(190,000)	-	(5,584,000)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Benefit obligation — at end of year	<u>\$ 3,113,000</u>	<u>\$ 3,022,000</u>	<u>\$ -</u>	<u>\$ -</u>

Weighted-average assumptions used to determine benefit obligations at December 31, 2009 and 2008, are as follows:

	Nonqualified Pension Plan	
	2009	2008
Discount rate	5.75 %	6.25 %
Rate of compensation increase	N/A	N/A

	<u>Pension Plans</u>			<u>Retiree Medical Plan</u>	
	2009	2008		2009	2008
Change in plan assets:					
Fair value of plan assets					
at — beginning of year	\$ -	\$ 1,428,000	*	\$ -	\$ -
Actual return on plan assets	-	(220,000)	*	-	-
Employer contribution	250,000	415,000		-	245,000
Reversion to employer	-	(898,000)	*	-	-
Transfer to savings plan	-	(333,000)	*	-	-
Plan participants' contributions	-	-		-	30,000
Settlements	-	(190,000)		-	-
Benefits paid	(250,000)	(264,000)	**	-	(275,000)
Other	-	62,000	*	-	-
	<u>-</u>	<u>62,000</u>		<u>-</u>	<u>-</u>
Fair value of plan assets					
at — end of year	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

* Amount relates to the qualified pension plan

** Amount relates to both qualified and nonqualified pension plan

Funded status at December 31, 2009 and 2008, is as follows:

	<u>Nonqualified Pension Plan</u>	
	2009	2008
Funded status	\$ (3,113,000)	\$ (3,022,000)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Net amount recognized	<u>\$ (3,113,000)</u>	<u>\$ (3,022,000)</u>

Amounts recognized in the consolidated balance sheets at December 31, 2009 and 2008, are as follows:

	<u>Nonqualified Pension Plan</u>	
	2009	2008
Current liabilities	\$ (247,000)	\$ (247,000)
Noncurrent liabilities	<u>(2,866,000)</u>	<u>(2,775,000)</u>
Net amount recognized	<u>\$ (3,113,000)</u>	<u>\$ (3,022,000)</u>

Amounts recognized in accumulated other comprehensive income at December 31, 2009 and 2008, are as follows:

	Nonqualified Pension Plan		Retiree Medical Plan		
	2009	2008	2009	2008	
Net actuarial loss (gain)	<u>\$ 150,000</u>	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ (804,000)</u>	*
Net amount recognized	<u>\$ 150,000</u>	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ (804,000)</u>	

* Adjustment for adoption of ASC 715, *Compensation — Retirement Benefits* (formerly, FASB Statement 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 \$3,113,000 and \$3,022,000 at December 31, 2009 and 2008, respectively. Information for the nonqualified pension plan which had an accumulated benefit obligation in excess of plan assets at December 31, 2009 and 2008, is as follows:

	Nonqualified Pension Plan	
	2009	2008
Projected benefit obligation	\$3,113,000	\$3,022,000
Accumulated benefit obligations	3,113,000	3,022,000
Fair value of plan assets	-	-

Components of net periodic benefit cost at December 31, 2009 and 2008, are as follows:

	Nonqualified Pension Plan		Retiree Medical Plan	
	2009	2008	2009	2008
Service cost	\$ -	\$ -	\$ -	\$ 190,000
Interest cost	181,000	190,000	-	254,000
Amortization of prior service cost	-	-	-	(191,000)
Recognized net actuarial loss	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>16,000</u>
Net periodic benefit cost	<u>\$ 191,000</u>	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 269,000</u>

Estimated future benefit payments, which reflect expected future service at December 31, 2009, are as follows:

Years Ending December 31	Nonqualified Pension Plan
2010	\$ 254,000
2011	259,000
2012	256,000
2013	252,000
2014	247,000
2015–2019	1,267,000

Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31, 2009 and 2008, are as follows:

	Nonqualified Pension Plan		Retiree Medical Plan	
	2009	2008	2009	2008
Discount rate	6.25 %	6.25 %	- %	6.25 %
Expected long-term return on plan assets	N/A	N/A	N/A	N/A

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 which was up to 3% for eligible participating employees.

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 nonelective contribution which replaced the discretionary match in the savings plan. The nonelective contributions were made from the \$333,000 transferred from terminated qualified defined benefits pension plan and did not exceed 3% of eligible employee's eligible compensation. The nonelective contributions under the amended plan commenced January 2009, at which time discretionary employer-matching contributions were suspended. The Exchange's nonelective contributions under the amended plan were \$242,000 for 2009 and the Exchange's discretionary employer-matching contributions to the savings plan were \$236,000 for 2008.

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 three 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 \$70,000 and \$115,000 as of December 31, 2009 and 2008, respectively, and are included in accrued compensation.

The Exchange has employment agreements with several of its officers. The agreements provide for salary and health benefit continuation in the event of termination other than for cause under certain defined circumstances or change in control of the Exchange.

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

11. NOTE PAYABLE

In March 2009, the Exchange amended its December 2000 restated lease (see Note 13). 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 \$6,000,000. 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, on the first day of June, September, December, and March for the immediately preceding calendar quarter, with the first payment due on June 1, 2011. In accordance with ASC 835-30, *Imputation of Interest* (formerly, Accounting Principles Board Opinion No. 21, *Interest on Receivables and Payables*), the note was initially recorded at its fair value of \$4,324,000, which is based on management's estimate of an Exchange-specific rate of 10% that would apply to a comparable

10-year loan to the Exchange from an outside lender. Interest expense of 10% is recognized over the life of the note based on the interest method, which takes into account the note's discount of \$1,676,000 and its annual 8% interest rate. For the year ended December 31, 2009, the Exchange recorded interest expense of \$335,000. Since the fair value of the note represents the consideration to be paid to the lessor for agreeing to terminate the lease with respect to the surrendered space, the Exchange recorded lease termination expense of \$4,324,000 in 2009 equal to the fair value of the note.

12. OTHER NONCURRENT LIABILITIES

The components of noncurrent liabilities included in the consolidated balance sheets at December 31, 2009 and 2008, were as follows:

	2009	2008
Nonqualified pension plan	\$2,866,000	\$2,775,000
Rent abatement (Note 13)	1,678,000	-
Tenant improvement allowance (Note 13)	1,190,000	1,454,000
Accrued rent	<u>626,000</u>	<u>1,403,000</u>
Total	<u>\$6,360,000</u>	<u>\$5,632,000</u>

13. 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 on 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, 2009 and 2008, is \$1,454,000 and \$1,718,000, respectively, and is included in other current and noncurrent liabilities and is being recognized as a reduction of rental expenses on a straight-line basis over the term of the lease or the estimated life of the related asset. The amount of and accounting for this allowance is not changed by the lease amendment discussed in the following paragraph.

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 then current leased space and to lease an additional 25,426 square feet. The original lease expiration date of June 30, 2015, remained unchanged. As an incentive for the Exchange to sign the lease amendment, the lessor provided a rent abatement of approximately \$2,400,000 in 2009, all of which was 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).

The rent abatement allowance at December 31, 2009, is \$2,052,000 which 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.

Minimum lease commitments, exclusive of taxes, maintenance, and other related costs applicable to existing operating leases, at December 31, 2009, were as follows:

Years Ending December 31	Operating Leases
2010	\$2,309,000
2011	2,080,000
2012	1,373,000
2013	1,388,000
2014	1,422,000
Later years	<u>720,000</u>
Total	<u>\$9,292,000</u>

Net rent expense for 2009 and 2008 was \$2,805,000 and \$5,158,000, respectively. Rent expense includes base rent, taxes, maintenance, and other costs related to leased property.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

15. SUBSEQUENT EVENTS

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly, FASB Statement No. 165, *Subsequent Events*). The objective of ASC 855 is to establish general standards of accounting for and disclosure of events that occur after the consolidated balance sheet date but before consolidated financial statements are issued or are available to be issued. ASC 855 is effective for 2009. The Exchange's adoption of ASC 855 did not have a material impact on its consolidated financial position, results of operations, or cash flows.

In accordance with ASC 855, the Exchange has evaluated all subsequent events requiring recognition and disclosure in the consolidated financial statements through April 26, 2010, the date the consolidated financial statements were available for issuance. Management has determined that, except for matters discussed in the following paragraph, there are no material events that would require recognition or disclosure in the consolidated financial statements through this date.

The CHX is regulated by the SEC. As a result, CHX is subject to periodic SEC audits and investigations of its business and regulatory operations. In January 2010, the SEC staff and CHX staff began discussing enhancements to CHX's regulatory program. Management believes that CHX may incur additional expenses going forward to implement the changes that may be made as a result of these ongoing discussions. Management cannot predict the ultimate outcome of the discussions with the SEC.

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