TRUST

SECURITY

GROWTH

SERVICE

STRENGTH

BUILDING UPON TRUST AND CONFIDENCE

The Options Clearing Corporation Annual Report 2004

OUR 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 stockholder 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.

OUR MISSION

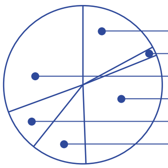
The Options Clearing Corporation is a customer-driven clearing organization that delivers world-class risk management, clearance and settlement services at a reasonable cost; and provides value-added services that advocate and grow the markets we serve.

PARTICIPANT EXCHANGES • American Stock Exchange LLC, New York, NY • Boston Stock Exchange, Incorporated, Boston, MA • 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 • OneChicago Exchange LLC, Chicago, IL • Philadelphia Board of Trade, Inc., Philadelphia, PA

Year in Review

For the year ended December 31, 2004



OPTIONS VOLUME

AMEX TOTAL CONTRACTS	**202,692,231**	
Equity	195,402,074	96.40%
Index	7,290,157	3.60%
BOX TOTAL CONTRACTS	**20,741,271**	
Equity	20,741,271	100.00%
CBOE TOTAL CONTRACTS	**361,086,774**	
Equity	275,575,899	76.32%
Index	85,510,875	23.68%
ISE TOTAL CONTRACTS	**360,852,519**	
Equity	360,769,161	99.98%
Index	83,358	0.02%
PCX TOTAL CONTRACTS	**103,262,458**	
Equity	103,262,458	100.00%
PHLX TOTAL CONTRACTS	**133,404,843**	
Equity	127,898,363	95.87%
Index	5,275,701	3.96%
Foreign Currency	230,779	0.17%
OCC TOTAL OPTIONS CONTRACTS	**1,182,040,096**	
Equity	1,083,649,226	91.68%
Index	98,160,091	8.30%
Foreign Currency	230,779	0.02%

FUTURES VOLUME

CFE TOTAL CONTRACTS	**91,332**	
Index Futures	91,332	100.00%
NQLX TOTAL CONTRACTS	**257,000**	
Single-Stock Futures	257,000	100.00%
ONE TOTAL CONTRACTS	**1,922,726**	
Single-Stock Futures	1,922,726	100.00%
OCC TOTAL FUTURES CONTRACTS	**2,271,202**	
Single-Stock Futures	2,179,726	95.97%
Index Futures	91,332	4.02%
Currency Futures*	144	0.01%

*Traded on the Philadelphia Board of Trade.

1,000,568,807

THE OPTIONS INDUSTRY REACHED A
HISTORIC MILESTONE ON NOVEMBER 9, SURPASSING
ONE BILLION CONTRACTS TRADED.

Message to the Membership

On November 9, The Options Clearing Corporation witnessed a tremendous milestone when year-to-date total options volume topped 1 billion contracts, marking the first time that volume has hit this number in a single trading year. Together with the exchanges, member firms and market participants, we celebrated this memorable landmark that confirms the appeal, growth and success of listed options.

This notable event capped off another record-breaking year, as the options market's rate of growth continues to outpace that of the stock market. Total options volume across the exchanges reached an astounding 1,182,040,096 contracts in 2004, a 30 percent increase over last year's record. Daily options volume averaged just under 4.7 million contracts as compared to the former record 3.6 million contracts. This was punctuated by eight trading days that eclipsed the previous daily record set in 2001, including January 16 when 8,604,407 contracts were traded. Open interest set a new high on November 19, with total open interest reaching more than 177 million contracts.

These highpoints of 2004 have encouraged us to reflect on the traits that foster our success. It is through trust and confidence that OCC is able to serve as a cornerstone of this industry. We take pride in what we do, day in and day out, each small task acting as a building block of our overall structure. Together, these blocks provide the steadfast foundation that our customers and business partners have come to rely on, even in times of change and uncertainty. Our dependability constantly reinforces the trust that has allowed us to grow into who we are today.

As in recent years, 2004 efforts concentrated on business continuity planning, further securing our ability to function in the event of a crisis or catastrophe. This year, we neared completion of our three main disaster recovery initiatives. First, we established a remote data center with equivalent production capabilities. Second, we began allocating staff between Chicago and the remote site to provide for long-term processing in either location. Finally, we transferred daily production processing to the remote site in July, a major technical challenge requiring extensive testing and preparation. During this conversion, OCC incorporated several technological enhancements including an improved data replication system, new mainframe technology and a new network infrastructure.

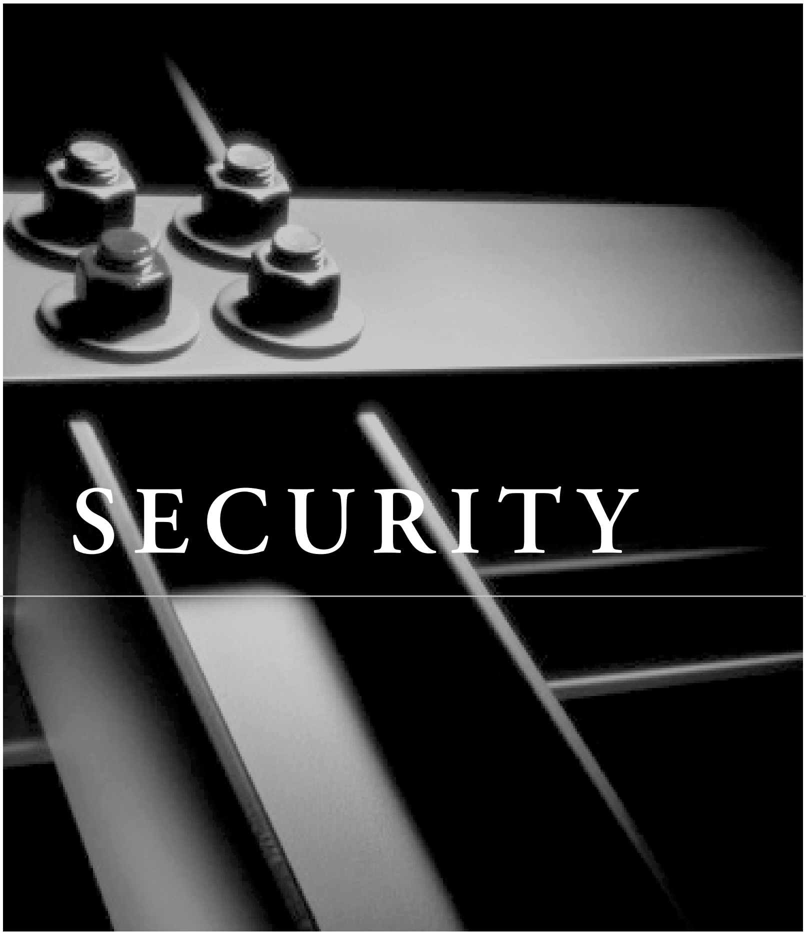
OCC's commitment to business continuity also extends to our support and leadership of various organizations. We are active with ChicagoFIRST, a local public-private partnership committed to increasing the resilience of the Chicago financial services industry. This 16-member coalition consists of the largest financial services firms in the Chicago area, including exchanges, banks, brokerage firms and clearing organizations. Since its inception in the spring of 2003, ChicagoFIRST has been working actively with city, state and federal agencies to deal with a variety of credentialing, evacuation and crisis communication issues. We are proud that the U.S. Department of the Treasury has recognized ChicagoFIRST as a template for other regional efforts to improve business continuity within the financial services community. Additionally, OCC maintains leadership roles in the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security, a group that works to help reinforce the financial services sector's resilience against terrorist attacks and other threats to the nation's financial infrastructure, and the Financial Services Information Sharing and Analysis Center, Inc., a collaborative effort to create and improve processes for detecting and providing information on physical or cyber security risks.

Beyond security, OCC strives to maintain a structure that will support and encourage market growth, including new business partners. In February, OCC welcomed the Boston Options Exchange

COMMON CLEARING IS WHAT MAKES OCC UNIQUE. IT BRINGS EFFICIENCIES TO THE MARKET, BUT IT REQUIRES TRUST TO REALLY WORK. THE CONFIDENCES WE KEEP ARE INHERENT IN OUR NEUTRAL POSITION.

OCC's vast infrastructure
provides the solid foundation
our business partners rely on.

It's what you can't see that counts: reliability, security and underlying strength.



(BOX) as a participant exchange, providing BOX the same range of services we offer our other exchanges. In March, OCC accommodated the launch of the CBOE Futures Exchange (CFE).

We encourage expansion of the U.S. options market by managing daily operations for The Options Industry Council, a collaborative effort of the six options exchanges and OCC. Now entering its thirteenth year of providing balanced options education to individual investors and financial advisors, OIC closed out 2004 with several new offerings, including the addition of two advanced seminars, new online classes at its Web site, www.888options.com, and customized visits to brokerage firms' branch offices. OIC was also pleased to collaborate with Lightbulb Press in offering a new guidebook, *An Investor's Guide to Trading Options,* which serves as an options primer for investors.

Internationally, OIC continues to promote listed options throughout Europe and more recently, the Pacific Rim. Recognizing the importance of options education in the Asian markets, OIC International is currently restructuring to meet the rapid growth in this sector. We continue to foster our established overseas partnerships and host seminars for investors, industry professionals and regulators.

A

A A

TRIPLE 'A' RATING

OUR 'AAA' CREDIT RATING FROM STANDARD & POOR'S IS LARGELY DUE TO THE STRENGTH OF OUR FINANCIAL GUARANTEE, PROVIDING SECURITY TO OUR MEMBERS THAT OCC WILL STAND BEHIND EVERY TRADE.

OCC's focus on improving the systems and services that support our clearing members is ongoing. In 2004, we continued implementation of our ENCORE clearing system, including the release of a new outbound Data Distribution System (DDS). Phasing out our legacy InTRACS data service, DDS will provide scalable, standardized and customized content, as well as increased flexibility, real-time messaging, improved data publishing, and extended delivery services.

In addition to ENCORE enhancements, we created the functionality that will enable member firms to return erroneously sent trades to executing firms with legal certainty. This was done as part of our enhancement of the Clearing Member Trade Assignment (CMTA) process.

We made several changes this year to streamline expiration processing. OCC and Operations Roundtable committee members evaluated and reduced exercise threshold amounts for equity options. This better aligned OCC's thresholds with those of our member firms, reducing the margin for error and saving time. In addition, OCC helped clearing members and exchanges move towards eliminating Saturday out-trade resolution beginning in October. With the inception of real-time automation, exchanges were able to move out-trade processing to Friday night, allowing OCC to begin trade processing sooner.

OCC implemented a reduced clearing fee schedule in April, which saves clearing members up to nine percent on clearing fees, depending on the size of the trade. The discount is most notable for trades between one and 500 contracts, which account for approximately 75 percent of cleared trades. OCC announced additional clearing fee reductions in July, totaling an overall discount of more than 12 percent. Initially effective through year-end, these further reductions have been extended indefinitely. These fee reductions and clearing member enhancements reflect the direction we take from our member-driven roundtables, who keep us attuned to the needs of our firms, exchanges and industry partners.

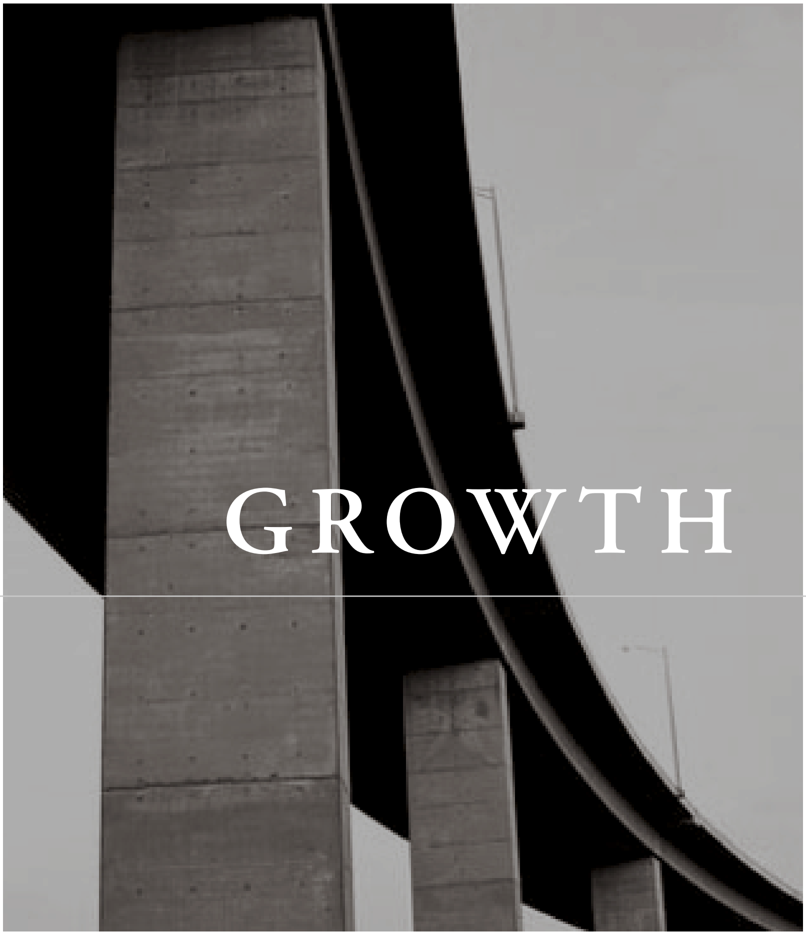
Fiscal 2004 ended with net income before refunds of $47,430,086. Our Board determined to refund the entire amount to our clearing members, our largest refund ever, bringing cumulative refunds and discounts since 1974 to more than $385.8 million.

1,182,040,096

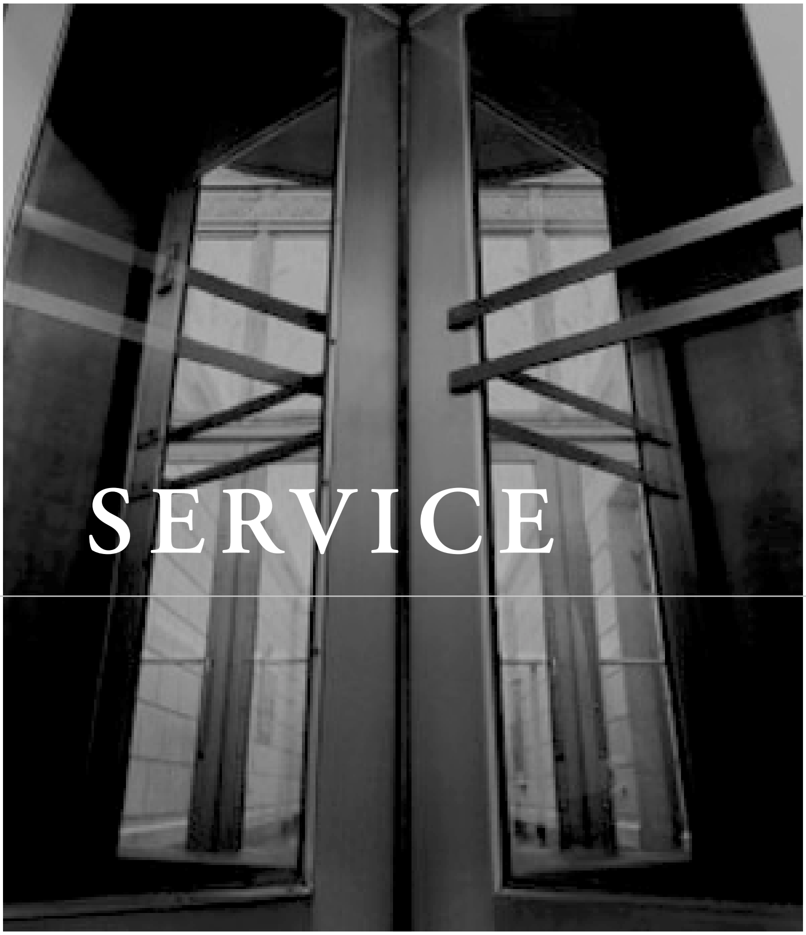
RECORD VOLUME

OUR SYSTEMS AND PROCESSES ARE ENGINEERED TO HANDLE ANY INCREASED VOLUME AS WELL AS SEAMLESSLY SUPPORT THE LAUNCH OF NEW PRODUCTS OR MARKET PARTICIPANTS.

Market growth continues on its upward path. OCC is ready for the journey.



We value our customers.
We ask questions.
We listen closely.



On behalf of our constituents, OCC's Washington, D.C. office actively focused on regulatory and legislative issues that may affect the industry. We successfully fought repeal of the Qualified Covered Call exception to the tax straddle rule, helping to avoid penalties for investors who trade covered calls. Additionally, OCC filed two comment letters with the SEC. The first letter expressed concern over proposed regulations applicable to short sales and resulted in the adoption of a flexible definition of bona-fide market making. We submitted the second letter jointly with the options exchanges on proposed changes to the system for collecting Section 31 fees on options transactions. As a result of our joint efforts, the SEC decided to leave the current system intact, which will save the exchanges from duplicative efforts. Our representatives in Washington also met with House Financial Services Committee staff to promote efforts to pass bankruptcy netting legislation. With the support of OIC, we organized an educational event for Congressional staff and SEC and CFTC personnel, and arranged a staff visit to the Philadelphia Stock Exchange.

OCC strives to provide a strong financial foundation and serve as a model of industry best practices. We take pride in the annual renewal of our prestigious 'AAA' credit rating from Standard & Poor's. We recognize and value the importance of our exceptional financial guarantee and our three-tiered system of financial safeguards, which include rigorous membership standards, prudent margin requirements and adequate clearing fund deposits. We review these safeguards annually, and this year we increased net capital requirements for clearing members, further strengthening our ability to perform our role as guarantor of the products we clear.

100%

CUSTOMER SERVICE

WE ARE A CUSTOMER-DRIVEN ORGANIZATION. IT IS THIS PREMISE THAT LIES AT THE HEART OF OUR MISSION TO PROVIDE HIGH QUALITY AND TIMELY CLEARING, SETTLEMENT AND RISK MANAGEMENT SERVICES.

Our position as a leader in risk management is also due to our ability to provide unwavering protection in times of market uncertainty. Our successful Cross-Margin and Stock Loan programs continued to benefit members in 2004, allowing for increased flexibility and savings. The Cross-Margin program recognizes the offsetting value of hedged positions maintained by firms at multiple clearinghouses, benefiting participants with an average daily reduction in margin requirements of $1 billion this year, a 51 percent

Focusing on our core business is what we do best. It's what makes us strong.

savings per participant. The Stock Loan Program generated an average daily margin savings of $126.4 million by lowering members' margin requirements on options positions in recognition of risk-reducing positions in underlying stocks.

OCC remains committed to our affiliation with CCP 12, an association dedicated to improving global clearing, netting, and central counterparty (CCP) services. In 2004, we collaborated with other CCP 12 members to assist the Bank for International Settlements and the International Organization of Securities Commissions in formulating best practice recommendations for central counterparties.

Within our own organization, we look to the experience of our directors to help guide us into the future: Dennis W. Zank, President, Raymond James & Associates, succeeded William C. Floersch as Member Vice Chairman, and Daniel B. Coleman, Managing Director and Head of Equities for the Americas at UBS Investment Bank, succeeded Mr. Floersch as a Board member.

From our record-breaking moments to the daily routine of our core business, the trust and confidence placed in us allows OCC to serve as a pillar of support for this industry. As we look back on 2004, we are thrilled to have been a part of an industry that attained the spectacular feat of surpassing one billion options contracts. What was once inconceivable is now reality, and we look forward to even more successes in the year ahead. We will build upon the tremendous foundation we have established, steadfastly upholding a structure of service, strength and security for our collective future.

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

George S. Hender
Management Vice
Chairman

Dennis W. Zank
Member Vice
Chairman, OCC

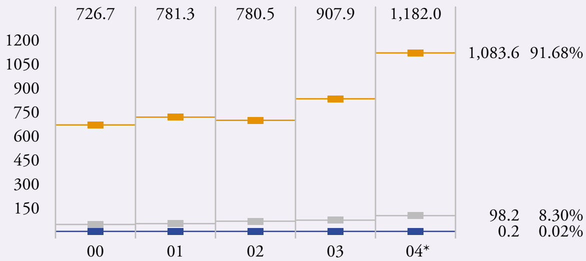
President
Raymond James &
Associates, Inc.

Michael E. Cahill
President and Chief
Operating Officer

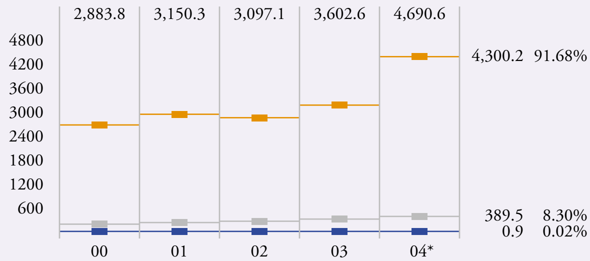
Equity Index Foreign Currency Non-Equity

* Index options volume includes yield-based Treasury options.

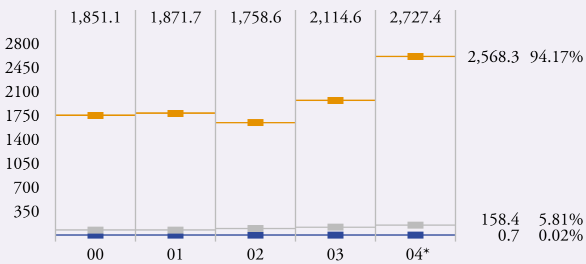
Total Cleared Contract Volume
[in millions]



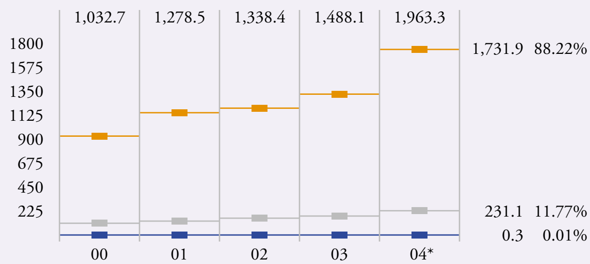
Average Daily Contract Volume
[in thousands]



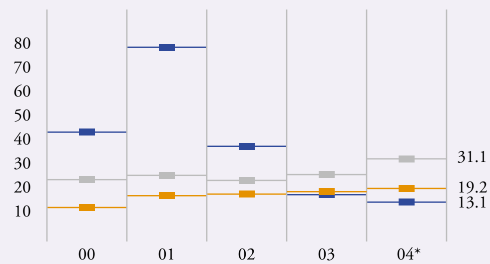
Average Daily Call Volume
[in thousands]



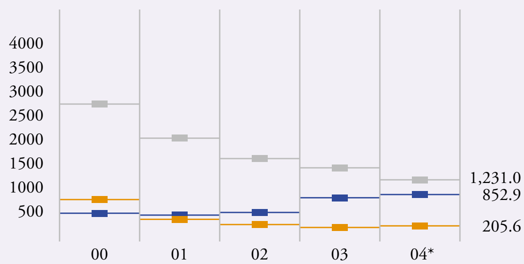
Average Daily Put Volume
[in thousands]



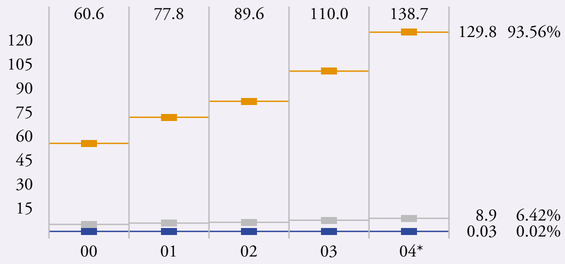
Average Contracts Per Cleared Trade



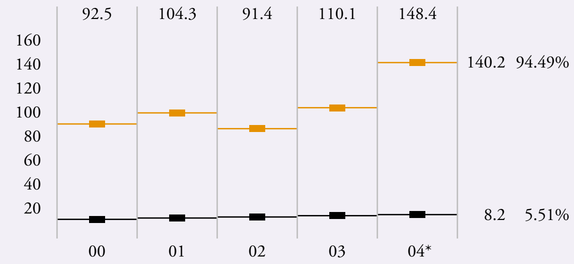
Average Premium Per Contract
[in dollars]



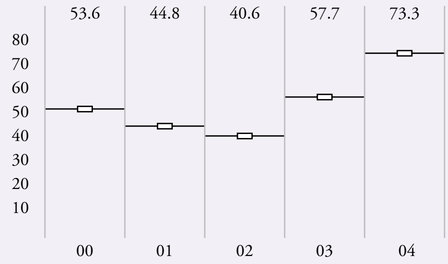
Average Month-End Open Interest
[in millions]



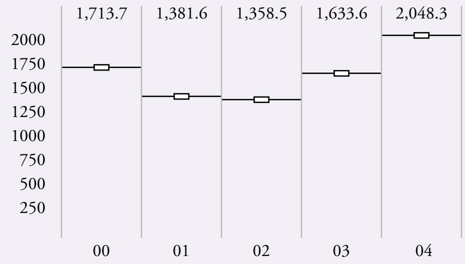
Contracts Exercised
[in millions]



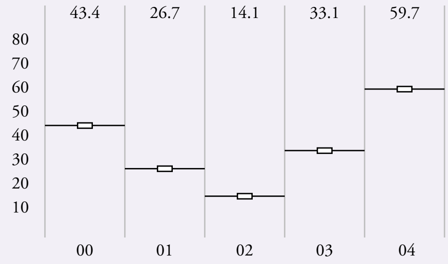
Total Margin Held
[(at year end) in billions of dollars]



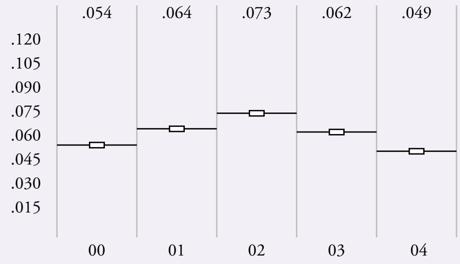
Total Clearing Fund Held
[(at year end) in millions of dollars]



Refund and Discount Amount
[in millions of dollars]



Average Fee Per Contract Side
[after refund and discounts in dollars]



Board of Directors

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

DENNIS W. ZANK
Member Vice Chairman, OCC
President
Raymond James & Associates, Inc.

TED H. BAKER
Managing Director
Pershing LLC

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

DANIEL B. COLEMAN
Managing Director and Head of Equities for the Americas
UBS Investment Bank
Commenced service April 2004

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

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

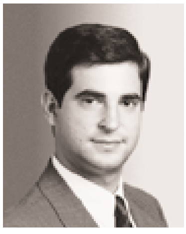
WILLIAM C. FLOERSCH
President and Chief Executive Officer
O'Connor & Co. L.L.C.
Served until April 2004

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.



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

BARRY L. SEIDMAN
Chairman
Pax Clearing Corporation

GARY E. YETMAN
Managing Director
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Board Committees & Senior Officers

As of December 31, 2004

BOARD COMMITTEES

AUDIT COMMITTEE

Dorcas R. Hardy (Chairwoman)
Ted H. Baker
Daniel B. Coleman
Mitchell J. Lieberman
Barry L. Seidman

MEMBERSHIP/MARGIN COMMITTEE

Wayne P. Luthringshausen (Chairman)
John P. Davidson III
Richard R. Lindsey
Barry L. Seidman
Gary E. Yetman
Dennis W. Zank

PERFORMANCE COMMITTEE

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

2005-2006 NOMINATING COMMITTEE

Paul J. Brody
Timber Hill LLC

Douglas J. Engmann
PreferredTrade, Inc.

Richard A. Ferina
Calyon Financial Inc.

Joseph Selitto
E*TRADE Clearing LLC

Robert C. Sheehan
Electronic Brokerage Systems, Inc.

TERM EXPIRATIONS (MEMBER DIRECTORS & PUBLIC DIRECTOR)

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

APRIL 2007

Daniel B. Coleman
John P. Davidson III
Gary E. Yetman

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

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

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

John W. Von Stein
Executive Vice President and Chief Information Officer

James W. Zalesky
Executive Vice President

Gina McFadden
Senior Vice President – Options Industry Services

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

Financial Section Table of Contents

Statements of Consolidated Financial Condition

December 31	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,154,905	$ 20,957,679
Accounts receivable	15,721,326	17,752,249
Exchange billing receivable Note 9	28,072,998	24,655,121
Due from participant exchanges Note 9	845,317	862,809
Other current assets	13,842,458	8,131,673
Deferred income taxes Note 10	697,407	676,411
Total Current Assets	72,334,411	73,035,942
Property and Equipment:		
Data processing equipment, furniture and other	7,574,688	7,802,060
Leasehold improvements	4,277,952	5,253,531
Software	95,022,526	85,616,623
Total property and equipment	106,875,166	98,672,214
Accumulated depreciation and amortization	(45,730,088)	(30,542,169)
Property and equipment – net	61,145,078	68,130,045
Clearing fund deposits Note 4	2,048,305,000	1,633,630,000
Other assets	9,735,214	15,874,472
Total Assets	$ 2,191,519,703	$ 1,790,670,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 7,100,460	$ 4,948,251
SEC transaction fees payable	6,375,953	9,803,226
Refundable clearing fees Note 7	22,430,765	33,107,463
Exchange billing payable Note 9	28,072,998	24,655,121
Other accrued expenses	7,259,306	11,988,773
Total Current Liabilities	71,239,482	84,502,834
Clearing fund deposits Note 4	2,048,305,000	1,633,630,000
Other liabilities	26,221,000	33,123,901
Deferred income tax liability Note 10	5,604,467	5,205,841
Total Liabilities	2,151,369,949	1,756,462,576
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	48,863,690	44,951,019
Accumulated other comprehensive loss (net of tax benefit of $7,375,398 in 2004 and $8,758,198 in 2003)	(11,040,602)	(13,069,802)
Total	40,483,087	34,541,216
Treasury stock	(333,333)	(333,333)
Total Shareholders' Equity	40,149,754	34,207,883
Total Liabilities and Shareholders' Equity	$ 2,191,519,703	$ 1,790,670,459

See Notes to Consolidated Financial Statements

Statements of Consolidated Income and Retained Earnings

December 31	2004	2003	2002
REVENUES			
Clearing fees Note 7	$ 115,316,532	$ 112,242,753	$ 113,932,580
Interest	2,408,712	1,340,303	1,714,686
Data processing fees and services	6,346,206	6,139,966	4,600,045
Other	1,968,486	1,737,753	2,524,130
Total Revenues	126,039,936	121,460,775	122,771,441
EXPENSES			
Employee costs	60,098,546	56,569,431	54,668,268
Data processing costs	27,686,929	26,787,023	22,247,464
Professional fees	4,018,683	8,451,679	9,643,842
General and administrative	10,083,013	9,853,947	8,850,529
Rental, other than data processing equipment	7,679,437	5,321,909	4,715,677
Depreciation and amortization	16,473,328	14,476,786	8,785,073
Total Expenses	126,039,936	121,460,775	108,910,853
Income Before Income Taxes	—	—	13,860,588
Provision (Benefit) For Income Taxes: Note 10			
Federal – current	(3,087,893)	2,530,012	(1,297,020)
State and local – current	180,392	1,072,556	(3,655)
Federal – deferred	(879,435)	(2,623,160)	5,806,455
State – deferred	(125,735)	(1,033,586)	1,124,011
(Benefit) Provision for Income Taxes	(3,912,671)	(54,178)	5,629,791
Net Income [Basic earnings per Class B common share – 2004, $156.51; 2003, $2.17; 2002, $329.23] Notes 1 and 5	3,912,671	54,178	8,230,797
Retained Earnings, Beginning of Year	44,951,019	44,896,841	36,666,044
Retained Earnings, End of Year	$ 48,863,690	$ 44,951,019	$ 44,896,841

See Notes to Consolidated Financial Statements

Statements of Consolidated Comprehensive Income and Consolidated Cash Flows

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

December 31	2004	2003	2002
Net income	$ 3,912,671	$ 54,178	$ 8,230,797
Minimum pension liability adjustment, net of tax provision (benefit) of $1,382,800 in 2004, ($1,543,000) in 2003, and ($5,366,400) in 2002	2,029,200	(2,315,000)	(8,004,601)
Comprehensive Income (Loss)	$ 5,941,871	$ (2,260,822)	$ 226,196

STATEMENTS OF CONSOLIDATED CASH FLOWS

December 31	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,912,671	$ 54,178	$ 8,230,797
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	16,473,328	14,476,786	8,785,073
Deferred income taxes	377,630	(5,199,747)	1,564,067
Write off of leasehold improvements Note 7	906,792	—	—
Changes in assets and liabilities:			
Accounts receivable and other receivables	(1,369,462)	(16,833,110)	(922,922)
Other current assets	(5,710,785)	(1,637,638)	6,509,547
Other assets	6,356,276	52,927	(725,780)
Accounts payable, accrued expenses and other payables	(7,460,357)	27,356,320	(26,463,098)
Refundable clearing fees	(10,676,698)	19,090,732	(4,266,572)
Net Cash Flows From Operating Activities	2,809,395	37,360,448	(7,288,888)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(10,395,152)	(16,631,312)	(26,765,070)
Other – net	(217,017)	126,326	17,745
Net Cash Flows From Investing Activities	(10,612,169)	(16,504,986)	(26,747,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments) issuance of debt	—	(18,000,000)	18,000,000
Net Cash Flows From Financing Activities	—	(18,000,000)	18,000,000
Net (decrease) increase in cash and cash equivalents	(7,802,774)	2,855,462	(16,036,213)
Cash and cash equivalents, beginning of year	20,957,679	18,102,217	34,138,430
Cash and cash equivalents, end of year	$ 13,154,905	$ 20,957,679	$ 18,102,217
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 12,817	$ 750,455	$ —
Cash paid for interest	$ —	$ 78,000	$ 153,000

See Notes to Consolidated Financial Statements

Years ended December 31, 2004, 2003 and 2002

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.

OCC capitalized costs for computer software development in the amount of $9.6 million, $14.3 million and $26.2 million for the years ended December 31, 2004, 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 2004, 2003 and 2002. 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 $515 million and $418 million as of December 31, 2004 and 2003, respectively. (Foreign currency denominated lines of credit were converted to U.S. dollars using the year-end exchange rate.) Of these lines of credit, $245 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 $250 million is available to enable OCC to meet any suspension obligations or to reimburse itself for bankruptcy losses. No amounts were outstanding during 2004 or 2003 under these lines. The remaining $20 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 was terminated on June 30, 2004.

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 these 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 less applicable haircuts at December 31, 2004 and 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, 2004 and 2003, the amount of margin required by OCC to support its guarantee was $37.2 billion and $30.2 billion, respectively, 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. and Canadian 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 valued securities are marked to market on a daily basis. Valued securities are given margin credit at 70% of their 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. OCC also haircuts, on a daily basis, the fair value of U.S. and Canadian Government securities with maturities greater than one year to provide a cushion against adverse price fluctuations.

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 (less applicable haircuts) of underlying securities and margin deposits at December 31, 2004 and 2003 were approximately as follows (foreign government securities are converted to U.S. dollars using the year-end exchange rate):

Years ended December 31	2004	2003
Underlying securities at market value	$ 14,780,396,000	$ 10,520,925,000
Valued securities at market value	37,148,173,000	31,823,172,000
Cash and temporary investments	108,132,000	229,695,000
Bank letters of credit	5,282,510,000	5,090,680,000
Government securities deposited as margin	10,696,020,000	7,379,879,000
Government sponsored enterprise debt securities	—	31,705,000
Total	$ 68,015,231,000	$ 55,076,056,000

Further, as of December 31, 2004 and 2003, OCC had accepted index option escrow deposits, which represent acceptable collateral on deposit with approved banks, in lieu of margin for approximately 53,000 and 28,000 short index contracts, respectively. At December 31, 2004 and 2003, the market value of the index option contracts collateralized under the escrow deposit program approximated $5.3 billion and $2.6 billion, respectively. At December 31, 2004 and 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, 2004 and 2003 was as follows:

Years ended December 31	2004	2003
Cash and temporary investments	$ 24,311,000	$ 24,011,000
Government securities, at market value (less applicable haircuts)	2,023,994,000	1,609,619,000
Total	$2,048,305,000	$1,633,630,000

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, 2004 and 2003.

At December 31, 2004 and 2003, treasury stock consisted of 5,000 shares of Class A common stock and 5,000 shares of Class B common stock at an aggregate 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. Five of OCC's six participant exchanges at December 31, 2004 were stockholders. The sixth participant exchange is a noteholder. At December 31, 2003 all participant exchanges were stockholders.

OCC is a party to a Stockholders Agreement with its stockholders. 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.

The Noteholders Agreement provides OCC with the right to purchase all notes owned by any noteholder under specified circumstances, but the obligation to pay the purchase price will be subordinated to OCC's obligations to creditors except that such obligation will not be subordinate to OCC's obligation to pay the purchase price to any other noteholder or any stockholder under the Stockholders Agreement. If OCC exercises its purchase rights to purchase such notes, the purchase price for the two years following the date of OCC's execution thereof is the original aggregate principal amount of such notes plus any accrued and unpaid interest thereon reduced by $300,000. Thereafter, the purchase price is the original aggregate principal amount of such notes plus any accrued and unpaid interest thereon, less $240,000, $180,000, $120,000, $60,000 or zero after the second, third, fourth, fifth or sixth year, respectively, from the date such notes were executed.

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. The clearing and settlement services agreement with NQLX was terminated effective December 19, 2004 and NQLX was paid a refund in accordance therewith. In 2003, OCC entered into clearing and settlement 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 $203 million and $135 million during 2004 and 2003, respectively, and the maximum amount outstanding during 2004 and 2003 was $335 million and $504 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, fee reductions and discounts, if any, based upon the current needs of OCC. The Board of Directors determined in the years ended December 31, 2004, 2003 and 2002 that refunds, fee reductions and discounts of clearing fees be made to Clearing Members. Refunds which have been netted against clearing fees in the statements of consolidated income and retained earnings, were $47,430,000, $33,107,000 and $14,017,000 for the years ended December 31, 2004, 2003 and 2002, 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, 2004 are as follows:

2005	$ 9,297,000
2006	5,923,000
2007	5,140,000
2008	3,847,000
Thereafter	19,175,000
Total	$ 43,382,000

Rental expense for the years ended December 31, 2004, 2003 and 2002 was $23,661,000, $20,035,000 and $15,814,000, respectively.

On August 1, 2004, in accordance with OCC's lease agreement covering its Chicago office space, OCC exercised a one time option to reduce its rentable space by 25% of the original leased space. The space contraction is effective August 1, 2005. In accordance with Statement of Financial Accounting Standards No. 146 (FASB 146), *Accounting for Costs Associated With Exit or Disposal Activities,* included in rental expense for 2004 is a fee of $2,137,000 required by the lease agreement for exercising the option to contract the leased space. In addition, leasehold improvements having a net book value of $907,000 related to the space contraction were written off in 2004.

OCC has employment agreements with certain of its senior officers. The aggregate commitment for future salaries and deferred compensation payment at December 31, 2004 and 2003, excluding bonuses, was approximately $11.5 million and $4.0 million, respectively.

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 $684,000, $918,000 and $281,000 were incurred for the years ended December 31, 2004, 2003, and 2002, respectively.

OCC also bills and collects transaction fees on behalf of the Chicago Board Options Exchange, Incorporated, Pacific Exchange, Inc., International Securities Exchange Inc., and OneChicago LLC. Fees billed and uncollected by OCC, and not remitted to the exchanges, at December 31, 2004 and 2003 were $28,073,000 and $24,655,000, 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, 2004, 2003 and 2002 were $3,582,000, $3,958,000 and $4,010,000, respectively. The participant exchanges' share of OIC expenditures for December 31, 2004, 2003 and 2002 was $1,885,000, $1,997,000 and $2,192,000, respectively. At December 31, 2004 and 2003, the amounts due from participant exchanges for OIC related expenditures were $845,000 and $863,000, 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	2004	2003	2002
Federal income tax at the statutory rates	$ —	$ —	$4,851,206
Permanent tax differences	222,042	169,806	49,892
State income tax effect	36,073	25,330	728,232
Tax reserve contingency	(3,788,191)	—	—
Tax credits	—	(250,000)	—
Other	(382,595)	686	461
(Benefit) provision for income taxes	$(3,912,671)	$ (54,178)	$5,629,791

Taxing authorities may perform periodic examinations of income tax returns filed by OCC. Therefore, in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies,* OCC will periodically accrue for tax contingencies based on tax positions taken in its tax returns and upon management's expectation regarding the ultimate tax treatment of these items. OCC periodically adjusts this accrual based on various factors, including completion of reviews by taxing authorities of prior years' filed tax returns. In 2004, reviews of certain prior years' filed tax returns were completed and, as a result, OCC reduced its accrual for tax contingencies (previously recorded in Other Accrued Expenses on the statements of consolidated financial condition) by $3.8 million.

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

Years ended December 31	2004	2003
Compensation and employee benefits	$ 697,407	$ 676,411
Current asset	697,407	676,411
Accelerated depreciation and amortization	(19,311,113)	(22,488,157)
Pension and postretirement benefits	9,922,533	11,400,983
Net operating loss carryforward	2,545,550	4,753,881
Other items	1,238,563	1,127,452
Non-current liability	(5,604,467)	(5,205,841)
Total	$ (4,907,060)	$ (4,529,430)

At December 31, 2004, OCC has federal and state net operating loss carryforwards of approximately $1.3 and $11.7 million, respectively, available to offset future taxable income. At December 31, 2003 OCC had federal and state net operating loss carryforwards of approximately $6.2 and $17.7 million respectively. These net operating loss carryforwards expire in 2023.

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 the case of Executive Vice Presidents and above) or the highest consecutive five years out of the last ten years before retirement (in the case of participants below the rank of Executive Vice President). 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	2004	2003	2002
Service cost	$1,975,000	$1,639,000	$1,650,000
Interest cost	4,239,000	3,705,000	3,395,000
Expected return on assets	(2,962,000)	(2,068,000)	(2,187,000)
Settlement charge	3,162,000	—	—
Amortization:			
Transition obligation	—	—	2,000
Prior service cost	88,000	67,000	48,000
Actuarial loss	2,655,000	2,014,000	1,323,000
Net periodic benefit cost	$9,157,000	$5,357,000	$4,231,000

Assets and liabilities for the Retirement Plan and the SERP were measured as of September 30, 2004 and 2003. The funded status as of December 31, 2004 and 2003 approximates the funded status as of September 30, 2004 and 2003, respectively. The plans' benefit obligation, plan assets and funded status are as follows:

Years ended December 31	2004	2003
Change in Benefit Obligation:		
Net benefit obligation at beginning of year	$ 68,982,000	$ 53,584,000
Service cost	1,975,000	1,639,000
Interest cost	4,239,000	3,705,000
Plan amendments	—	40,000
Actuarial loss	2,058,000	10,788,000
Settlement	663,000	—
Gross benefits paid	(9,916,000)	(774,000)
Net benefit obligation at end of year	$ 68,001,000	$ 68,982,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 30,847,000	$ 22,171,000
Actual return on plan assets	4,431,000	4,760,000
Employer contributions	16,007,000	4,690,000
Gross benefits paid	(9,916,000)	(774,000)
Fair value of plan assets at end of year	$ 41,369,000	$ 30,847,000
Funded Status:		
Funded status at end of year	$ (26,632,000)	$(38,135,000)
Unrecognized net actuarial loss	26,989,000	31,554,000
Unrecognized prior service cost	372,000	461,000
Fourth quarter contributions/ benefits	1,550,000	848,000
Net amount recognized as accrued benefit (liability)	$ 2,279,000	$ (5,272,000)
Amounts recognized in the statements of consolidated financial condition consist of:		
Prepaid benefit cost	$ 9,712,000	$ 5,563,000
Accrued benefit liability	(26,221,000)	(33,124,000)
Intangible asset	372,000	461,000
Accumulated other comprehensive loss	18,416,000	21,828,000
Net amount recognized as accrued benefit (liability)	$ 2,279,000	$ (5,272,000)

The accumulated benefit obligation for the Retirement Plan and the SERP was $59,297,000 and $59,253,000 at December 31, 2004 and 2003, respectively.

The unfunded accumulated benefit obligation for the Retirement Plan and the SERP was $17,928,000 and $28,406,000 at December 31, 2004 and 2003, respectively. The $18,416,000 and $21,828,000 excesses of the unfunded accumulated benefit obligation over the net amounts recognized at December 31, 2004 and 2003, respectively, have 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 6.0% discount rate and 4.75% future salary increases as of September 30, 2004 and a 6.0% discount rate and 4.75% future salary increases as of September 30, 2003. The expected long term rate of return on plan assets was 9.0% in 2004 and 9.0% in 2003, 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 2005 are $7,745,000, and expected cash outlays for benefit payments are as follows:

2005	$ 2,000,000
2006	2,354,000
2007	2,781,000
2008	3,030,000
2009	3,469,000
2010-2014	21,479,000
Total	$ 35,113,000

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 50% equities, 20% bonds and 30% international equities.

OCC entered into an agreement with its Chairman and Chief Executive Officer ("Executive") to convert substantially all of the Executive's SERP benefit to a defined contribution benefit. The amount of the settlement is $8.4 million, approximately half of the total SERP liability at September 30, 2004, and has been calculated based on the Executive's retirement age of 65 years old. The Executive's remaining SERP will be limited solely to the amount of accrued benefit, if any, that the Executive cannot receive under the Qualified Plan because of the limitations of Internal Revenue Code Section 415.

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, 2004, 2003 and 2002 were $887,000, $819,000 and $811,000, 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 $1,031,000 and $875,000 in 2004 and 2003, respectively.

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	2004	2003	2002
Service cost	$ 404,000	$ 418,000	$ 214,000
Interest cost	483,000	456,000	286,000
Expected return on assets	(127,000)	(100,000)	(80,000)
Amortization:			
Transition obligation	28,000	28,000	28,000
Prior service cost	133,000	133,000	144,000
Actuarial loss	170,000	155,000	1,000
Total net periodic benefit cost	$1,091,000	$1,090,000	$ 593,000

Assets and liabilities for the postretirement welfare plan were measured as of September 30, 2004 and 2003. The funded status as of December 31, 2004 and 2003 approximates the funded status as of September 30, 2004 and 2003.

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 50% equities, 20% bonds and 30% international equities.

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

Years ended December 31	2004	2003
Change in Benefit Obligation:		
Net benefit obligation at beginning of year	$ 7,698,000	$ 6,377,000
Service cost	404,000	418,000
Interest cost	483,000	456,000
Actuarial (gain) loss	(162,000)	547,000
Gross benefits paid	(163,000)	(100,000)
Net benefit obligation at end of year	$ 8,260,000	$ 7,698,000
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 1,330,000	$ 839,000
Actual return on plan assets	190,000	205,000
Employer contributions	338,000	386,000
Gross benefits paid	(163,000)	(100,000)
Fair value of plan assets at end of year	$ 1,695,000	$ 1,330,000
Funded Status:		
Funded status at end of year	$ (6,565,000)	$ (6,368,000)
Unrecognized net actuarial loss	2,862,000	3,257,000
Unrecognized prior service cost	618,000	750,000
Unrecognized net transition obligation	225,000	253,000
Fourth quarter contributions	213,000	200,000
Net amount recognized as accrued benefit liability	$ (2,647,000)	$ (1,908,000)

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 6.0% in 2004 and 6.0% in 2003.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.5% and 10.5% in 2004 and 2003, respectively, decreasing by one percentage point per year reaching 5% in 2009.

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 2005 are $354,000 and expected cash outlays for benefit payments are as follows:

2005	$ 181,000
2006	202,000
2007	226,000
2008	255,000
2009	293,000
2010-2014	2,178,000
Total	$ 3,335,000

NOTE 13. CONTINGENCIES

In the normal course of business, OCC may be subjected to various lawsuits and claims. At December 31, 2004, 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 FASB issued FASB Staff Position 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("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 elected to defer accounting for the effects of the Federal subsidy, as provided under the FSP 106-1. In May 2004, FSP 106-1 was superseded by FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("FSP 106-2") which provides guidance on the accounting for the Act for employers that sponsor postretirement heath care plans that provide prescription drug benefits and also requires those employers to provide certain disclosures regarding the effect of the Federal subsidy provided by the Act. FSP 106-2 is effective for fiscal years beginning after December 15, 2004, for a nonpublic entity, such as the Corporation, that sponsors a postretirement health care plan having 100 or less participants. The Corporation has not yet determined the effect of FSP 106-2 on its consolidated financial statements and accompanying notes. 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 effect of the Act on the postretirement welfare plan discussed in Note 12.

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, OCC adopted these provisions for its fiscal year ended December 31, 2003. See Notes 11 and 12 for these additional disclosures.

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 (Note 3). 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.

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, 2004 and 2003 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, 2004. 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 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 Corporation'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 Corporation at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Chicago, Illinois
January 31, 2005

Clearing Members

As of December 31, 2004

A

ABN AMRO Incorporated
ABN AMRO Sage Corporation
ADP Clearing & Outsourcing Services, Inc.
Ameritrade, Inc.
Assent LLC

B

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

C

CIBC World Markets Corp.
CIBC World Markets Inc.*
Calyon Financial Inc.
Calyon Securities (USA) Inc.
Cargill Investor Services, Inc.
Citadel Trading Group L.L.C.
Citigroup Global Markets Inc.
Credit Suisse First Boston LLC

D

Daiwa Securities America, Inc.
Deutsche Bank Securities Inc.
Dundee Securities Corporation*

E

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

F

FIMAT USA, Inc.
Ferris, Baker Watts, Incorporated
First Albany Capital Inc.
First Clearing, LLC
First Southwest Company
Fiserv Securities, Inc.
Fortis Investment Services, LLC

G

Gelber Group, LLC
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 LLC

I

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

J

Janney Montgomery Scott LLC
Jefferies & Company, Inc.

K

KDC Merger Arbitrage Fund, L.P.
KV Execution Services LLC

L

LaBranche Financial Services, Inc.
Lakeshore Securities, L.P.
Legent Clearing LLC
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

NYFIX Clearing Corporation
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
Piper Jaffray & Co.
PreferredTrade, Inc.
Prime Dealer Services Corp.
Prudential Financial Derivatives, LLC

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 Americas Securities, LLC
SMW Trading Company, Inc.
Schonfeld Securities, LLC
Charles Schwab & Co., Inc.
Scotia Capital Inc.*
Scott & Stringfellow, Inc.
Scottrade, Inc.
Southwest Securities, Inc.
Spear, Leeds & Kellogg, L.P.
Stephens, Inc.
Stifel, Nicolaus & Company, Incorporated
StockCross Financial Services Inc.
Swiss American Securities Inc.

T

TD Waterhouse Canada Inc.*
Terra Nova Trading, L.L.C.
Timber Hill LLC
TradeLink L.L.C.
Tradition Asiel Securities Inc.

U

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, 2004

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.
The Bank of New York
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
Wachovia Bank, N.A.

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

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, National Association
JP Morgan Chase Bank
U.S. Trust Company of New York

NORTH CAROLINA
Wachovia Bank, N.A.

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

WISCONSIN
U.S. Bank, N.A.

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(Non-U.S. Institutions)

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Bank of Montreal

NEW JERSEY
Standard Chartered Bank

NEW YORK
ABN AMRO Bank N.V.
Australian and New Zealand Banking Group Limited
BNP Paribas U.S.A.
Banco Santander Central Hispaño, S.A.
Bayerische Hypo-Und Vereinsbank A.G.
Calyon Corporate and Investment Bank
Commerzbank, N.A.
Credit Industriel et Commercial
Credit Suisse First Boston
DG Bank
Danske Bank
Dresdner Bank
National Australia Bank
Norddeutsche Landesbank Girozentrale
Rabobank International
Royal Bank of Canada
Societe Generale
Svenska Handelsbanken
The Toronto Dominion Bank
Westdeutsche Landesbank Girozentrale

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

NORTH CAROLINA
Wachovia Bank, N.A.

OHIO
The Fifth Third Bank
Keybank National Association
National City Bank

PENNSYLVANIA
Mellon Financial Corporation
PNC Bank, N.A.
Wachovia Bank, N.A.

TEXAS
Bank of America, N.A.

WISCONSIN
M&I Marshall & Ilsley Bank
U.S. Bank, N.A.

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As of December 31, 2004

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Banc of America Securities LLC

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Securities Industry Automation
Corporation

Michael Lamberg
Vice President,
Corporate Information Security
Securities Industry Automation
Corporation

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Washington, D.C.
Legislative Office
1101 Pennsylvania Avenue N.W.
Suite 600
Washington, D.C. 20004
202.756.1972

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CLEARING CORPORATION

The Options Clearing Corporation
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Chicago, Illinois 60606
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www.optionsclearing.com