STABILITY

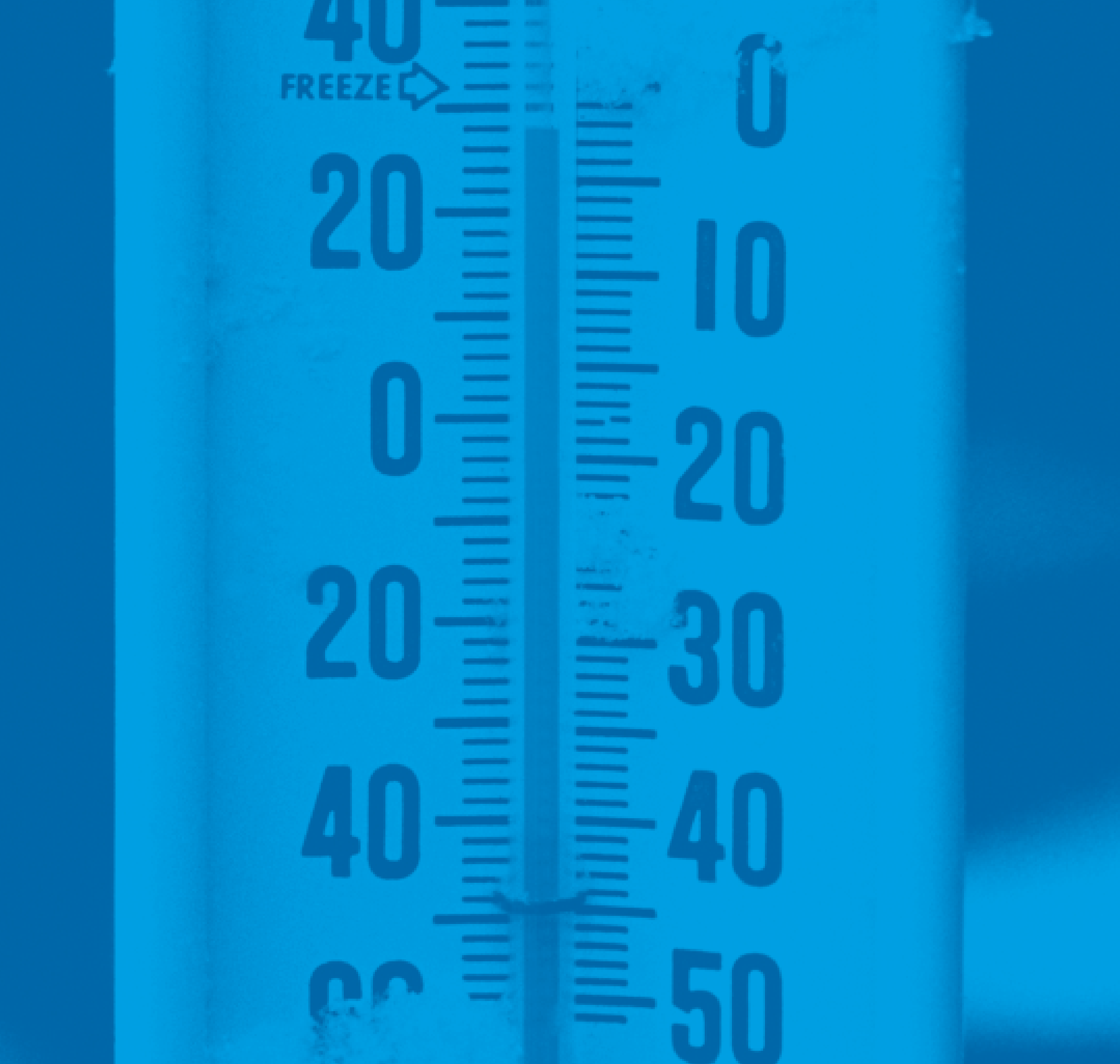
in a world of change

INNOVATION

In a time when the securities markets were challenged by the effects of war, an oil embargo, impeachment and the worst recession since WWII, the listed options contract was born on April 26, 1973. Call options on 16 stocks were listed at a new Chicago exchange, and a clearing corporation was created to support this up and coming industry.

RELIABILITY

In spite of an SEC-imposed moratorium on listing new options, a New York City blackout and a paralyzing East Coast blizzard in the late 1970's, OCC did not falter. We remained steadfast, meeting the advent of trading in put options and building our core business: providing quality and timely clearing and settlement services to our member firms and exchanges. We were rock solid.



40
FREEZE
20
0
20
40
0
10
20
30
40
50

FLEXIBILITY

The market of the 1980's brought with it soaring highs and devastating lows. Adapting to a changing economic landscape that included Black Monday in October 1987, OCC introduced C/MACS to member firms, unveiled a sophisticated margin methodology for managing position risk, extended membership beyond U.S. borders and pioneered the use of cross-margining.

STRENGTH

Catapulting off a depressed economy, the dot-com and IPO frenzy of the late 1990's rallied the stock markets and drove index levels to their peak. We witnessed a decade of unparalleled options growth, as volume records were shattered year after year. A testament to our guarantee, we were proud to be the first clearing organization to receive a 'AAA' credit rating from Standard and Poor's. We created a roadmap for a state-of-the-art clearing system. Options had become mainstream.

1973 - 2003

The Options Clearing Corporation

73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 annual report

For 30 years, The Options Clearing Corporation has faced many challenges, meeting each one head on. Our stability is evident in our history, a product of the many characteristics critical to our business. However, these traits are not unique to particular eras. With our ongoing commitment to innovation, reliability, flexibility and strength, we are poised and ready for the next 30 years and beyond. Past, present and future, The Options Clearing Corporation is a foundation of stability in a world of change.

The Options Clearing Corporation is a customer-driven clearing organization that delivers world-class risk management, clearance and settlement services at a reasonable cost; and provides value-added services that advocate and grow the markets we serve.

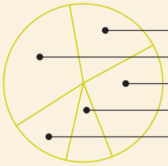
OUR MISSION

BACKGROUND Founded in 1973, The Options Clearing Corporation (OCC) is the largest clearing organization in the world for options. Operating under the jurisdiction of the Securities and Exchange Commission and the Commodity Futures Trading Commission, OCC issues and clears U.S.-listed options, futures and options on futures on a number of underlying financial assets including common stocks, currencies, stock indexes and interest rate composites.

OCC's clearing membership consists of approximately 130 of the largest U.S. broker-dealers, U.S. futures commission merchants and non-U.S. securities firms representing both professional traders and public customers. The participant exchanges share equal ownership of OCC. This ownership, along with a clearing member-dominated Board of Directors, ensures a continuing commitment to servicing the needs of OCC's participant exchanges, clearing members and their customers. OCC also provides clearing services to several security futures and futures markets.

Participant Exchanges • American Stock Exchange LLC, New York, NY • Chicago Board Options Exchange, Incorporated, Chicago, IL • International Securities Exchange, Inc., New York, NY • Pacific Exchange, Inc., San Francisco, CA • Philadelphia Stock Exchange, Inc., Philadelphia, PA

Futures Markets • CBOE Futures Exchange, LLC, Chicago, IL • The Island Futures Exchange LLC, New York, NY • NQLX LLC, New York, NY • OneChicago Exchange, Chicago, IL • Philadelphia Board of Trade, Inc., Philadelphia, PA



YEAR IN REVIEW

EXCHANGE MARKET SHARE

For the year ended December 31, 2003

OPTIONS VOLUME

AMEX TOTAL CONTRACTS	**180,074,903**	
Equity	175,802,038	97.63%
Index	4,272,865	2.37%
CBOE TOTAL CONTRACTS	**283,946,495**	
Equity	214,180,198	75.43%
Index	69,766,297	24.57%
ISE TOTAL CONTRACTS	**244,979,023**	
Equity	244,968,190	100.00%
Index	10,833	0.00%
PCX TOTAL CONTRACTS	**86,152,637**	
Equity	86,152,637	100.00%
PHLX TOTAL CONTRACTS	**112,705,597**	
Equity	109,205,164	96.89%
Index	3,221,784	2.86%
Foreign Currency	278,649	0.25%
OCC TOTAL OPTIONS CONTRACTS	**907,858,655**	
Equity	830,308,227	91.46%
Index	77,271,779	8.51%
Foreign Currency	278,649	0.03%

FUTURES VOLUME

NQLX TOTAL CONTRACTS	**967,443**	
Single-Stock Futures	967,423	100.00%
Index Futures	20	0.00%
ONE TOTAL CONTRACTS	**1,624,740**	
Single-Stock Futures	1,624,740	100.00%
OCC TOTAL FUTURES CONTRACTS	**2,592,193**	
Single-Stock Futures	2,592,163	100.00%
Index Futures	20	0.00%
Currency Futures*	10	0.00%

* Traded on the Philadelphia Board of Trade, Inc.

MESSAGE TO THE MEMBERSHIP

1973

CBOE Clearing Corporation, the predecessor to OCC, is founded. This marks the beginning of an industry that will defy critics' skepticism, witness unprecedented growth and achieve celebrated success.

TOTAL YEAR-END OPTIONS VOLUME FOR 1973: 1,119,245

In 2003, we celebrated 30 years of The Options Clearing Corporation. This momentous anniversary prompted us to reflect on the tremendous changes of the past three decades. Through a variety of market conditions and an unpredictable global environment, we have succeeded in our mission to provide world-class customer service and help grow the markets we serve. In retrospect, it became clear that certain traits were responsible for our success: what helped us navigate through tough times, what enabled us to grow into the organization we are today. Innovation, reliability, flexibility and strength—these are the traits that support our values and ensure our stability in a world of change.

These characteristics guided us through 2003 as they have for the previous 29 years. After weathering a turbulent business climate the past few years, we are optimistic that the many records set this year are indicative of future market growth. Total options volume across participant exchanges stood at 907,858,655 contracts, a 30-year high that surpasses the previous record set in 2001 by 16 percent. Only two years since open interest first reached 100 million contracts, the one-time milestone is now a common occurrence. Total open interest peaked at 146,407,689 contracts on November 21. With year-end daily options volume averaging more than 3.6 million contracts, we are encouraged by the resurgence in the derivatives markets.

Innovation

One characteristic fueling our growth and success over the past 30 years is our innovative approach to improving our core operations. OCC's ingenuity has led to new systems and processes, enhanced methodologies, and improved clearing and settlement services.

The ENCORE clearing system has allowed member firms to see firsthand our innovation at work. With the predicted growth of the industry almost certain, the initial undertaking of this effort four years ago was a must. This year, we began near-real-time trade processing. In October, we completed the successful installation of our fourth major ENCORE release, which included enhanced delivery settlement capabilities and fully automated corporate action processing. The final phases of ENCORE will strengthen clearing member capabilities with respect to collateral and risk management and will add greater flexibility for daily cash settlement processing.

OCC undertook several industry initiatives in 2003, enhancing various products and services. Most noticeably, we expanded the MyOCC portal, our secure and customized Web site for clearing member and exchange employees. The site's audience has grown to more than 1,300 subscribers, averaging more than 3 million page views each month. MyOCC has become the focal point for industry information including ENCORE, information memos, user manuals, member resources, new options listings, record layouts, OCC rules and more.

In August, OCC assumed the operational role of calculating position limits for all equity options on behalf of the exchanges. This relieved each exchange of the considerable overhead of performing calculations for more than 4,000 equity options, and then transmitting this information to OCC. In addition to eliminating redundant efforts, centralizing this function ensures data uniformity across the five exchanges.

OCC has been an active participant in FIX Protocol Limited, an organization devoted to developing industry-defined standards for messaging and data elements developed specifically for the real-time electronic exchange of securities transactions. With an overall mission to improve the global trading process, several OCC officers serve as committee chairmen for the organization.

74-80

OCC is sanctioned as the common clearing organization for exchange-listed options. Trading in put options begins. Despite a moratorium on options expansion, OCC installs an operating system with a peak daily clearing capacity of 1.2 million contracts. Exercise by Exception is introduced to streamline expiration processing.

TOTAL YEAR-END OPTIONS VOLUME FOR 1980: 96,728,546

This year, we have conducted initial research to reassess the Clearing Member Trade Assignment (CMTA) process, an integral component within the options market. We have filed rule changes with the Securities and Exchange Commission to enhance the overall structure of the process. In conjunction, we have also filed rule changes regarding net capital and clearing fund requirements relating to CMTA execution.

Reliability

Like never before, reliability has been challenged in recent years as the industry faces the need to develop sophisticated disaster and emergency planning in an unpredictable world. Over the past two years, OCC has devoted significant resources to expanding its business continuity plan. During 2003, our out-of-state processing facility became fully functional and staffed. This facility will eventually serve as our primary data processing center.

Beyond our own doors, we actively contribute to industry-wide contingency planning. OCC has been integral in the creation of Chicago FIRST, a regional coalition of financial services firms and city, state and federal agencies that address homeland security issues. To enhance industry communications in the event of a regional disaster, Chicago FIRST has obtained a seat at Chicago's 911 Center. The coalition is also coordinating evacuation procedures for the central business district and creating security credentials for industry personnel.

Flexibility

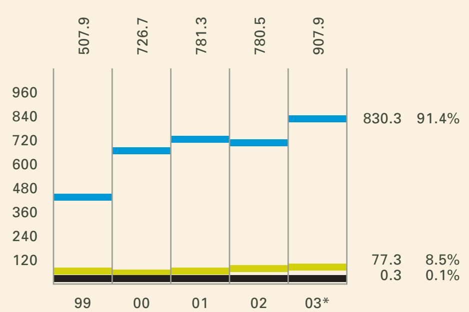
A primary responsibility of ours is to accommodate new exchange products as they arise. Providing seamless integration of these new products into our business operations requires system flexibility and forethought, as well as planning and extensive testing. In 2003, these capabilities were brought to the forefront with the advent of several market developments.

Equity Index Foreign Currency

* Index options volume includes yield-based Treasury options.

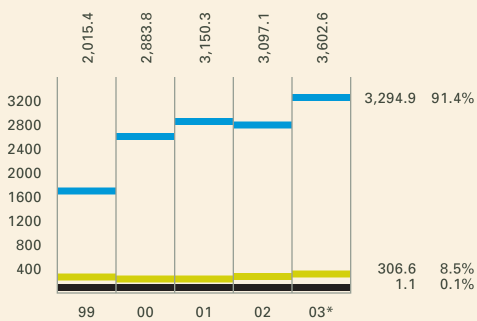
Total Cleared Contract Volume

[in millions]



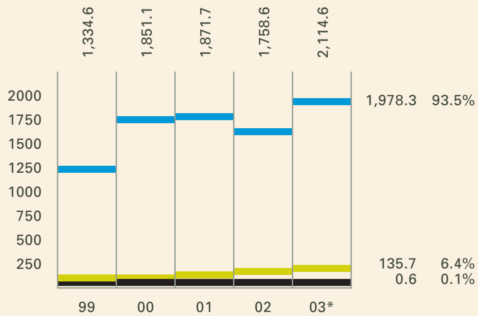
Average Daily Contract Volume

[in thousands]



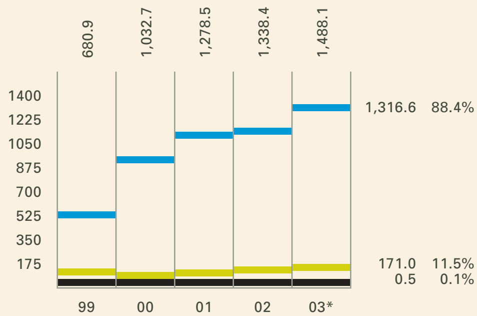
Average Daily Call Volume

[in thousands]



Average Daily Put Volume

[in thousands]



81-87

Commitment to customers prevails as services including Escrow Receipt Depository, Valued Securities, Delivery vs. Payment and C/MACS are introduced to member firms. Trading in cash-settled index options begins. OCC unveils TIMS, its risk-based margin methodology.

TOTAL YEAR-END OPTIONS VOLUME FOR 1987: 305,168,935

In response to industry needs, OCC has taken steps to support growing futures markets. This includes providing hands-on educational support to its futures participants regarding corporate actions and contract adjustments.

In December, OCC began clearing enhanced foreign exchange futures at the Philadelphia Board of Trade (PBOT), PHLX's futures exchange subsidiary.

OCC has participated in extensive testing this year in preparation for the arrival of new options and futures exchanges. Systems and processes are in place to support participants as they enter the marketplace in the coming months.

OCC's many roundtables keep us attuned to the needs of our clearing member and exchange constituencies. Our roundtables provide open communication and critical feedback, resulting in increased functionality and flexibility for our members.

Strength

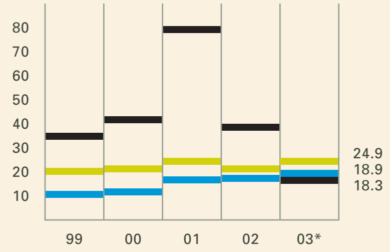
Perhaps one of OCC's most notable strengths is our exceptional reputation. Our prestigious 'AAA' credit rating from Standard and Poor's is largely due to the strength of our financial guarantee. As guarantor of the products we clear, we manage a three-tiered system of financial safeguards including rigorous membership standards, prudent margin requirements and adequate clearing fund deposits.

Our ability to provide sound protection in uncertain market conditions has positioned us as a leader in risk management. Our Cross-Margin, Stock Loan and Disbursement programs allow members flexibility in meeting financial obligations to the marketplace. We expanded eligibility in our Cross-Margin program, allowing for broader participation and greater margin savings. Cross-margin participants realized an average daily reduction in margin requirements of more than $962 million in 2003, a 62 percent savings per participant. The Stock Loan Program, which lowers members' margin requirements on options positions by recognizing risk-reducing positions in underlying stocks, generated an average savings of more than $141 million in 2003. The Disbursement program provides additional liquidity to firms in fulfilling their stock settlement obligations arising from exercise and assignment activity.

Equity Index Foreign Currency Non-Equity

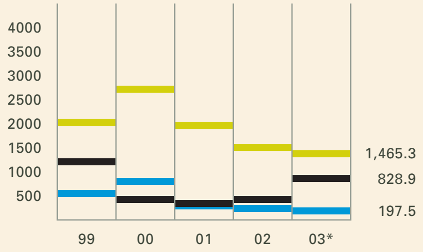
* Index options volume includes yield-based Treasury options.

Average Contracts Per Cleared Trade



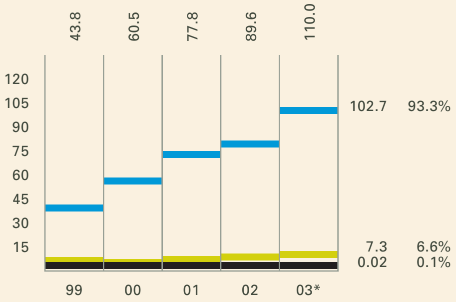
Average Premium Per Contract

[in dollars]



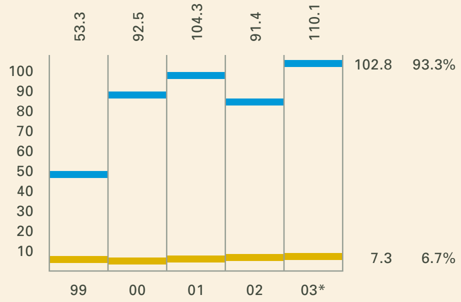
Average Month-End Open Interest

[in millions]



Contracts Exercised

[in millions]



88–97

OCC launches INTRACS, its mainframe processor, and pioneers the use of cross-margins. LEAPS trading begins. OCC and its participant exchanges form an educational initiative, The Options Industry Council. Standard and Poor's grants the 'AAA' credit rating, affirming the strength of OCC's guarantee.

TOTAL YEAR-END OPTIONS VOLUME FOR 1997: 353,823,118

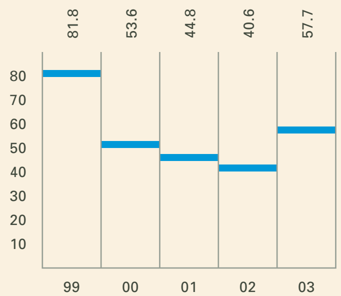
Our strength is also due in part to our ongoing commitment to members, participant markets and education both at home and abroad. Our Washington, D.C. office devotes much of its efforts to regulatory and legislative issues of industry interest. This year, OCC coordinated the filing of a comment letter on NASD's Trading Activity Fee that resulted in limiting the scope of the fee as it applies to options, as well as NASD's ability to increase the fee. Additionally, we voiced the industry's opinion on tax issues to policy makers and helped defeat an attempt to repeal the 60/40 tax treatment for options market makers. Current initiatives include cautioning Congress about potential unintended repercussions of a proposed repeal of the qualified covered call exception to the straddle rule. As part of our ongoing educational efforts, we arranged congressional staff visits to OCC and to options exchanges in San Francisco and Chicago.

OCC manages the daily operations of The Options Industry Council (OIC), a collaborative effort of the U.S. options exchanges and OCC. This year, equity options volume hit a record of 830 million contracts, aided by OIC's outstanding efforts to educate the investing public and brokers about exchange-traded options.

Ahead of the curve in its approach to education, OIC tailors its programs and offerings to various levels, from the novice investor to the more sophisticated options trader. Several enhancements were made to our core program this year, including the launch of Options University within the OIC Web site. More than 7,000 registered users now have access to an expanding curriculum of online courses. In June, traffic to 888options.com broke through the one million page view mark, establishing OIC's site as a leading resource for comprehensive options education. Other 2003 achievements for OIC include enhanced broker outreach programs and the introduction of a new live seminar focusing on various market condition strategies. We continue to build relationships with other industry organizations that share our approach to balanced options education.

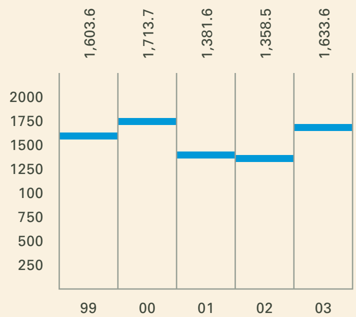
Total Margin Held

[(at year end) in billions of dollars]



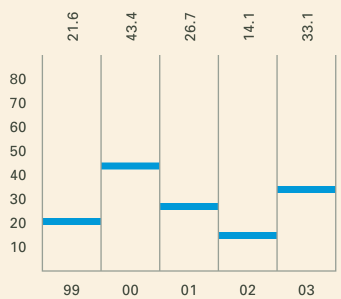
Total Clearing Fund Held

[(at year end) in millions of dollars]



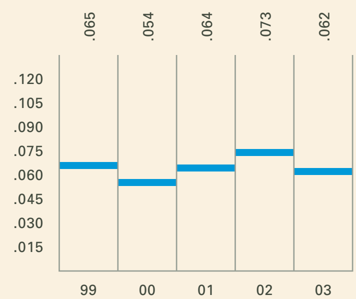
Refund and Discount Amount

[in millions of dollars]



Average Fee Per Contract Side

[after refund in dollars]



OCC takes a leading role in industry-wide efforts including Y2k, decimalization, options linkage and near-real-time trade processing. Business continuity is even more critical after 9/11. The integration of ENCORE, OCC's state-of-the-art clearing system, will handle record level options volume.

98–03

TOTAL YEAR-END OPTIONS VOLUME FOR 2003: 907,858,655

Internationally, OIC launched several initiatives through its London office. Exchange instructors and OIC representatives co-hosted a live seminar series and other educational events with investor, industry and regulatory groups in Singapore, Hong Kong, Brisbane, Melbourne and Sydney. The London office has also initiated efforts to establish a program for European fund managers.

Two new members joined OCC's Board of Directors, Michael J. Ryan, Jr., Executive Vice President and General Counsel, American Stock Exchange LLC and Barry L. Seidman, Chairman, Pax Clearing Corporation. Their talents and expertise have been assets to our Board and will guide us well into the future.

In an effort to uphold our corporate mission and core values, we continue to focus on cost containment. Fiscal year 2003 ended with income before income taxes and refunds of $33,107,463. Our Board determined to refund the entire amount to our clearing members, bringing cumulative refunds and discounts since 1974 to more than $326 million.

By reflecting on the past and evaluating the present, we prepare for the future. True to our mission, we will continue to deliver world-class risk management, clearing and settlement services. The innovation, reliability, flexibility and strength that guided us through the past 30 years will enable OCC to remain an oasis of stability in a changing world.

Wayne P. Luthringshausen
Chairman of the Board and Chief Executive Officer

George S. Hender
Management Vice Chairman

William C. Floersch
Member Vice Chairman, OCC

President and Chief Executive Officer
O'Connor & Co. L.L.C.

Michael E. Cahill
President and Chief Operating Officer

BOARD OF DIRECTORS

WAYNE P. LUTHRINGSHAUSEN
Chairman of the Board and Chief Executive Officer

WILLIAM C. FLOERSCH
Member Vice Chairman, OCC
President and Chief Executive Officer
O'Connor & Co. L.L.C.

TED H. BAKER
Managing Director
Pershing LLC

FRANK J. BISIGNANO
Senior Executive Vice President –
Global Corporate & Investment Bank
Citigroup Global Markets Inc.

THOMAS E. CONNAGHAN
Senior Executive Vice President
Pacific Exchange, Inc.

JOHN P. DAVIDSON III
Managing Director – Equity Infrastructure
Morgan Stanley

MEYER S. FRUCHER
Chairman and Chief Executive Officer
Philadelphia Stock Exchange, Inc.

DORCAS R. HARDY
President
Dorcas R. Hardy & Associates

EDWARD J. JOYCE
President and Chief Operating Officer
Chicago Board Options Exchange, Incorporated

GARY KATZ
Chief Operating Officer
International Securities Exchange, Inc.

STANLEY D. LAUCHNER
Senior Vice President – Brokerage Operations
Charles Schwab & Co., Inc.
Served until April 2003

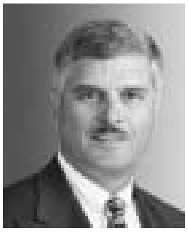
MITCHELL J. LIEBERMAN
Managing Director – Global Securities Services
Goldman, Sachs & Co.

RICHARD R. LINDSEY
President
Bear, Stearns Securities Corp.

MICHAEL J. RYAN, JR.
Executive Vice President and General Counsel
American Stock Exchange LLC
Commenced service January 2003

BARRY L. SEIDMAN
Chairman
Pax Clearing Corporation
Commenced service April 2003

GARY E. YETMAN
Managing Director
Merrill Lynch Professional Clearing Corp.



DENNIS W. ZANK
President
Raymond James & Associates, Inc.

BOARD COMMITTEES & SENIOR OFFICERS

As of December 31, 2003

BOARD COMMITTEES

AUDIT COMMITTEE

Dennis W. Zank (Chairman)
Ted H. Baker
Dorcas R. Hardy
Mitchell J. Lieberman

MEMBERSHIP/MARGIN COMMITTEE

Wayne P. Luthringshausen (Chairman)
John P. Davidson III
William C. Floersch
Richard R. Lindsey
Barry L. Seidman
Gary E. Yetman

PERFORMANCE COMMITTEE

William C. Floersch (Chairman)
Ted H. Baker
Frank J. Bisignano
Edward J. Joyce
Richard R. Lindsey
Wayne P. Luthringshausen
Dennis W. Zank

2004 - 2005 NOMINATING COMMITTEE

Steven M. Abraham
TradeLink L.L.C.

Paul J. Brody
Timber Hill LLC

Douglas J. Engmann
ABN AMRO Sage Corporation

Ronald J. Kruszewski
Stifel, Nicholas & Company, Incorporated

John Pirner
BNP Paribas Brokerage Services, Inc.

Robert C. Sheehan
Electronic Brokerage Systems, Inc.

MEMBER DIRECTORS' TERM EXPIRATIONS

APRIL 2004

John P. Davidson III
William C. Floersch
Gary E. Yetman

APRIL 2005

Ted H. Baker
Dorcas R. Hardy
Mitchell J. Lieberman
Richard R. Lindsey

APRIL 2006

Frank J. Bisignano
Barry L. Seidman
Dennis W. Zank

SENIOR OFFICERS

Wayne P. Luthringshausen
Chairman of the Board and Chief Executive Officer

George S. Hender
Management Vice Chairman

Michael E. Cahill
President and Chief Operating Officer

Paul G. Stevens, Jr.
Senior Advisor

Ralph E. Pfaff
General Manager – Alternate Processing Site

Andrew J. Naughton
Executive Vice President, Chief Financial Officer and Treasurer

William H. Navin
Executive Vice President, General Counsel and Secretary

Gina McFadden
Senior Vice President – Options Industry Services

Michael A. Walinskas
Senior Vice President – Product and Business Development

James W. Zalesky
Senior Vice President – Strategic Technologies

FINANCIAL SECTION TABLE OF CONTENTS

STATEMENTS OF CONSOLIDATED FINANCIAL CONDITION

December 31	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 20,957,679	$ 18,102,217
Accounts receivable	17,752,249	10,595,747
Exchange billing receivable Note 9	24,655,121	15,066,652
Due from participant exchanges Note 9	862,809	774,670
Other current assets	8,131,673	6,494,035
Deferred income taxes Note 10	676,411	703,341
Total Current Assets	73,035,942	51,736,662
Property and Equipment:		
Data processing equipment, furniture and other	7,802,060	7,507,835
Leasehold improvements	5,253,531	4,567,175
Software	85,616,623	69,965,892
Total property and equipment	98,672,214	82,040,902
Accumulated depreciation and amortization	(30,542,169)	(16,065,383)
Property and equipment – net	68,130,045	65,975,519
Clearing fund deposits Note 4	1,633,630,000	1,358,715,000
Other assets	15,874,472	16,053,725
Total Assets	$ 1,790,670,459	$ 1,492,480,906
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,948,251	$ 3,320,360
SEC transaction fees payable	9,803,226	3,832,254
Refundable clearing fees Note 7	33,107,463	14,016,731
Exchange billing payable Note 9	24,655,121	15,066,652
Other accrued expenses	11,988,773	4,812,285
Debt Note 2	—	18,000,000
Total Current Liabilities	84,502,834	59,048,282
Clearing fund deposits Note 4	1,633,630,000	1,358,715,000
Other liabilities	33,123,901	27,816,401
Deferred income tax liability Note 10	5,205,841	10,432,518
Total Liabilities	1,756,462,576	1,456,012,201
Commitments and contingent liabilities Notes 2, 3, 4, 8, 13		
Shareholders' Equity: Note 5		
Common stock	600,000	600,000
Paid-in capital	2,059,999	2,059,999
Retained earnings	44,951,019	44,896,841
Accumulated other comprehensive loss (net of tax benefit of $8,758,198 in 2003 and $7,215,198 in 2002)	(13,069,802)	(10,754,802)
Total	34,541,216	36,802,038
Treasury stock	(333,333)	(333,333)
Total Shareholders' Equity	34,207,883	36,468,705
Total Liabilities and Shareholders' Equity	$ 1,790,670,459	$ 1,492,480,906

See Notes to Consolidated Financial Statements

STATEMENTS OF CONSOLIDATED INCOME AND RETAINED EARNINGS

December 31	2003	2002	2001
REVENUES			
Clearing fees Note 7	$112,242,753	$113,932,580	$100,053,372
Interest	1,340,303	1,714,686	3,788,073
Data processing fees and services	6,139,966	4,600,045	3,439,562
Other	1,737,753	2,524,130	3,117,394
Total Revenues	121,460,775	122,771,441	110,398,401
EXPENSES			
Employee costs	56,569,431	54,668,268	51,706,131
Data processing costs	26,787,023	22,247,464	21,409,653
Professional fees	8,451,679	9,643,842	12,582,105
General and administrative Note 9	9,853,947	8,850,529	9,806,184
Rental, other than data processing equipment	5,321,909	4,715,677	3,520,668
Depreciation and amortization	14,476,786	8,785,073	3,140,758
Total Expenses	121,460,775	108,910,853	102,165,499
Income Before Income Taxes	—	13,860,588	8,232,902
Provision (Benefit) For Income Taxes: Note 10			
Federal – current	2,530,012	(1,297,020)	(2,579,423)
State and local – current	1,072,556	(3,655)	(629,138)
Federal – deferred	(2,623,160)	5,806,455	5,322,259
State – deferred	(1,033,586)	1,124,011	1,310,588
Provision (Benefit) for Income Taxes	(54,178)	5,629,791	3,424,286
Net Income [Basic earnings per Class B common share – 2003, $2.17; 2002, $329.23; 2001, $192.34] Notes 1 and 5	54,178	8,230,797	4,808,616
Retained Earnings, Beginning of Year	44,896,841	36,666,044	31,857,428
Retained Earnings, End of Year	$ 44,951,019	$ 44,896,841	$ 36,666,044

See Notes to Consolidated Financial Statements

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME AND CONSOLIDATED CASH FLOWS

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

December 31	2003	2002	2001
Net income	$ 54,178	$ 8,230,797	$ 4,808,616
Minimum pension liability adjustment, net of tax benefit of $1,543,000 in 2003, $5,366,400 in 2002 and $877,734 in 2001	(2,315,000)	(8,004,601)	(1,305,684)
Comprehensive Income (Loss)	$ (2,260,822)	$ 226,196	$ 3,502,932

STATEMENTS OF CONSOLIDATED CASH FLOWS

December 31	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 54,178	$ 8,230,797	$ 4,808,616
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	14,476,786	8,785,073	3,140,758
Deferred income taxes	(3,656,746)	6,930,466	6,632,847
Loss on disposal of assets	—	—	509,804
Changes in assets and liabilities:			
Accounts receivable and other receivables	(16,833,110)	(922,922)	5,789,477
Other current assets	(1,637,638)	6,509,547	(4,650,003)
Other assets	52,927	(725,780)	(1,923,804)
Accounts payable, accrued expenses and other payables	25,813,319	(31,829,497)	(7,803,263)
Refundable clearing fees	19,090,732	(4,266,572)	(9,949,527)
Net Cash Flows From Operating Activities	37,360,448	(7,288,888)	(3,445,095)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(16,631,312)	(26,765,070)	(33,903,795)
Other – net	126,326	17,745	340,298
Net Cash Flows From Investing Activities	(16,504,986)	(26,747,325)	(33,563,497)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance (repayments) of debt	(18,000,000)	18,000,000	—
Net Cash Flows From Financing Activities	(18,000,000)	18,000,000	—
Net increase (decrease) in cash and cash equivalents	2,855,462	(16,036,213)	(37,008,592)
Cash and cash equivalents, beginning of year	18,102,217	34,138,430	71,147,022
Cash and cash equivalents, end of year	$ 20,957,679	$ 18,102,217	$ 34,138,430
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 750,455	$ —	$ 28,283
Cash paid for interest	$ 78,000	$ 153,000	$ —

See Notes to Consolidated Financial Statements

Years ended December 31, 2003, 2002 and 2001

NOTE 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Options Clearing Corporation ("OCC") is registered with the Securities and Exchange Commission as a clearing agency and with the Commodity Futures Trading Commission as a derivatives clearing organization. OCC clears and settles transactions in securities options effected on its participant options exchanges and transactions in security futures and commodity futures effected on other markets for which OCC has agreed to provide such services.

BASIS OF PRESENTATION The consolidated financial statements include the accounts of The Options Clearing Corporation and its wholly owned subsidiaries, The Intermarket Clearing Corporation ("ICC") and International Clearing Systems, Inc. ("ICSI"). On December 30, 2003, ICC and ICSI were each merged into OCC with OCC being the surviving corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

CASH AND CASH EQUIVALENTS Cash and cash equivalents are comprised primarily of United States Government securities held under agreements issued by major banking institutions, which mature on the next business day. During the term of the agreements, the underlying securities are transferred through the Federal Reserve System to a custodial account maintained by the issuing bank for the benefit of OCC. OCC considers all highly liquid debt instruments with a maturity of three months or less from the date of purchase to be cash equivalents.

PROPERTY AND EQUIPMENT Property and equipment are stated at historical cost, net of accumulated depreciation and amortization. Depreciation is computed using straight-line and accelerated methods based on estimated useful lives of five to twenty years. Leasehold improvements are amortized over the terms of the related leases. Software which includes capitalized labor and related equipment, is amortized over a useful life of three to five years.

In accordance with Statement of Position ("SOP") 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* OCC capitalized costs for computer software development in the amount of $14.3 million and $26.2 million for the years ended December 31, 2003 and 2002, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS OCC reviews long-lived assets 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 fair value.

INCOME TAXES OCC uses the asset and liability method to record income taxes. Accordingly, deferred tax assets and liabilities are recorded based on differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets and liabilities are recorded based on the currently enacted tax rate expected to apply to taxable income in the year in which the deferred tax asset or liability is expected to be settled or realized.

EARNINGS PER SHARE Earnings per share are calculated based on the weighted average number of Class B common shares outstanding during the year: 25,000 shares in 2003, 2002 and 2001. OCC has no dilutive common shares outstanding.

RECLASSIFICATIONS OCC has reclassified certain prior years' amounts to conform to the current year's presentation.

NOTE 2. OFF-BALANCE-SHEET RISK, CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

OCC is the registered clearing agency for U.S. listed securities options and a registered derivatives clearing organization. OCC issues (and in that sense guarantees) and clears securities option contracts traded on its participant options exchanges and security futures and commodity futures contracts traded on exchanges with which OCC has a clearing and settlement services agreement. OCC clears contracts based on several types of underlying interests, including common and preferred stocks, American depository receipts, exchange traded fund shares, stock indexes, foreign currencies, and, in the case of options, interest rate composites.

OCC also is the clearing agency for exercises of foreign currency options and stock index options. OCC also clears certain stock loan/borrow transactions between participating Clearing Members.

OCC maintains lines of credit with major domestic and foreign banks in the amount of approximately $418 million as of December 31, 2003. (Foreign currency denominated lines of credit were converted to U.S. dollars using the year-end exchange rate.) Of these lines of credit, $238 million is available to ensure the performance of the foreign currency settlement process in the event that a Clearing Member should fail to deliver foreign currencies on a timely basis and $150 million is available to enable OCC to meet any suspension obligations or to reimburse itself for bankruptcy losses. No amounts were outstanding during 2003 or 2002 under these lines. The remaining $30 million is available to meet working capital requirements incurred in the ordinary course of business. Commitment fees are paid to the issuing banks for these lines of credit.

In August 2002, OCC entered into a $20 million revolving credit facility with a major domestic bank. This facility expired on August 13, 2003, and no amount was outstanding as of December 31, 2003. During a portion of 2003 and as of December 31, 2002, $18 million was outstanding under this facility. Interest rates were variable, with an effective rate of interest of 2.05% as of December 31, 2002. In August 2003, OCC entered into a $10 million revolving credit facility with a major domestic bank. This facility expires on August 13, 2004, and no amount was outstanding during 2003.

OCC performs a guarantee function which ensures the financial integrity of the markets it clears. Consequently, OCC bears counterparty credit risk in the event that future market movements create conditions which could lead to Clearing Members failing to meet their obligations. OCC is thus exposed to off-balance-sheet risk with respect to the securities broker dealers and futures commission merchants that are its Clearing Members.

OCC reduces its exposure through a risk management program that strives to achieve a prudent balance between market integrity and liquidity. This program of safeguards, which provides substance to OCC's guarantee, consists of: rigorous initial and ongoing financial responsibility standards for membership; margin deposits (see Note 3); and clearing fund deposits (see Note 4).

The carrying value of OCC's cash equivalents approximates fair value because of the short maturities of those investments. Margin deposits, which are not reflected in the statements of consolidated financial condition, and clearing fund deposits, which are reflected, are shown in Notes 3 and 4 respectively, at market value at December 31, 2003.

OCC does not assume any guarantor role unless it has a precisely equal, and offsetting, claim against a Clearing Member. Therefore, the fair value of the open interest of options, futures and options on futures contracts and stock loan/borrow positions cleared and settled by OCC is not included in the consolidated statements of financial condition. OCC's obligations under the guarantee would arise if future market movements create obligations owed by a Clearing Member to OCC that cannot be met by the Clearing Member. As of December 31, 2003, the amount of margin required by OCC to support its guarantee was $30.2 billion, which represents the following day's aggregate mark-to-market requirement plus an additional amount to cover a one day adverse price move. OCC requires margin deposits and clearing fund deposits to collaterize its guarantee, as described in Notes 3 and 4, respectively.

NOTE 3. MARGIN DEPOSITS

The rules and practices established by OCC provide that each Clearing Member representing the seller of a cleared contract must either deposit the underlying interest (in the case of call options) or maintain specified margin deposits. They also require that margin deposits be made in respect of certain stock loan/borrow positions. Such margin deposits are in the form of cash, bank letters of credit, U.S. Government securities, U.S. Government sponsored enterprise debt securities or other acceptable margin securities ("valued securities"). The margin deposits of each Clearing Member are available to meet only the financial obligations of that Clearing Member to OCC. All margin deposits, except letters of credit, are held at securities depositories or banks. All obligations and noncash margin deposits are marked to market on a daily basis. OCC also haircuts, on a daily basis, the fair value of securities and U.S. Government securities with more than one year to maturity to provide a cushion against adverse price fluctuations. Valued securities are given margin credit at 70% of the daily closing bid price. The margin credit granted for the securities of any one issuer cannot exceed 10% of a Clearing Member's daily margin requirement.

Under OCC's rules, bank letters of credit are required to be irrevocable. Cash margin deposits which OCC holds may be invested, and any interest or gain received or loss incurred on invested funds accrues to OCC.

The fair values of underlying securities and margin deposits at December 31, 2003 were approximately as follows (foreign government securities are converted to U.S. dollars using the year-end exchange rate):

Underlying securities at market value	$ 10,520,925,000
Valued securities at market value	31,823,172,000
Cash and temporary investments	229,695,000
Bank letters of credit	5,090,680,000
Government securities deposited as margin	7,379,879,000
Government sponsored enterprise debt securities	31,705,000
Total	$ 55,076,056,000

Further, as of December 31, 2003, OCC had accepted index option escrow deposits, which represent acceptable collateral on deposit with approved banks, in lieu of margin for approximately 28,000 short index contracts. At December 31, 2003, the market value of the index option contracts collateralized under the escrow deposit program approximated $2.6 billion. At December 31, 2003, margin deposits were in excess of that required by OCC.

OCC also maintains cross-margining arrangements with certain U.S. commodities clearing organizations. Under the terms of these arrangements, an OCC Clearing Member that is also a Clearing Member of one or more commodities clearing organizations participating in the cross-margining arrangement, or that has an affiliate that is a Clearing Member of one or more such commodities clearing organizations, may maintain cross-margin accounts in which the Clearing Member's positions in OCC-cleared options are combined, for purposes of calculating margin requirements, with positions of the Clearing Member (or its affiliate) in futures contracts and/or options on futures contracts. Margin deposits on the combined positions are held jointly by OCC and the participating commodities clearing organization(s) and are available (together with any proceeds of the options and futures positions themselves) to meet financial obligations of the Clearing Member(s) to OCC and the commodities clearing organization(s). In the event that either OCC or one or more participating commodities clearing organization suffers a loss in liquidating positions in a cross-margin account, the loss is to be shared among OCC and the participating commodities clearing organization(s) in accordance with their agreement. Margin deposits for cross-margin accounts may be in the form of cash, valued securities, U.S. Government securities, U.S. Government sponsored enterprise debt securities or bank letters of credit.

NOTE 4. CLEARING FUND DEPOSITS

OCC maintains a clearing fund to cover possible losses should a Clearing Member, bank, or a securities or commodities clearing organization default. The clearing fund is a percentage of the average daily aggregate margin requirement for positions outstanding during the preceding calendar month. It therefore expands and contracts in size from month to month. A Clearing Member's clearing fund deposit is based on its pro-rata share of the average daily options, stock loan/borrow, futures and options on futures positions outstanding during the preceding month. The clearing fund mutualizes the risk of default among all Clearing Members. The entire clearing fund is available to cover potential losses in the event that the margin deposit and the clearing fund deposit of a defaulting Clearing Member are inadequate or not immediately available to fulfill that Clearing Member's outstanding financial obligations. In the event of a default, OCC is generally required to liquidate the defaulting Clearing Member's open positions. To the extent that such positions remain open, OCC is required to assume the defaulting Clearing Member's obligations related to the open positions. The clearing fund is available to cover the cost of liquidating a defaulting Clearing Member's open positions or performing OCC's obligations with respect to positions not yet liquidated.

Clearing fund deposits must be in the form of cash or Government securities (as defined in the by-laws), as the clearing fund is intended to provide OCC with an immediately available pool of liquid assets. Clearing Members may make clearing fund deposits in cash to OCC or in an approved segregated funds account, or in Government securities to various securities depositories or banks. Cash deposits in nonsegregated accounts may be invested, and any interest or gain received or loss incurred on invested funds accrues to OCC. Segregated funds cannot be invested by OCC. The total amount of the clearing fund (all foreign government securities are converted to U.S. dollars using the year-end exchange rate) at December 31, 2003 was as follows:

Cash and temporary investments	$ 24,011,000
Government securities, at market value	1,609,619,000
Total	$ 1,633,630,000

The clearing fund at December 31, 2002 was $1,358,715,000.

NOTE 5. COMMON STOCK, STOCKHOLDERS AGREEMENT AND AGREEMENTS WITH EXCHANGES

OCC has Class A and Class B common stock, each with a $10 par value, 60,000 shares authorized, 30,000 shares issued and 25,000 shares outstanding at December 31, 2003 and 2002.

At December 31, 2003 and 2002, treasury stock comprised 5,000 shares of Class A common stock and 5,000 shares of Class B common stock at a cost of $333,333.

The Class B common stock is issuable in twelve series of 5,000 shares each. The Class B common stock is entitled to receive dividends, whereas the Class A common stock is not. Upon liquidation of OCC, holders of Class A common stock and Class B common stock would first be paid the par value of their shares. Next, each holder of Class B common stock would receive a distribution of $1,000,000. Next, an amount equal to OCC's shareholders' equity at December 31, 1998 of $22,902,094, minus the distributions described above, would be distributed to those holders who acquired their Class B common stock before December 31, 1998. Finally, any remaining shareholders' equity would be distributed equally to all holders of Class B common stock.

The by-laws of OCC provide that any national securities exchange or national securities association which meets specific requirements may qualify for participation in OCC. Until 2002, exchanges qualified for participation by purchasing 5,000 shares of Class A common stock and 5,000 shares of Class B common stock. The purchase price for such shares was the aggregate book value of a comparable number of shares at the end of the preceding calendar month, but not more than $1,000,000. In 2002, OCC amended its by-laws to provide that in the future, exchanges will qualify for participation in OCC by purchasing a $1,000,000 promissory note. All of OCC's participant exchanges at December 31, 2003 were stockholders.

OCC is a party to a Stockholders Agreement with its shareholders. The Stockholders Agreement provides that each stockholder appoints the members of the Nominating Committee of OCC as its proxy for purposes of voting its shares for the election of member directors, the Chairman of OCC as the management director, the person(s) nominated by the Chairman of OCC with the approval of the Board of Directors as the public director(s), and members of the following year's Nominating Committee. It also provides for the purchase by OCC of all of its stock owned by any stockholder under specified circumstances, but the obligation to pay the purchase price will be subordinated to OCC's obligations to creditors, and the purchase price cannot be paid if the payment would reduce capital and surplus below $1,000,000. If OCC is required to purchase its stock from any stockholder, the purchase price for the two years following the date the stockholder acquired its stock is the stockholder's purchase price paid reduced by $300,000. Thereafter, the purchase price is the lesser of the aggregate book value of the shares or the original purchase price paid, less $240,000, $180,000, $120,000, $60,000 or zero after the second, third, fourth, fifth or sixth year, respectively, from the date of sale of such stock.

OCC is also a party to a Restated Participant Exchange Agreement dealing with the business relationship between and among OCC and each participant exchange.

In 2002, OCC entered into separate clearing and settlement services agreements for security futures with Nasdaq Liffe Markets LLC (subsequently renamed NQLX LLC), OneChicago LLC, and The Island Futures Exchange LLC dealing with the business relationship between OCC and such exchange. Each security futures exchange paid a $250,000 fee to OCC which is refundable in whole or in part to such exchange if it ceases to clear security futures through OCC. The amount of such refund is the lesser of $250,000 or 50% of the aggregate clearing fees received by OCC for trades in security futures executed on that market. In 2003, OCC entered into similar agreements with CBOE Futures Exchange, LLC and Philadelphia Board of Trade, Inc.

NOTE 6. SALE AND BUY BACK AGREEMENTS

Sale and buy back agreements outstanding, including amounts in margin and clearing fund deposits, averaged $135 million and $87 million during 2003 and 2002, respectively, and the maximum amount outstanding during 2003 and 2002 was $504 million and $181 million, respectively. The amounts outstanding approximate the market value of the underlying securities.

NOTE 7. CLEARING FEES

OCC's Board of Directors sets clearing fees and determines the amounts of refunds and discounts, if any, based upon the current needs of OCC. The Board of Directors determined in the years ended December 31, 2003, 2002 and 2001 that refunds and discounts of clearing fees be made to Clearing Members. Such refunds and discounts, which have been netted against clearing fees in the statements of consolidated income and retained earnings, were $33,116,000, $14,054,000 and $26,656,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

NOTE 8. COMMITMENTS

Future minimum rental payments under noncancelable operating leases (principally for office space and data processing equipment) in the aggregate in effect as of December 31, 2003 are as follows:

2004	$ 11,199,000
2005	7,857,000
2006	5,800,000
2007	5,434,000
Thereafter	30,222,000
Total	$ 60,512,000

Rental expense for the years ended December 31, 2003, 2002 and 2001 was $20,035,000, $15,814,000 and $15,429,000, respectively.

OCC has employment agreements with certain of its senior officers. The aggregate commitment for future salaries and deferred compensation payment at December 31, 2003, excluding bonuses, was approximately $4.0 million.

NOTE 9. RELATED PARTY TRANSACTIONS

Certain exchanges and their affiliates provide some operational and other services on behalf of OCC for which expenses of approximately $302,000, $281,000 and $189,000 were incurred for the years ended December 31, 2003, 2002, and 2001, respectively.

OCC also bills and collects transaction fees on behalf of the Chicago Board Options Exchange, Incorporated, Pacific Exchange, Inc., International Securities Exchange Inc., NQLX LLC, and OneChicago LLC. Fees billed and uncollected by OCC, and not remitted to the exchanges, at December 31, 2003 and 2002 were $24,655,000 and $15,067,000, respectively, and are included in the statements of consolidated financial condition as exchange billing receivable and payable.

In 1992, OCC and its participant exchanges formed an industry organization named The Options Industry Council ("OIC"). The total amounts expended by OCC on behalf of OIC before reimbursement from the participant exchanges for the years ended December 31, 2003, 2002 and 2001 were $3,958,000, $4,010,000 and $3,900,000, respectively. The participant exchanges' share of OIC expenditures for December 31, 2003, 2002 and 2001 was $1,997,000, $2,192,000 and $1,912,000, respectively. At December 31, 2003 and 2002, the amounts due from participant exchanges were $863,000 and $775,000, respectively.

Transactions between OCC and participant exchanges and their affiliates are settled by cash payments.

NOTE 10. INCOME TAXES

The provision for income taxes is reconciled to the amount determined by applying the statutory federal income tax rate to income before taxes as follows:

Years ended December 31	2003	2002	2001
Federal income tax at the statutory rates	$ —	$ 4,851,206	$ 2,881,515
Permanent tax differences	169,806	49,892	99,623
State income tax effect	25,330	728,232	442,943
Tax credits	(250,000)	—	—
Other	686	461	205
Provision (benefit) for income taxes	$ (54,178)	$ 5,629,791	$ 3,424,286

The deferred tax asset (liability) consists of the following:

December 31	2003	2002
Compensation and employee benefits	$ 676,411	$ 703,341
Current asset	676,411	703,341
Accelerated depreciation and amortization	(22,488,157)	(22,911,870)
Pension and postretirement benefits	11,400,983	7,638,669
Net operating loss carryforward	4,753,881	3,706,970
Other items	1,127,452	1,133,713
Non-current liability	(5,205,841)	(10,432,518)
Total	$(4,529,430)	$(9,729,177)

At December 31, 2003, OCC has federal and state net operating loss carryforwards of approximately $6.2 and $17.7 million, respectively, available to offset future taxable income. These net operating loss carryforwards expire in 2021.

NOTE 11. RETIREMENT PLANS

OCC has a trusteed, non-contributory, qualified retirement plan ("Retirement Plan") covering employees who meet specified age and service requirements. Retirement benefits are primarily a function of both years of service and the level of compensation during the highest consecutive five years out of the last ten years before retirement ("highest average compensation"). OCC also has a supplemental executive retirement plan ("SERP") which includes a benefit replacement plan. Retirement benefits are primarily a function of both years of service and the level of compensation during the highest nonconsecutive three years out of the last ten years before retirement. In 2002, OCC amended its Retirement Plan such that certain employees are no longer eligible to earn future benefit service after December 31, 2002. Vested benefits for such employees will continue to be based on their highest average compensation, and they became eligible to participate in the defined contribution plan discussed below effective January 2, 2003. Participation in the Retirement Plan was frozen effective March 7, 2002. Additionally, in 2002, OCC amended the Retirement Plan which resulted in a $5,272,000 transfer of pension benefit obligation from the SERP to the Retirement Plan.

OCC's funding policies, subject to the minimum funding requirements of U.S. employee benefit and tax laws, are to contribute such amounts as are determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligation of the plans.

Net periodic benefit cost of the Retirement Plan and the SERP consisted of the following:

Years ended December 31	2003	2002	2001
Service cost	$ 1,639,000	$ 1,650,000	$ 1,427,000
Interest cost	3,705,000	3,395,000	2,745,000
Expected return on assets	(2,068,000)	(2,187,000)	(2,363,000)
Amortization:			
Transition obligation	–	2,000	12,000
Prior service cost	67,000	48,000	83,000
Actuarial (gain)/loss	2,014,000	1,323,000	247,000
Net periodic benefit cost	$ 5,357,000	$ 4,231,000	$ 2,151,000

Assets and liabilities for the Retirement Plan and the SERP were measured as of September 30, 2003. The funded status as of December 31, 2003 approximates the funded status as of September 30, 2003. The plans' benefit obligation, plan assets and funded status are as follows:

Years ended December 31	2003	2002
Change in Benefit Obligation:		
Net benefit obligation at beginning of year	$ 53,584,000	$ 43,986,000
Service cost	1,639,000	1,650,000
Interest cost	3,705,000	3,395,000
Plan amendments	40,000	5,000
Actuarial loss	10,788,000	5,096,000
Gross benefits paid	(774,000)	(548,000)
Net benefit obligation at end of year	$ 68,982,000	$ 53,584,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 22,171,000	$ 21,594,000
Actual return on plan assets	4,760,000	(2,456,000)
Employer contributions	4,690,000	3,581,000
Gross benefits paid	(774,000)	(548,000)
Fair value of plan assets at end of year	$ 30,847,000	$ 22,171,000
Funded Status:		
Funded status at end of year	$ (38,135,000)	$ (31,413,000)
Unrecognized net actuarial loss	31,554,000	25,472,000
Unrecognized prior service cost	461,000	487,000
Fourth quarter contributions/ benefits	848,000	45,000
Net amount recognized as accrued benefit liability	$ (5,272,000)	$ (5,409,000)
Amounts recognized in the statements of consolidated financial condition consist of:		
Prepaid benefit cost	$ 5,563,000	$ 3,951,000
Accrued benefit liability	(33,124,000)	(27,817,000)
Intangible asset	461,000	487,000
Accumulated other comprehensive loss	21,828,000	17,970,000
Net amount recognized as accrued benefit liability	$ (5,272,000)	$ (5,409,000)

The accumulated benefit obligation for the Retirement Plan and the SERP was $59,253,000 and $46,082,000 at December 31, 2003 and 2002, respectively.

The unfunded accumulated benefit obligation for the Retirement Plan and the SERP was $28,406,000 and $23,911,000 at December 31, 2003 and 2002, respectively. The $21,828,000 excess of the unfunded accumulated benefit obligation over the net amounts recognized has been recorded as accumulated other comprehensive loss in the statements of consolidated financial condition net of tax.

The major assumptions used to determine the accumulated benefit obligations and benefit costs are a 6.00% discount rate and 4.75% future salary increases as of September 30, 2003 and a 6.75% discount rate and 4.75% future salary increases as of September 30, 2002. The expected long term rate of return on plan assets was 9.0% in 2003 and 9.5% in 2002, derived using the plan's asset mix, historical returns by asset category, expectations for future capital market performance, and the fund's past experience. Both the plan's investment policy and the expected long term rate of return assumption are reviewed periodically.

OCC's expected cash outlays for employer contributions in 2004 are $5,867,000, and expected cash outlays for benefit payments are as follows:

2004	$ 1,752,000
2005	1,935,000
2006	2,535,000
2007	3,061,000
2008	3,328,000
2009–2013	23,920,000
Total	$ 36,531,000

The primary investment objective for the plan is to earn the maximum rate of return consistent with a chosen risk exposure. Over a three to five year period, the actively managed portion of the fund is expected to outperform a blended benchmark of the actively managed asset classes. The plan's current investment mix is 55% equities, 30% bonds and 15% international equities.

OCC also maintains a defined contribution plan qualified under Internal Revenue Code Section 401(k) for eligible employees who elect to participate in the plan. Eligible employees may elect to have their salaries reduced by an amount which is subject to applicable IRS limitations. This amount is then paid into the plan by OCC on behalf of the employee.

OCC will make matching contributions to the participant's account equal to 50% of deferred deposits up to the first six percent of salary that is deferred. OCC's expenses for the matching contributions to the plan for the years ended December 31, 2003, 2002 and 2001 were $819,000, $811,000 and $764,000, respectively. In 2003, the plan was restated under a new plan document. The restated plan contains a profit-sharing component for individuals not eligible to earn future benefit service in the Retirement Plan as discussed above. Profit sharing contributions to the plan were $875,000 in 2003.

NOTE 12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

OCC has a postretirement welfare plan covering employees who meet specified age and service requirements. Retiree contributions to medical payments vary by age and service at retirement. The plan is a defined dollar benefit plan in which OCC's obligation is limited to a maximum amount per participant set by OCC at the time a participant retires. On December 1, 2003, the voluntary employees' beneficiary association trust established by the postretirement welfare plan was terminated. Assets in the trust on the termination date were used to pay current claims and premiums due.

Net periodic benefit cost consisted of the following:

Years ended December 31	2003	2002	2001
Service cost	$ 418,000	$ 214,000	$ 148,000
Interest cost	456,000	286,000	218,000
Expected return on assets	(100,000)	(80,000)	(63,000)
Amortization:			
Transition obligation	28,000	28,000	28,000
Prior service cost	133,000	144,000	144,000
Actuarial (gain) loss	155,000	1,000	(9,000)
Total net periodic benefit cost	$ 1,090,000	$ 593,000	$ 466,000

Assets and liabilities for the postretirement welfare plan were measured as of September 30, 2003. The funded status as of December 31, 2003 approximates the funded status as of September 30, 2003.

The plan's benefit obligation, plan assets and funded status are as follows:

Years ended December 31	2003	2002
Change in Benefit Obligation:		
Net benefit obligation at beginning of year	$ 6,377,000	$ 3,635,000
Service cost	418,000	214,000
Interest cost	456,000	286,000
Plan amendment	–	(74,000)
Actuarial loss	547,000	2,400,000
Gross benefits paid	(100,000)	(84,000)
Net benefit obligation at end of year	$ 7,698,000	$ 6,377,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 839,000	$ 636,000
Actual return on plan assets	205,000	(111,000)
Employer contributions	386,000	398,000
Gross benefits paid	(100,000)	(84,000)
Fair value of plan assets at end of year	$ 1,330,000	$ 839,000
Funded Status:		
Funded status at end of year	$(6,368,000)	$(5,538,000)
Unrecognized net actuarial loss	3,257,000	2,971,000
Unrecognized prior service cost	750,000	883,000
Unrecognized net transition obligation	253,000	281,000
Fourth quarter contributions	200,000	311,000
Net amount recognized as accrued benefit liability	$(1,908,000)	$(1,092,000)

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 6.00% in 2003 and 6.75% in 2002.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 10.5% in 2003, decreasing by one percentage point per year reaching 5% in 2010.

A one percentage point increase in the assumed health care cost trend rate for each year would not have a material effect on the accumulated postretirement benefit obligation or net periodic benefit cost.

OCC's expected cash outlays for employer contributions in 2004 are $304,000 and expected cash outlays for benefit payments are as follows:

2004	$ 121,000
2005	147,000
2006	174,000
2007	203,000
2008	236,000
2009–2013	1,905,000
Total	$ 2,786,000

NOTE 13. CONTINGENCIES

In the normal course of business, OCC may be subjected to various lawsuits and claims. At December 31, 2003, no litigation exists which OCC management believes would have a material adverse effect on the consolidated financial statements of OCC.

NOTE 14. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 132-Revised, *Employers Disclosures about Pensions and Other Postretirement Benefits*. SFAS No. 132-Revised replaces SFAS No. 132 and requires additional disclosures regarding the types of plan assets, investment strategies, measurement dates, plan obligations, and cash flows related to pension and other postretirement benefit plans. The disclosure provisions of SFAS No. 132-

Revised are effective for financial statements with fiscal years ending after June 15, 2004, however, OCC has adopted these provisions for its fiscal year ended December 31, 2003. See Notes 11 and 12 for these additional disclosures.

In December 2003, the FASB issued FASB Staff Position 106-1 ("FSP 106-1") which permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act introduces a prescription drug benefit under Medicare Part D, as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is actuarially equivalent to Medicare Part D. The Corporation has elected to defer accounting for the effects of the Federal subsidy, as provided under the FSP 106-1, since authoritative guidance with respect thereto has not been issued. As a result, accumulated post benefit obligation and net periodic postretirement benefit cost in the consolidated financial statements and accompanying notes do not reflect the effects of the Act on the plan. Also, the specific authoritative guidance on the accounting for the Federal subsidy is pending and that guidance, when issued, could require the sponsor to change previously reported information.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 were effective for financial statements for periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Upon adoption of the disclosure provisions of FIN 45 in 2002, OCC expanded its existing disclosures pertaining to its margin requirements. The initial recognition and measurement provisions of FIN 45 are not applicable to OCC given the nature of its performance obligations, which are described in Note 2.

In January 2001, OCC adopted the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Additionally, SFAS No. 133 requires changes in the fair market value of derivatives to be recorded each period in current earnings or shareholders' equity, depending on the intended use of the derivatives. There was no financial statement impact at the time of adoption.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of* and the accounting provisions of Accounting Principles Board ("APB") Opinion No. 30, Reporting the Results of Operations-*Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. SFAS No. 144 also amends Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements*, to eliminate the exception for consolidation of a subsidiary for which control is likely to be temporary. SFAS No. 144, which was effective for OCC January 1, 2002, requires that long-lived assets held for sale be recorded at the lower of carrying value or fair value less cost to sell. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of. The adoption of SFAS No. 144 did not have a material impact on either the consolidated financial position or results of operations of OCC.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of consolidated financial condition of The Options Clearing Corporation and Subsidiaries (the "Corporation") as of December 31, 2003 and 2002 and the related statements of consolidated income and retained earnings, consolidated comprehensive income and consolidated cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Corporation'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Corporation at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Chicago, Illinois
January 27, 2004

CLEARING MEMBERS

As of December 31, 2003

A

ABN AMRO Incorporated
ABN AMRO Sage Corporation
Ameritrade, Inc.
Assent LLC

B

BMO Nesbitt Burns Inc.*
BNP Paribas Brokerage Services, Inc.
BNY Brokerage Inc.
BNY Clearing Services LLC
Robert W. Baird & Co. Incorporated
Banc of America Futures, Inc.
Banc of America Securities LLC
Banc One Capital Markets, Inc.
Barclays Capital Inc.
Bear, Stearns Securities Corp.
Sanford C. Bernstein & Co., LLC
Bidwell & Company
William Blair & Company, L.L.C.

C

CIBC World Markets Corp.
CIBC World Markets Inc.*
Cargill Investor Services, Inc.
Carr Futures Inc.
Citigroup Global Markets Inc.
Commerzbank Capital Markets Corp.
Credit Lyonnais Securities (USA) Inc.
Credit Suisse First Boston LLC

D

Deutsche Bank Securities Inc.
Dundee Securities Corporation*

E

E*TRADE Clearing LLC
A.G. Edwards & Sons, Inc.
Electronic Brokerage Systems, Inc.

F

FIMAT USA, Inc.
Ferris, Baker Watts, Incorporated
First Albany Corporation
First Clearing, LLC
First Options of Chicago, Inc.
First Southwest Company
Fiserv Securities, Inc.
Fleet Securities, Inc.
Fortis Investment Services, LLC

G

Gelber Group, LLC
Goldenberg, Hehmeyer & Co.
Goldman, Sachs & Co.

H

H&R Block Financial Advisors, Inc.
HSBC Brokerage (USA) Inc.
J.J.B. Hilliard, W.L. Lyons, Inc.
Wayne Hummer Investments L.L.C.

I

iClearing LLC
Ingalls & Snyder L.L.C.
Instinet Clearing Services, Inc.
Interactive Brokers LLC

J

Janney Montgomery Scott LLC
Jefferies & Company, Inc.

K

KV Execution Services LLC
Kellner, DiLeo & Co.
Knight Execution Partners LLC

L

LaBranche Financial Services, Inc.
Lakeshore Securities, L.P.
Legent Clearing Corp.
Legg Mason Wood Walker, Incorporated
Lehman Brothers Inc.
Lek Securities Corporation
Linsco/Private Ledger Corp.

M

MS Securities Services Inc.
Bernard L. Madoff Investment Securities LLC
Man Financial Inc.
Man Securities Inc
Maple Securities U.S.A. Inc.
McDonald Investments Inc.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Merrill Lynch Professional Clearing Corp.
Mesirow Financial, Inc.
Morgan, Keegan & Company, Inc.
J.P. Morgan Futures Inc.
J.P. Morgan Invest, LLC
J.P. Morgan Securities Inc.
Morgan Stanley & Co. Incorporated
Morgan Stanley DW Inc.

N

Natexis Bleichroeder Inc.
National Bank Financial Inc.*
National Clearing Corp.
National Financial Services LLC
National Investor Services Corp.
Neuberger Berman, LLC
Nomura Securities International, Inc.

O

O'Connor & Co. L.L.C.
Oppenheimer & Co. Inc.

P

Pax Clearing Corporation
Penson Financial Services, Inc.
Pershing LLC
PreferredTrade, Inc.
Prime Dealer Services Corp.
Prudential Securities Incorporated

R

RBC Dain Rauscher Inc.
RBC Dominion Securities Corporation
RBC Dominion Securities Inc.*
Raymond James & Associates, Inc.
Refco, LLC
Refco Securities, LLC
Robeco USA, L.L.C.

S

SG Cowen Securities Corp.
SMW Trading Company, Inc.
Schonfeld Securities, LLC
Charles Schwab & Co., Inc.
ScotiaMcLeod Inc.*
Scott & Stringfellow, Inc.
Scottrade, Inc.
Southwest Securities, Inc.
Spear, Leeds & Kellogg
Stephens, Inc.
Stifel, Nicolaus & Company, Incorporated
StockCross Financial Services Inc.
Swiss American Securities Inc.

T

TD Waterhouse Canada Inc.*
Timber Hill LLC
TradeLink L.L.C.
Tradition Asiel Securities Inc.

U

U.S. Bancorp Piper Jaffray Inc.
UBS Financial Services Inc.
UBS Securities LLC
USAA Investment Management Company

W

Wachovia Securities, LLC
Wedbush Morgan Securities, Inc.
H.G. Wellington & Co. Inc.

Z

Ziv Investment Company

*Non-U.S. Clearing Member

BANKS AND DEPOSITORY

As of December 31, 2003

CLEARING BANKS

CHICAGO
Bank One, N.A.
Harris Trust & Savings Bank

CONCORD, CA
Bank of America, N.A.

FRANKFURT
Bank of America, N.A.

GENEVA
Bank of America, N.T. & S.A.

LONDON
Bank of America, N.A.
Bank One, N.A.
Citibank, N.A.

MEXICO CITY
Bank of America, Mexico

NEW YORK
The Bank of New York
Brown Brothers Harriman & Company
Citibank, N.A.
Deutsche Bank Trust Company, Americas
JP Morgan Chase Bank

PHILADELPHIA
PNC Bank, N.A.

SYDNEY
Citibank Limited

TOKYO
Bank of America, N.A.
Bank of Tokyo-Mitsubishi, Ltd.
Citibank, N.A.

TORONTO
Bank of Montreal
Citibank Canada

APPROVED DEPOSITORY
The Depository Trust Company

LETTER OF CREDIT BANKS
(U.S. Institutions)

CALIFORNIA
Bank of America, N.A.
Union Bank of California
Wells Fargo Bank, N.A.

DISTRICT OF COLUMBIA
Riggs Bank

GEORGIA
Sun Trust Bank

ILLINOIS
Bank of America, N.A.
Bank One, N.A.
Harris Trust & Savings Bank
The Northern Trust Company

MARYLAND
Allfirst Bank

MASSACHUSETTS
State Street Bank & Trust Company

MICHIGAN
Comerica Bank

MISSOURI
Commerce Bank, N.A.
U.S. Bank, N.A.

NEW YORK
The Bank of New York
Bank of Tokyo – Mitsubishi Trust Company
Citibank, N.A.
Deutsche Bank Trust Company, Americas
HSBC Bank USA
JP Morgan Chase Bank
U. S. Trust Company of New York

PENNSYLVANIA
Fleet National Bank
Mellon Bank, N.A.
PNC Bank, N.A.

WISCONSIN
U.S. Bank, N.A.

LETTER OF CREDIT BANKS
(Non-U.S. Institutions)

FLORIDA
Lloyds Bank, Plc.

ILLINOIS
Bank of Montreal

NEW JERSEY
Standard Chartered Bank

NEW YORK
ABN AMRO Bank N.V.
Australian and New Zealand Banking Group Limited
BNP Paribas
Banco Santander Central Hispaño, S.A.
Bayerische Hypo-Und Vereinsbank A.G.
Commerzbank, A.G.
Credit Industriel et Commerical
Credit Lyonnais
Credit Suisse First Boston
DG Bank
Danske Bank
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Rabobank International
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San Paolo Bank
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CUSTODIAN BANKS

CALIFORNIA

Union Bank of California

GEORGIA

Sun Trust Bank

ILLINOIS

Harris Trust & Savings Bank
The Northern Trust Company

MARYLAND

Mercantile-Safe Deposit & Trust Company

MASSACHUSETTS

Investors Bank & Trust
State Street Bank & Trust Company

MICHIGAN

Comerica Bank

MINNESOTA

Wells Fargo Bank Minnesota, N.A.

NEW YORK

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Citibank, N.A.
Deutsche Bank Trust Company, Americas
Fiduciary Trust Company International
JP Morgan Chase Bank
U.S. Trust Company of New York

OHIO

The Fifth Third Bank
Keybank National Association
National City Bank

PENNSYLVANIA

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As of December 31, 2003

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Cash Securities Technology
Banc of America
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Melva S. Demmer
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Exchange, Inc.

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Managing Director, Operations
Securities Industry Automation
Corporation

Paul Sprecher
Vice President
Securities Industry Automation
Corporation

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Legislative Office
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Washington, D.C. 20004
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OCC/OIC Marketing Office
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London, England EC3A 8EE
44 20 7444 0411

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CLEARING CORPORATION

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312.322.6200
www.optionsclearing.com