

FIRST FINANCIAL BANCORP /OH/

Form 10-K

February 24, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES ACT OF 1934

Commission File Number 0-12379

FIRST FINANCIAL BANCORP.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

31-1042001

(I.R.S. Employer
Identification No.)

255 East Fifth Street, Suite 700

Cincinnati, Ohio

(Address of principal executive offices)

Registrant's telephone number, including area code: (877) 322-9530

Securities registered pursuant to Section 12(b) of the Act:

Common Shares, no par value

Warrants, each to purchase one Common Share, no par value

Name of exchange on which registered:

The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (subpart 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the sales price of the last trade of such stock as of June 30, 2011, was \$943,194,000. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of February 22, 2012, there were issued and outstanding 58,273,663 common shares of the registrant.

Documents Incorporated by Reference:

Portions of the registrant’s Annual Report to Shareholders for the year ended December 31, 2011 are incorporated by reference into Parts I, II and IV.

Portions of the registrant’s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2012 are incorporated by reference into Part III.

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PART I

Item 1. Business.

First Financial Bancorp.

First Financial Bancorp., an Ohio corporation (First Financial, the Company, we, us, our), was formed in 1982. First Financial is a mid-sized, regional bank holding company headquartered in Cincinnati, Ohio.

First Financial engages in the business of commercial banking and other banking and banking-related activities through its oldest wholly owned subsidiary, First Financial Bank, National Association (Bank), which was founded in 1863.

During 2011, two of First Financial's subsidiaries were dissolved. First Financial Capital Advisors LLC (FFCA), a wholly owned subsidiary of First Financial which had previously served as a registered investment advisor and assisted the Bank with the investment management of its trust assets, was dissolved effective September 1, 2011. Another subsidiary of First Financial was First Financial (OH) Statutory Trust II (Statutory Trust II) which was established to facilitate raising regulatory capital in the form of corporation-obligated mandatory redeemable capital securities of the subsidiary trust—commonly referred to as Trust Preferred Securities. These trust preferred securities were first eligible for early redemption in September of 2008 and were redeemed on June 30, 2011, thereby, eliminating the need for the subsidiary.

For further information see Note 6 of the Notes to Consolidated Financial Statements of First Financial's Annual Report to Shareholders, which is incorporated by reference in response to this item.

The range of banking services provided by First Financial to individuals and businesses includes commercial lending, real estate lending, and consumer financing. Real estate loans are loans secured by a mortgage lien on the real property of the borrower, which may either be residential property (one to four family residential housing units) or commercial property (owner-occupied and/or investor income producing real estate, such as apartments, shopping centers, office buildings). In addition, First Financial offers deposit products that include interest-bearing and noninterest-bearing accounts, time deposits, and cash management services for commercial customers. A full range of trust and asset management services is also provided through First Financial's Wealth Management division.

Commercial loans are made to all types of businesses for a variety of purposes including, but not limited to, inventory, receivables, and equipment. First Financial works with businesses to meet their shorter term working capital needs while also providing long-term financing for their business plans. In 2010, First Financial began to offer lease and equipment financing through a wholly-owned subsidiary of Bank, First Financial Equipment Finance LLC (First Equipment Finance), primarily in its principal markets. First Equipment Finance delivers financing solutions to small and mid-size companies in various industries with significant diversity in the types of underlying equipment. Credit risk is managed through standardized loan policies, established and authorized credit limits, centralized portfolio management and the diversification of market area and industries. The overall strength of the borrower is evaluated through the credit underwriting process and includes a variety of analytical activities including the review of historical and projected cash flows, historical financial performance, financial strength of the principals and guarantors, and collateral values, where applicable.

Commercial lending activities include equipment and leasehold improvement financing for franchisees, principally quick service and casual dining restaurants. The underwriting of these loans incorporates basic credit proficiencies combined with knowledge of select franchise concepts to measure the creditworthiness of proposed multi-unit borrowers. The focus is on a limited number of concepts that have sound economics, lower closure rates, and brand awareness within specified local, regional, or national markets. Loan terms for equipment are generally up to 84 months fully amortizing and up to 180 months on real estate related requests.

Commercial real estate loans are secured by a mortgage lien on the real property. The credit underwriting for both owner-occupied and investor income producing real estate loans includes detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, type of real estate and other analysis. Risk of loss is managed by adherence to standard loan policies that establish certain levels of performance prior to the extension of a loan to the borrower. Market diversification within First Financial's service area, as well as a diversification by industry, are other means by which the risk of loss is managed by First Financial. First Financial does not have a significant exposure to residential builders and developers.

The majority of residential real estate loans originated by the Bank conforms to secondary market underwriting standards and is sold within a short timeframe to unaffiliated third parties, including the future servicing rights to the loans. The credit underwriting standards adhere to a certain level of documentation, verifications, valuation, and overall credit performance of

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the borrower. The underwriting of these loans includes an evaluation of these and other pertinent factors prior to the extension of credit. These underwriting standards help in the management of the credit risk elements and increase the marketability of the loans.

Consumer loans are primarily loans made to individuals. These types of loans include new and used vehicle loans, second mortgages on residential real estate, and unsecured loans. Risk elements in the consumer loan portfolio are primarily focused on the borrower's cash flow and credit history, key indicators of the ability to repay. A certain level of security is provided through liens on automobile titles and second mortgage liens, where applicable. Consumer loans are generally smaller dollar amounts than other types of lending and are made to a large number of customers. Both factors help provide diversification within the portfolio. Economic conditions that affect consumers in First Financial's markets have a direct impact on the credit quality of these loans. Higher levels of unemployment, lower levels of income growth and weaker economic growth are factors that may adversely impact consumer loan credit quality.

Home equity lines of credit consist mainly of revolving lines of credit secured by residential real estate. Home equity lines of credit are generally governed by the same lending policies and subject to the same credit risk as described previously for residential real estate loans.

First Financial has minimal foreign currency transactions and in general, does not have a significant exposure to foreign currencies. Foreign currency activities are generally related to services provided to commercial customers. Information regarding statistical disclosure required by the Securities and Exchange Commission's Industry Guide 3 is included in First Financial's Annual Report to Shareholders for the year ended December 31, 2011, and is incorporated herein by reference.

At December 31, 2011, First Financial and its subsidiaries had 1,656 full-time and part-time employees.

First Financial's executive office is located at 255 East Fifth Street, Suite 700, Cincinnati, Ohio 45202, and the telephone number is (877) 322-9530. First Financial makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after filing with the Securities and Exchange Commission (SEC), through its website, www.bankatfirst.com under the "Investor Information" link, under "SEC Filings." Copies of such reports also can be found on the SEC's website at www.sec.gov.

Subsidiaries

The list of each of First Financial's subsidiaries can be found at Exhibit 21 of this Form 10-K.

Business Combinations

On September 23, 2011, First Financial Bank completed the purchase of 16 Ohio banking centers from Liberty Savings Bank, FSB (Liberty) including \$126.5 million of performing loans and \$341.9 million of deposits at their estimated fair values. First Financial also acquired \$3.8 million of fixed assets at estimated fair value and paid Liberty a \$22.4 million net deposit premium. Assets acquired in this transaction are not subject to a loss share agreement. First Financial recorded \$17.1 million of goodwill related to the acquisition.

Loans acquired in conjunction with the Liberty banking center acquisition were evaluated for impairment in accordance with FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. First Financial determined that the acquired loans were not impaired and is accounting for them under FASB ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs.

On December 2, 2011, First Financial Bank completed the purchase of 22 Indiana-based retail banking branches from Flagstar Bank, FSB (Flagstar) and assumed approximately \$464.7 million of deposits at their estimated fair value. First Financial also acquired \$6.6 million of fixed assets at estimated fair value and paid Flagstar a \$22.5 million net deposit premium. Assets acquired in this transaction are not subject to a loss share agreement. First Financial recorded \$26.1 million of goodwill related to this acquisition.

The Liberty and Flagstar banking center acquisitions were accounted for in accordance with FASB ASC Topic 805, Business Combinations. Fair values are subject to refinement for up to one year after the closing date of the acquisition (the measurement period) as additional information relative to closing date fair values may become available.

During the third quarter of 2009, through Federal Deposit Insurance Corporation (FDIC)-assisted transactions, First Financial acquired the banking operations of Peoples Community Bank (Peoples), Irwin Union Bank and Trust Company (Irwin Union Bank) and Irwin Union Bank, F.S.B. (Irwin FSB) (Irwin Union Bank and Irwin FSB, collectively, Irwin). The Company also acquired 3 Indiana banking centers including related deposits and loans, from Irwin in a separate and unrelated transaction prior

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to the FDIC-assisted transactions. The acquisitions of the Peoples and Irwin franchises significantly expanded the First Financial footprint, opened new markets and strengthened the company through the generation of additional capital.

In connection with the Peoples and Irwin FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC will reimburse First Financial for losses with respect to certain loans and other real estate owned (OREO) (collectively, covered assets), beginning with the first dollar of loss. Covered loans represent approximately 26% of First Financial's loans at December 31, 2011. These agreements provide for loss protection on single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other loans are provided loss protection for a period of five years and recoveries of previously charged-off loans must be shared with the FDIC for a period of eight years, again on the same pro-rata basis.

First Financial must follow specific servicing and resolution procedures, as outlined in the loss share agreements, in order to receive reimbursement from the FDIC for losses on covered assets. The Company has established separate and dedicated teams of legal, finance, credit and technology staff to execute and monitor all activity related to each agreement, including the required periodic reporting to the FDIC. First Financial intends to service all covered assets with the same resolution practices and diligence as it does for the assets that are not subject to a loss share agreement.

An overview of the transactions are discussed in further detail in the Business Combinations section of the Management's Discussion and Analysis.

Market and Competitive Information

First Financial, through the regionalization efforts and business model of its subsidiary bank, delivers a community banking philosophy to its clients. First Financial currently serves a combination of metropolitan and non-metropolitan markets primarily in Indiana, Ohio, and Kentucky through its full-service banking centers. Market selection is based upon a number of factors, but markets are primarily chosen for their potential for growth, long-term profitability, and customer reach. First Financial's goal is to develop a competitive advantage through a local market focus; building long-term relationships with clients and helping them reach greater levels of financial success.

We also compete on a nationwide basis with respect to our franchise finance subsidiary (First Franchise Capital).

The Company's markets support many different types of business activities, such as manufacturing, agriculture, education, healthcare, and professional services. Within these markets, growth is projected to continue in key demographic groups and populations. First Financial's market evaluation includes demographic measures such as income levels, median household income, and population growth within key segments. The Midwest markets that First Financial serves have historically not experienced the level of economic highs and lows seen in other sections of the country. Its markets are generally marked by less volatility in business activity, although material fluctuations may occur. In recent years, the overall national economy was negatively impacted by the deterioration of the sub-prime lending market, which quickly developed into a credit and liquidity crisis in other sectors of the financial services industry. This resulted in the implementation of a number of government sponsored programs designed to invest capital and liquidity into the financial services sector for the purposes of strengthening consumer confidence and stimulating lending activity. However, First Financial's strong liquidity and capital position combined with conservative lending practices has allowed the Company, to this point, to significantly mitigate macro-economic risk.

First Financial believes that it is well positioned to compete in these markets. Smaller than super-regional and multi-national bank holding companies, First Financial believes that it can meet the needs of its markets through a decision-making network of local management. First Financial believes that it is better positioned to compete for

business than other smaller banks that may have size or geographic limitations. First Financial's targeted customers include individuals and small to medium sized businesses within the geographic region of its subsidiary bank's banking center network. Through the delivery systems of banking centers, ATMs, internet banking, and telephone-based transactions, First Financial meets the needs of its customers in an ever-changing marketplace.

First Financial faces strong competition from financial institutions and other non-financial organizations. Its competitors include local and regional financial institutions, savings and loans, and bank holding companies, as well as some of the largest banking organizations in the United States. In addition, other types of financial institutions, such as credit unions, offer a wide range of loan and deposit services that are competitive with those offered by First Financial. The consumer is also served by brokerage firms and mutual funds that provide checking services, credit cards, and other services similar to those offered by First Financial. Major stores compete for loans by offering credit cards and retail installment contracts. It is anticipated that

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competition from other financial and non-financial services entities will continue and for certain products and services, intensify.

Supervision and Regulation

We, our subsidiary bank, and its subsidiaries, are subject to an extensive system of laws and regulations that are intended primarily for the protection of customers and depositors and not for the protection of security holders. These laws and regulations govern such areas as capital, permissible activities, allowance for loan losses, loans and investments, and rates of interest that can be charged on loans. Described below are elements of selected laws and regulations. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described.

Depository Institution Regulation

First Financial Bank, as a national banking association, is subject to supervision and regular examination by the Office of the Comptroller of the Currency (OCC). All depository institutions and their deposits are insured up to the legal limits by the Deposit Insurance Fund (DIF) which is administered by the FDIC and is subject to the provisions of the Federal Deposit Insurance Act (FDIA).

Insurance of Accounts

The FDIC currently maintains the DIF, which was created in 2006 in the merger of the Bank Insurance Fund and the Savings Association Insurance Fund. The deposit accounts of our subsidiary bank are insured by the DIF to the maximum amount provided by law. The general insurance limit is \$250,000, but for noninterest bearing transaction accounts, there is unlimited insurance coverage until January 1, 2013. This insurance is backed by the full faith and credit of the United States Government.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by DIF-insured institutions. It also may prohibit any DIF-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against insured institutions.

The FDIC assesses deposit insurance premiums on each insured institution quarterly based on annualized rates for one of four risk categories. Under the rules in effect through March 31, 2011, these rates are applied to the institution's deposits. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. A range of initial base assessment rates applies to each Risk Category, subject to adjustments based on an institution's unsecured debt, secured liabilities and brokered deposits, such that the total base assessment rates after adjustments range from 7 to 24 basis points for Risk Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV.

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the FDIC has adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's quarterly average total assets minus its quarterly average tangible equity (defined as Tier 1 capital) instead of its deposits. Under these rules, an institution with total assets of less than \$10 billion will be assigned to a Risk Category as described above, and a range of initial base assessment rates will apply to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued

by another FDIC-insured institution. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

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On November 12, 2009, the FDIC adopted regulations that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012, along with their quarterly risk-based assessment for the fourth quarter of 2009. The FDIC collected First Financial Bank's prepaid assessments amounting to \$17.0 million on December 30, 2009 and \$4.2 million remained as a prepaid balance at December 31, 2011.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than \$10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset or how larger institutions will be affected by it.

On November 9, 2010 and January 18, 2011, the FDIC (as mandated by Section 343 of the Dodd-Frank Act, as described below) adopted rules providing for unlimited deposit insurance for traditional noninterest-bearing transaction accounts and Interest on Lawyers Trust Accounts for two years starting December 31, 2010. This coverage applies to all insured deposit institutions, and there is no separate FDIC assessment for the insurance. Furthermore, this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured depository institution.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), every FDIC-insured institution is obligated, consistent with safe and sound banking practices, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA requires the appropriate federal banking regulator, in connection with the examination of an insured institution, to assess the institution's record of meeting the credit needs of its community and to consider this record in its evaluation of certain applications, such as a merger or the establishment of a branch. An unsatisfactory rating may be used as the basis for the denial of an application and will prevent a bank holding company of the institution from making an election to become a financial holding company. As of its last examination, First Financial Bank received a Community Reinvestment Act rating of "satisfactory."

Privacy Rules

Federal banking regulators, as required under the Gramm-Leach-Bliley Act, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to non-affiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions of the Gramm-Leach-Bliley Act affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

Bank Holding Company

As a bank holding company, First Financial is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the BHCA) and is subject to supervision and examination by the Federal Reserve Board. The BHCA requires prior approval by the Federal Reserve Board of the acquisition of 5% or more of the voting stock or substantially all the assets of any bank within the United States. In addition, subject to regulatory approval, First Financial can acquire thrift institutions. Acquisitions are subject to certain anti-competitive limitations.

The BHCA and the regulations of the Federal Reserve Board prohibit a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services. The BHCA also imposes certain restrictions upon dealings by affiliated banks with the holding company and among themselves, including restrictions on inter-bank borrowing and upon dealings in the securities or

obligations of the holding company or other affiliates.

In addition, bank holding companies that satisfy certain requirements may elect to become financial holding companies. Financial holding companies are permitted to engage in certain activities that are “financial in nature” (e.g. insurance underwriting, securities brokerage, merchant banking) and that are not permitted for bank holding companies. First Financial’s current strategic plans do not include utilizing these expanded activities and as a result it has not elected to become a financial holding company.

The earnings of banks, and, therefore, the earnings of First Financial (and its subsidiaries), are affected by the policies of regulatory authorities, including the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the national supply of bank credit in an effort to prevent recession and to restrain inflation. Among the procedures used to

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implement these objectives are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements on member bank deposits.

These procedures are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use also may affect interest rates charged on loans or paid for deposits.

Monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Recent Legislation, Other Regulatory Developments and Pending Legislation

Emergency Economic Stabilization Act of 2008

The U.S. Department of the Treasury (Treasury), working with the Federal Reserve Board, established late in 2008 the TARP Capital Purchase Program (CPP), which was intended to stabilize the financial services industry. The CPP was established as part of the Emergency Economic Stabilization Act of 2008 enacted on October 3, 2008. One of the components of the CPP included a \$250 billion voluntary capital purchase program for certain qualified and healthy banking institutions. Pursuant to the CPP, Treasury purchased from First Financial 80,000 shares of \$1,000 par value senior perpetual preferred securities at a price of \$80.0 million equal to approximately 3.0% of the Company's then risk-weighted assets. Such preferred shares paid a dividend of 5% for the first five years and was to increase to 9% thereafter. In addition, subject to certain limited exceptions, as a participant in the CPP, the Company was prohibited from (a) increasing its dividend to common shareholders and (b) conducting share repurchases without prior approval of the Treasury. First Financial also was subject to certain limitations on executive compensation as well as other conditions.

During February 2010, First Financial successfully completed a follow-on common equity offering and, after deducting underwriting and other offering costs, received net proceeds of \$91.2 million. On February 24, 2010, First Financial used most of the net proceeds to redeem all of the \$80.0 million in senior preferred shares issued to the Treasury in December 2008 under the CPP. Subsequent to the equity offering and redemption of the preferred shares, the Company experienced an increase in its already strong regulatory and GAAP capitalization levels.

In connection with the Company's participation in the CPP, Treasury also received a warrant for the purchase of common stock in the amount of 930,233 shares at a strike price of \$12.90 per share that expires on December 23, 2018. As a result of the common equity raised during the second quarter of 2009, the number of common shares eligible for purchase under the warrant agreement was reduced by 50% to 465,117 shares. In June 2010, the Treasury conducted an auction of the warrants in which the warrants were sold in a public offering pursuant to a registration statement filed by First Financial at a price of \$6.70 per warrant. This transaction represented the final step in the redemption process and the Treasury no longer owns any securities issued by First Financial.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the sweeping financial regulatory reform act entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act that implements far-reaching changes to the regulation of the financial services industry, including provisions that, among other things will:

- centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts; smaller financial institutions, including First Financial Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws;

apply the same leverage and risk-based capital requirements that apply to insured depository institutions to bank holding companies;

- require the FDIC to seek to make its capital requirements for banks countercyclical so that the amount of capital required to be maintained increases in times of economic expansion and decreases in times of economic contraction;
- change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital;
- implement corporate governance revisions, including with regard to executive compensation and proxy access by stockholders, that apply to all public companies, not just financial institutions;
- make permanent the \$250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000, and provide unlimited federal deposit insurance until January 1, 2013, for non-interest bearing demand transaction accounts at all insured depository institutions;
- repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository

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institutions to pay interest on business transaction and other accounts starting July 2011; and increase the authority of the Federal Reserve to examine First Financial Bancorp and its non-bank subsidiaries.

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the United States banking regulators, which are often referred to as the “Collins Amendment.” These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as our company, with total consolidated assets of less than \$15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction. The Dodd-Frank Act requires these new capital regulations to be adopted by the Federal Reserve in final form 18 months after the date of enactment of the Dodd-Frank Act (July 21, 2010). To date, no proposed regulations have been issued.

Many aspects of the act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on First Financial, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments and payment of interest on demand deposits could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Other Regulatory Developments

The Basel Committee on Banking Supervision’s “Basel II” regulatory capital guidelines originally published in June 2004 and adopted in final form by U.S. regulatory agencies in November 2007 are designed to promote improved risk measurement and management processes and better align minimum capital requirements with risk. The Basel II guidelines became operational in April 2008, but are mandatory only for “core banks,” i.e., banks with consolidated total assets of \$250 billion or more. They are thus not applicable to First Financial, which continues to operate under U.S. risk-based capital guidelines consistent with “Basel I” guidelines published in 1988.

Federal regulators issued for public comment in December 2006 proposed rules (designated as “Basel IA” rules) applicable to non-core banks that would have modified the existing U.S. Basel I-based capital framework. In July 2008, however, these regulators issued, instead of the Basel 1A proposals, new rulemaking involving a “standardized framework” that would implement some of the simpler approaches for both credit risk and operational risk from the more advanced Basel II framework. Non-core U.S. depository institutions would be allowed to opt in to the standardized framework or elect to remain under the existing Basel I-based regulatory capital framework.

On December 17, 2009, the Basel Committee issued a set of proposals (2009 Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital. Among other things, the 2009 Capital Proposals would re-emphasize that common equity is the predominant component of Tier 1 capital. Concurrently with the release of the 2009 Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (2009 Liquidity Proposals). The 2009 Liquidity Proposals include the implementation of (i) a liquidity coverage ratio (LCR), designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets sufficient to meet the bank’s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario and (ii) a net stable funding ratio (NSFR), designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon.

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as “Basel III.” Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including First Financial Bank.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

- a minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period;
- a minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period;
- a minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase -in period;
- an additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at

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their discretion, with advance notice;

• restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone;

• deduction from common equity of deferred tax assets that depend on future profitability to be realized;

• increased capital requirements for counterparty credit risk relating to over the counter derivatives, repos and securities financing activities; and

• for capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing the LCR and NSFR. The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a “final text,” it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks.

First Financial continues to monitor all developments related to Basel III.

Internet Website

We maintain a website with the address www.bankatfirst.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

Item 1A. Risk Factors.

Possible Additional Risks

The risks listed here are not the only risks we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business, and prospects. (See also “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for certain forward looking statements.)

Recent Market, Legislative, and Regulatory Events

Difficult market conditions have adversely affected our industry.

Dramatic declines in the housing market over the past years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions. These write-downs, initially of mortgage-backed securities (MBS) but spreading to other securities and loans have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread

reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial con----- PRINCIPAL AMOUNT OF CONTRACTS ISSUER/EXPIRATION MONTH/STRIKE PRICE (000 Omitted) \$ VALUE

Bonds/December/91.825 \$271 \$1,951	Brazil Federal Republic
	Venezuela/December/85 105 745
	Total Put Options Purchased
(Premiums Paid, \$9,937) \$2,696	
Total Investments (Identified Cost, \$526,397,117) \$555,933,111	
	Put Options Written - (0.0)%
	Brazilian Government
Bonds/December/91.75 BRL 135 \$(948)	
	South African
Rand/December/9.32 ZAR 4,660 \$--	
	Total Put Options Written
(Premiums Received, \$17,020) \$(948)	
	Other Assets, Less Liabilities -
1.4% 7,828,182	Net Assets -
100.0% \$563,760,345	*

Non-income producing security. # SEC Rule 144A restriction. + Restricted security. Abbreviations have been used throughout this report to indicate amounts shown in currencies other than the U.S. dollar. A list of abbreviations is shown below. ARS = Argentine Peso MXN = Mexican Peso AUD = Australian Dollar NZD = New Zealand Dollar BRL = Brazilian Real PLN = Polish Zloty CAD = Canadian Dollar RUB = Russian Ruble CLP = Chilean Peso SEK = Swedish Krona CNY = Chinese Yuan SGD = Singapore Dollar COP = Colombian Peso THB = Thai Baht DKK = Danish Krone TRL = Turkish Lira EUR = Euro TWD = Taiwan New Dollar GBP = British Pound UYU = Uruguayan Peso IDR = Indonesian Rupiah ZAR = South African Rand See notes to financial statements.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

	This statement represents your fund's balance sheet, which details the assets and liabilities composing the total value of your fund. AT 10/31/03
ASSETS Investments, at value (identified cost, \$526,397,117) \$555,933,111	
	Cash 216,282
	Foreign currency, at value
(identified cost, \$1,217) 1,242	
Receivable for forward foreign currency exchange contracts 1,503,676	
	Receivable for investments sold
387,155	Interest and dividends
receivable 9,960,343	Other assets
154,555	Total assets
\$568,156,364	LIABILITIES
Payable to dividend disbursing agent \$233,006	
	Payable for forward foreign
currency exchange contracts 1,143,357	
	Payable for investments
purchased 2,323,381	Payable for
trust shares reacquired 83,870	
Written options outstanding, at value (premiums received, \$17,020) 948	
	Payable for daily variation
margin on open future contracts 59,641	
	Payable to affiliates
	Management fee 11,385

agent fee 13,642	Transfer and dividend disbursing
expenses and other liabilities 526,789	Accrued
	Total liabilities \$4,396,019
	Net assets \$563,760,345
Liabilities - continued NET ASSETS CONSIST OF	Statement of Assets and
Paid-in capital \$632,782,515	Unrealized appreciation on
investments and translation of assets and liabilities in foreign currencies 29,954,893	Accumulated net realized loss on
investments and foreign currency transactions (90,560,905)	Accumulated distributions in
excess of net investment income (8,416,158)	Total \$563,760,345
	Shares of beneficial interest
outstanding (89,758,854 issued, less 6,388,302 treasury shares) 83,370,552	Net asset value per share (net
assets of \$563,760,345 / 83,370,552 shares of beneficial interest outstanding) \$6.76	See notes to financial statements.
	FINANCIAL

STATEMENTS STATEMENT OF OPERATIONS

	This statement
describes how much your fund received in investment income and paid in expenses. It also describes any gains and/or	
losses generated by fund operations. FOR YEAR ENDED 10/31/03 NET INVESTMENT INCOME Interest income	
\$36,989,555	Dividends 15,910
	Total investment income
\$37,005,465	Expenses
	Management fee \$3,956,816
	Trustees' compensation 94,137
	Custodian fee 346,212
	Transfer and dividend disbursing
agent fee 182,836	Administrative
fee 54,381	Auditing fees 49,820
	Legal fees 3,576
	Postage 43,985
	Printing 72,607
	Miscellaneous 396,066
	Total expenses \$5,200,436
	Fees paid indirectly (16,612)
	Net expenses \$5,183,824
	Net investment income
\$31,821,641	Statement of
Operations - continued REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS Realized gain (loss)	
(identified cost basis)	Investment
transactions \$25,146,731	Written
option transactions 2,258	Futures
transactions \$(1,172,652)	Foreign
currency transactions \$(15,887,764)	
	Net realized gain on investments
and foreign currency transactions \$8,088,573	
	Change in unrealized

appreciation (depreciation) -----
 Investments \$28,647,462 ----- Written
 options 16,072 ----- Futures contracts
 2,371 ----- Translation of assets and
 liabilities in foreign currencies 1,755,289
 ----- Net unrealized gain on
 investments and foreign currency translation \$30,421,194
 ----- Net realized and unrealized gain
 on investments and foreign currency \$38,509,767
 ----- Increase in net assets from
 operations \$70,331,408 ----- See notes
 to financial statements. -----

FINANCIAL STATEMENTS STATEMENT OF CHANGES IN NET ASSETS

----- This statement describes the
 increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.
 FOR YEARS ENDED 10/31 2003 2002 INCREASE (DECREASE) IN NET ASSETS OPERATIONS Net investment
 income \$31,821,641 \$34,676,335 -----
 Net realized gain (loss) on investments and foreign currency transactions 8,088,573 (34,318,848)
 ----- Net unrealized gain on
 investments and foreign currency translation 30,421,194 11,488,644 -----
 ----- Increase in net assets from operations \$70,331,408 \$11,846,131
 ----- DISTRIBUTIONS DECLARED TO
 SHAREHOLDERS From net investment income \$(33,246,025) \$(35,951,308)
 ----- TRUST SHARE (PRINCIPAL)
 TRANSACTIONS Cost of shares reacquired \$(2,269,553) \$(1,717,045)
 ----- Total increase (decrease) in net
 assets \$34,815,830 \$(25,822,222) ----- NET
 ASSETS At beginning of period \$528,944,515 \$554,766,737
 ----- At end of period (including
 accumulated distributions in excess of net investment income of \$8,416,158 and \$534,911, respectively) \$563,760,345
 \$528,944,515 ----- See notes to
 financial statements. -----

FINANCIAL STATEMENTS FINANCIAL HIGHLIGHTS

----- The financial
 highlights table is intended to help you understand the fund's financial performance for the past 5 years. Certain
 information reflects financial results for a single fund share. The total returns in the table represent the rate by which
 an investor would have earned (or lost) on an investment in the fund (assuming reinvestment of all distributions). This
 information has been audited by the fund's independent auditors, whose report, together with the fund's financial
 statements, are included in this report. FOR YEARS ENDED 10/31 2003 2002 2001 2000 1999 Net asset value,
 beginning of period \$6.32 \$6.60 \$6.69 \$7.03 \$7.17
 ----- INCOME
 FROM INVESTMENT OPERATIONS#(S) Net investment income \$0.38 \$0.41 \$0.51 \$0.58 \$0.56
 ----- Net realized
 and unrealized gain (loss) on investments and foreign currency 0.46 (0.26) (0.06) (0.40) (0.14)
 ----- Total from investment operations \$0.84 \$0.15
 \$0.45 \$0.18 \$0.42 ----- LESS DISTRIBUTIONS From
 net investment income \$(0.40) \$(0.43) \$(0.49) \$(0.41) \$(0.57)
 ----- From paid-in
 capital -- -- (0.05) (0.17) --
 ----- Total

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distributions \$(0.40) \$(0.43) \$(0.54) \$(0.58) \$(0.57) -----
 ----- Net increase from repurchase of capital shares \$0.00+ \$0.00+ \$0.00+ \$0.06 \$0.01
 ----- Net asset value, end of period \$6.76 \$6.32 \$6.60
 \$6.69 \$7.03 ----- Per share market value, end of period
 \$6.41 \$5.69 \$6.06 \$6.00 \$6.06 ----- Total return at
 market value (%) 20.11 0.72* 9.83 8.84 2.81

----- RATIOS
 (%) TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA: Expenses## 0.94 0.96 1.06 1.06 1.05

----- Net
 investment income(S) 5.76 6.49 7.65 8.23 7.80

----- Portfolio
 turnover 126 152 103 82 98

----- Net assets at
 end of period (000 Omitted) \$563,760 \$528,945 \$554,767 \$567,191 \$641,213

----- # Per share
 data are based on average shares outstanding. ## Ratios do not reflect expense reductions from fees paid indirectly. +
 Per share data is less than \$0.01. (S) As required, effective November 1, 2001, the trust adopted the provisions of the
 AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium and accreting market
 discount on debt securities. The effect of this change for the year ended October 31, 2002 was to decrease net
 investment income per share and increase net realized and unrealized gains and losses per share. The impact of this
 change calculates to less than \$0.01 per share. In addition, the ratio of net investment income to average net assets
 decreased by 0.01%. Per share, ratios, and supplemental data for years prior to October 30, 2002 have not been
 restated to reflect this change in presentation. * As revised, to reflect post closing activity on the NYSE at October 31,
 2002. Such amount was previously reported as 0.90%. See notes to financial statements.

----- NOTES TO FINANCIAL STATEMENTS

----- (1) BUSINESS AND ORGANIZATION MFS

Multimarket Income Trust (the trust) is a non-diversified trust that is organized as a Massachusetts business trust and
 is registered under the Investment Company Act of 1940, as amended, as a closed-end management investment
 company. (2) SIGNIFICANT ACCOUNTING POLICIES GENERAL - 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 results could differ from those estimates. The trust can invest in foreign securities.

Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency
 and the U.S. dollar and to the effects of changes in each country's legal, political, and economic environment.

INVESTMENT VALUATIONS - Bonds and other fixed income securities (other than short-term obligations) in the
 trust's portfolio are valued at an evaluated bid price on the basis of quotes from brokers and dealers or on the basis of
 valuations furnished by a pricing service. Prices obtained from pricing services utilize both dealer-supplied valuations
 and electronic data processing techniques which take into account appropriate factors such as institutional-size trading
 in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other
 market data without exclusive reliance upon quoted prices or exchange or over-the- counter prices, since such
 valuations are believed to reflect more accurately the fair value of such securities. Equity securities in the trust's
 portfolio for which market quotations are available are valued at the last sale or official closing price on the primary
 market or exchange on which they are primarily traded or at the last quoted bid price for securities in which there were
 no sales during the day. If no sales are reported, as is the case for most securities traded over the counter, securities are
 valued on the basis of quotations obtained from brokers and dealers or on the basis of valuations furnished by a
 pricing service. Forward contracts and currency options will be valued using a pricing model taking into consideration
 market data from an external pricing source. Use of the pricing services has been approved by the Board of Trustees.
 All other securities (other than short-term obligations), futures contracts and options in the trust's portfolio for which
 the principal market is one or more securities or commodities exchanges (whether domestic or foreign) will be valued
 at the last reported sale price or at the settlement price prior to the determination (or if there has been no current sale,

at the closing bid price) on the primary exchange on which such securities, futures contracts or options are traded; but if a securities exchange is not the principal market for securities, such securities will, if market quotations are readily available, be valued at current bid prices. Short-term obligations in the trust's portfolio are valued at amortized cost, which constitutes fair value as determined by the Board of Trustees. Short-term obligations with a remaining maturity in excess of 60 days will be valued upon dealer-supplied valuations. Portfolio investments for which market quotations are not readily available, or whose values have been materially affected by events occurring after the close of their primary markets, are valued at fair value as determined in good faith by or at the direction of the Board of Trustees.

REPURCHASE AGREEMENTS - The trust may enter into repurchase agreements with institutions that the trust's investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. The trust requires that the securities collateral in a repurchase transaction be transferred to the custodian in a manner sufficient to enable the trust to obtain those securities in the event of a default under the repurchase agreement. The trust monitors, on a daily basis, the value of the collateral to ensure that its value, including accrued interest, is greater than amounts owed to the trust under each such repurchase agreement. The trust, along with other affiliated entities of Massachusetts Financial Services Company (MFS), may utilize a joint trading account for the purpose of entering into one or more repurchase agreements.

FOREIGN CURRENCY TRANSLATION - Investment valuations, other assets, and liabilities initially expressed in foreign currencies are converted each business day into U.S. dollars based upon current exchange rates. Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

DEFERRED TRUSTEE COMPENSATION - Under a Deferred Compensation Plan (the Plan) independent Trustees may elect to defer receipt of all or a portion of their annual compensation. Deferred amounts are treated as though equivalent dollar amounts had been invested in shares of the trust or other MFS trust selected by the Trustee. Deferred amounts represent an unsecured obligation of the trust until distributed in accordance with the Plan. Included in other assets and accrued expenses and other liabilities is \$76,213 of Deferred Trustees' Compensation.

WRITTEN OPTIONS - The trust may write call or put options in exchange for a premium. The premium is initially recorded as a liability, which is subsequently adjusted to the current value of the option contract. When a written option expires, the trust realizes a gain equal to the amount of the premium received. When a written call option is exercised or closed, the premium received is offset against the proceeds to determine the realized gain or loss. When a written put option is exercised, the premium reduces the cost basis of the security purchased by the trust. The trust, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the securities underlying the written option. In general, written call options may serve as a partial hedge against decreases in value in the underlying securities to the extent of the premium received. Written options may also be used as part of an income producing strategy reflecting the view of the trust's management on the direction of interest rates.

FUTURES CONTRACTS - The trust may enter into futures contracts for the delayed delivery of securities or currency, or contracts based on financial indices at a fixed price on a future date. In entering such contracts, the trust is required to deposit with the broker either in cash or securities an amount equal to a certain percentage of the contract amount. Subsequent payments are made or received by the trust each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses by the trust. The trust's investment in futures contracts is designed to hedge against anticipated future changes in interest or exchange rates or securities prices. Investments in interest rate futures for purposes other than hedging may be made to modify the duration of the portfolio without incurring the additional transaction costs involved in buying and selling the underlying securities. Investments in currency futures for purposes other than hedging may be made to change the trust's relative position in one or more currencies without buying and selling portfolio assets. Investments in equity index contracts or contracts on related options for purposes other than hedging, may be made when the trust has cash on hand and wishes to participate in anticipated market appreciation while the cash is being invested. Should interest or exchange rates or securities prices move unexpectedly, the trust may not achieve the anticipated benefits of the futures contracts and may realize a loss.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS - The

trust may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The trust may enter into forward foreign currency exchange contracts for hedging purposes as well as for non-hedging purposes. For hedging purposes, the trust may enter into contracts to deliver or receive foreign currency it will receive from or require for its normal investment activities. The trust may also use contracts in a manner intended to protect foreign currency-denominated securities from declines in value due to unfavorable exchange rate movements. For non-hedging purposes, the trust may enter into contracts with the intent of changing the relative exposure of the trust's portfolio of securities to different currencies to take advantage of anticipated changes. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until the contract settlement date. On contract settlement date, the gains or losses are recorded as realized gains or losses on foreign currency transactions.

INVESTMENT TRANSACTIONS AND INCOME - Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with accounting principles generally accepted in the United States of America. All discount is accreted for tax reporting purposes as required by federal income tax regulations. Dividends received in cash are recorded on the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date. Some securities may be purchased on a "when-issued" or "forward delivery" basis, which means that the securities will be delivered to the trust at a future date, usually beyond customary settlement time. **FEES PAID INDIRECTLY** - The trust's custody fee is reduced according to an arrangement that measures the value of cash deposited with the custodian by the trust. This amount is shown as a reduction of total expenses on the Statement of Operations. **TAX MATTERS AND**

DISTRIBUTIONS - The trust's policy is to comply with the provisions of the Internal Revenue Code (the Code) applicable to regulated investment companies and to distribute to shareholders all of its net taxable income, including any net realized gain on investments. Accordingly, no provision for federal income or excise tax is provided. Distributions to shareholders are recorded on the ex-dividend date. The trust distinguishes between distributions on a tax basis and a financial reporting basis and only distributions in excess of tax basis earnings and profits are reported in the financial statements as distributions from paid-in capital. Differences in the recognition or classification of income between the financial statements and tax earnings and profits, which result in temporary over-distributions for financial statement purposes, are classified as distributions in excess of net investment income or net realized gains. Common types of book and tax differences that could occur include differences in accounting for currency transactions, mortgage-backed securities, derivatives, defaulted bonds, capital losses, and amortization and accretion on debt securities. The tax character of distributions declared for the years ended October 31, 2003 and October 31, 2002 was as follows: 10/31/03 10/31/02 Distributions declared from:

-----	Ordinary income	\$33,246,025	\$35,951,308
-----	Long-term capital gain	0	0
-----		\$33,246,025	\$35,951,308
-----	Tax return of capital	0	0
-----	Total distributions declared	\$33,246,025	
\$35,951,308	-----	During the year ended October 31,	
		2003 accumulated distributions in excess of net investment income increased by \$6,456,863, accumulated net realized loss on investments and foreign currency transactions decreased by \$6,455,775, and paid-in capital increased by \$1,088 due to differences between book and tax accounting for mortgage-backed securities, currency transactions, the offset of net investment loss against short-term capital gains, amortization and accretion on debt securities, market discount, capital losses, etc. This change had no effect on the net assets or net asset value per share. As of October 31, 2003, the components of distributable earnings (accumulated losses) on a tax basis were as follows: Undistributed ordinary income \$249,409	
(86,321,808)	-----	Capital loss carryforward	
	-----	Unrealized appreciation	25,352,988
	-----	Other temporary differences	(8,302,759)

For federal income tax purposes, the capital loss carryforward may be applied against any net taxable realized gains of each succeeding year until the earlier of its utilization or expiration. **EXPIRATION DATE** October 31, 2007 \$(6,254,941)

----- October 31, 2008 (19,415,923)
 ----- October 31, 2009 (22,359,865)
 ----- October 31, 2010 (38,291,079)
 ----- Total \$(86,321,808)

----- (3) TRANSACTIONS WITH AFFILIATES INVESTMENT ADVISER - The trust has an investment advisory agreement with Massachusetts Financial Services Company (MFS) to provide overall investment advisory and administrative services, and general office facilities. The management fee is computed daily and paid monthly at an annual rate of 0.34% of the trust's average daily net assets and 5.40% of investment income. Management fees incurred for the year ended October 31, 2003 were 0.72% of average daily net assets on an annualized basis. The trust pays compensation to the Independent Trustees ("Trustees") in the form of both a retainer and attendance fees, and pays no compensation directly to its Trustees who are officers of the investment adviser, or to officers of the trust, all of whom receive remuneration for their services to the trust from MFS. Certain officers and Trustees of the trust are officers or directors of MFS and MFS Service Center, Inc.

(MFSC). The trust has an unfunded, defined benefit plan for inactive Trustees and an unfunded retirement benefit deferral plan for active Trustees. Included in Trustees' compensation is a net increase of \$14,569 as a result of the change in the trust's pension liability for active Trustees and a pension expense of \$16,170 for inactive trustees for the year ended October 31, 2003. ADMINISTRATOR - The trust has an administrative services agreement with MFS to provide the trust with certain financial, legal, shareholder communications, compliance, and other administrative services. As a partial reimbursement for the cost of providing these services, the trust pays MFS an administrative fee not to exceed the following annual percentage rates of the trust's average daily net assets: First \$2 billion 0.0175%

----- Next \$2.5 billion 0.0130%
 ----- Next \$2.5 billion 0.0005%
 ----- In excess of \$7 billion 0.0000%

----- TRANSFER AGENT - MFSC acts as registrar and dividend disbursing agent for the trust. The agreement provides that the trust will pay MFSC an account maintenance fee of no more than \$9.00 and a dividend services fee of \$0.75 per reinvestment and will reimburse MFSC for reasonable out-of-pocket expenses. (4) PORTFOLIO SECURITIES Purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows: PURCHASES SALES U.S. government securities \$119,156,033 \$210,737,601 ----- Investments (non-U.S. government securities) \$564,052,665 \$496,088,626 -----

The cost and unrealized appreciation and depreciation in the value of the investments owned by the trust, as computed on a federal income tax basis, are as follows: Aggregate cost \$530,635,497

----- Gross unrealized appreciation \$33,169,265
 ----- Gross unrealized depreciation (7,871,651)
 ----- Net unrealized appreciation \$25,297,614

----- (5) SHARES OF BENEFICIAL INTEREST The trust's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The Trustees have authorized 89,758,854 full and fractional shares of beneficial interest and have authorized the repurchase by the trust of up to 10% annually of its own shares of beneficial interest. The trust repurchased 381,600 shares of beneficial interest during the year ended October 31, 2003 at an average price per share of \$5.95 and a weighted average discount of 8.90% per share. The trust repurchased 294,300 shares of beneficial interest during the year ended October 31, 2002, at an average price per shares of \$5.83 and a weighted average discount of 9.43% per share. Transactions in trust shares were as follows: Year ended 10/31/03 Year ended 10/31/02 SHARES AMOUNT SHARES AMOUNT Treasury shares reacquired (381,600) \$(2,269,553) (294,300) \$(1,717,045)

----- Net decrease (381,600) \$(2,269,553) (294,300) \$(1,717,045)

----- (6) LINE OF CREDIT The trust, and other affiliated funds participate in an \$800 million unsecured line of credit provided by a syndication of banks under a line of credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's base rate. In addition, a commitment fee, based on the average daily unused portion of the line of credit, is allocated among the participating funds at the end of each quarter.

Trustees. SHARE/ DATE OF PRINCIPAL DESCRIPTION ACQUISITION AMOUNT COST VALUE DLJ
Mortgage Acceptance Corp. 4/9/01 59,905 \$54,963 \$59,669

----- (9) CHANGE IN ACCOUNTING PRINCIPLE As required, effective November 1, 2001, the trust adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium and accreting market discount on debt securities. Prior to November 1, 2001 the trust did not amortize premium nor accrete market discount on debt securities. The cumulative effect of this accounting change had no impact on total net assets of the trust, but resulted in a \$3,979,555 reduction in cost of securities and a corresponding \$3,979,555 decrease in net unrealized depreciation, based on securities held by the fund on November 1, 2001. The effect of this change for the year ended October 31, 2002 was to increase net investment income by \$42,664, increase net unrealized depreciation by \$522,757, and decrease net realized losses by \$565,421. The Statement of Changes in Net Assets and Financial Highlights for prior periods has not been restated to reflect this change in presentation. (10) LEGAL PROCEEDINGS Massachusetts Financial Services Company ("MFS"), the Trust's investment adviser, has been contacted by the Office of the New York State Attorney General ("NYAG") and the United States Securities and Exchange Commission ("SEC") in connection with their investigations of practices in the mutual fund industry identified as "market timing" mutual fund shares. MFS is cooperating with respect to these investigations. MFS has been informed that the SEC is considering whether to institute an enforcement action against MFS alleging false and misleading disclosure in certain MFS fund prospectuses and breach of fiduciary duty concerning market timing. The NYAG has also indicated that it is considering whether to commence an enforcement proceeding against MFS relating to these practices. MFS continues to discuss these matters with the SEC and the NYAG. Certain other regulatory authorities are also conducting investigations into these practices within the industry and have requested that MFS provide information to them. In December 2003, MFS and Sun Life Financial Inc., along with certain MFS funds and Trustees who serve on the Board of Trustees of these MFS funds, were named as defendants in class action lawsuits filed in the United States District Court, District of Massachusetts seeking damages of unspecified amounts. The lawsuits were purportedly filed on behalf of people who purchased, owned and/or redeemed shares of certain MFS funds during specified periods. The suits allege that certain defendants permitted market timing and late trading in the MFS funds which allegedly caused financial injury to the funds' shareholders. The defendants are reviewing the allegations and will respond appropriately. Additional lawsuits based upon similar allegations may be filed in the future. Any potential resolution of these matters may include, but not be limited to, sanctions, penalties, damages or injunctions regarding MFS, restitution to mutual fund shareholders and/or other financial penalties and structural changes in the governance of MFS' mutual fund business. These regulatory developments do not relate to closed-end investment companies such as the Trust, and the Trust has not been named as a defendant in any of the aforementioned lawsuits. Although MFS does not believe that these lawsuits will have a material adverse effect on the Trust, there can be no assurance that the ongoing adverse publicity and/or other developments resulting from related regulatory investigations or developments will not result in an increase in the market discount of the Trust's shares or other adverse consequences to the Trust.

----- INDEPENDENT AUDITORS' REPORT

----- To the Trustees and Shareholders of MFS

Multimarket Income Trust: We have audited the accompanying statement of assets and liabilities of MFS Multimarket Income Trust (the Fund), including the portfolio of investments, as of October 31, 2003, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of October 31, 2003, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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, the financial statements and financial highlights

referred to above present fairly, in all material respects, the financial position of the MFS Multimarket Income Trust at October 31, 2003, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States. /s/ ERNST & YOUNG LLP Boston, Massachusetts December 12, 2003

----- TRUSTEES AND OFFICERS

----- The following tables present certain information regarding the Trustees and officers of the Trust, including their principal occupations, which, unless specific dates are shown, are of more than five years" duration, although the titles may not have been the same throughout. Name, age, position with the Trust, principal occupation, and other directorships(1) INTERESTED TRUSTEES JEFFREY L. SHAMES(2) (born 06/02/55) ABBY M. O'NEILL (born 04/27/28) Chairman Trustee Massachusetts Financial Services Company, Chairman Private investor; Rockefeller Financial Services, Inc. (investment advisers), Chairman and Chief JOHN W. BALLEEN(2) (born 09/12/59) Executive Officer Trustee and President Massachusetts Financial Services Company, Chief LAWRENCE T. PERERA (born 06/23/35) Executive Officer and Director Trustee Hemenway & Barnes (attorneys), Partner KEVIN R. PARKE(2) (born 12/14/59) Trustee WILLIAM J. POORVU (born 04/10/35) Massachusetts Financial Services Company, Trustee President, Chief Investment Officer, and Director Private investor; Harvard University Graduate School of Business Administration, Class of 1961 INDEPENDENT TRUSTEES Adjunct Professor in Entrepreneurship Emeritus; CBL & Associates Properties, Inc. (real estate LAWRENCE H. COHN, M.D. (born 03/11/37) investment trust), Director Trustee Brigham and Women's Hospital, Chief of Cardiac J. DALE SHERRATT (born 09/23/38) Surgery; Harvard Medical School, Professor of Trustee Surgery Insight Resources, Inc. (acquisition planning specialists), President; Wellfleet Investments WILLIAM R. GUTOW (born 09/27/41) (investor in health care companies), Managing Trustee General Partner (since 1993); Cambridge Private investor and real estate consultant; Nutraceuticals (professional nutritional Capitol Entertainment Management Company (video products), Chief Executive Officer (until May franchise), Vice Chairman 2001) J. ATWOOD IVES (born 05/01/36) ELAINE R. SMITH (born 04/25/46) Trustee Trustee Private investor; KeySpan Corporation (energy Independent health care industry consultant related services), Director; Eastern Enterprises (diversified services company), Chairman, Trustee WARD SMITH (born 09/13/30) and Chief Executive Officer (until November 2000) Trustee Private investor (1) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., "public companies"). (2) "Interested person" of MFS within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act) which is the principal federal law governing investment companies like the Trust. The address of MFS is 500 Boylston Street, Boston, Massachusetts 02116. Trustees and Officers - continued OFFICERS JEFFREY L. SHAMES (born 06/02/55) ROBERT R. FLAHERTY (born 09/18/63) Chairman Assistant Treasurer Massachusetts Financial Services Company, Chairman Massachusetts Financial Services Company, Vice President (since August 2000); UAM Fund Services, JOHN W. BALLEEN (born 09/12/59) Senior Vice President (prior to August 2000) Trustee and President Massachusetts Financial Services Company, Chief RICHARD M. HISEY (born 08/29/58) Executive Officer and Director Treasurer Massachusetts Financial Services Company, Senior JAMES R. BORDEWICK, JR. (born 03/06/59) Vice President (since July 2002); The Bank of New Assistant Secretary and Assistant Clerk York, Senior Vice President (September 2000 to Massachusetts Financial Services Company, Senior July 2002); Lexington Global Asset Managers, Inc., Vice President and Associate General Counsel Executive Vice President and Chief Financial Officer, (prior to September 2000); Lexington STEPHEN E. CAVAN (born 11/06/53) Funds, Treasurer (prior to September 2000) Secretary and Clerk Massachusetts Financial Services Company, Senior ELLEN MOYNIHAN (born 11/13/57) Vice President, General Counsel and Secretary Assistant Treasurer Massachusetts Financial Services Company, Vice STEPHANIE A. DESISTO (born 10/01/53) President Assistant Treasurer Massachusetts Financial Services Company, Vice JAMES O. YOST (born 06/12/60) President (since April 2003); Brown Brothers Assistant Treasurer Harriman & Co., Senior Vice President (November Massachusetts Financial Services Company, Senior 2002 to April 2003); ING Groep N.V./Aeltus Vice President Investment Management, Senior Vice President (prior to November 2002) The Trust does not hold annual shareholder meetings for the purpose of electing Trustees, and Trustees are not elected for fixed terms. This means that each Trustee will be elected to hold office until his or her successor is chosen and qualified or until his or her earlier death, resignation, retirement or removal. Each officer will hold office until his or her successor is chosen and qualified, or until he or she retires, resigns or is removed from

office. Messrs. Shames, Ives, Perera and Poorvu, and Ms. Smith, have served in their capacity as Trustee of the Trust continuously since originally elected or appointed. Messrs. Ballen and Gutow have each served as a Trustee of the Trust since August 1, 2001. Messrs. Cohn, Sherratt and Smith, and Ms. O'Neill, were elected by shareholders and have served as Trustees of the Trust since January 1, 2002. Mr. Parke has served as Trustee of the Trust since January 1, 2002. Each of the Trust's Trustees and officers holds comparable positions with certain other funds of which MFS or a subsidiary is the investment adviser or distributor and, in the case of the officers, with certain affiliates of MFS. Each Trustee serves as a board member of 110 funds within the MFS Family of Funds. The Statement of Additional Information contains further information about the Trustees and is available without charge upon request, by calling 1-800-225-2606. -----

INVESTMENT ADVISER CUSTODIANS Massachusetts Financial Services Company State Street Bank and Trust Company 500 Boylston Street, Boston, MA 225 Franklin Street, Boston, MA 02116-3741 02110 PORTFOLIO MANAGERS JP Morgan Chase Bank Peter C. Vaream(1) One Chase Manhattan Plaza New York, NY 10081 AUDITORS Ernst & Young LLP (1) MFS Investment Management

----- FEDERAL TAX INFORMATION (UNAUDITED)

In January 2004, shareholders will be mailed a Form 1099-DIV reporting the federal tax status of all distributions paid during the calendar year 2003. -----

----- CONTACT INFORMATION AND NUMBER OF

SHAREHOLDERS ----- INVESTOR INFORMATION

Transfer Agent, Registrar and Dividend Disbursing Agent Call 1-800-637-2304 any business day from 8 a.m. to 8 p.m. Eastern time Write to: State Street Bank and Trust Company c/o MFS Service Center, Inc. P.O. Box 55024 Boston, MA 02205-5024 A general description of the MFS Funds proxy voting policies is available without charge, upon request, by calling 1-800-225-2606, by visiting the About MFS section of mfs.com or by visiting the SEC's website at <http://www.sec.gov>. NUMBER OF SHAREHOLDERS As of October 31, 2003, our records indicate that there are 672 registered shareholders and approximately 5,400 shareholders owning trust shares in "street" name, such as through brokers, banks, and other financial intermediaries. If you are a "street" name shareholder and wish to directly receive our reports, which contain important information about the trust, please write or call: State Street Bank and Trust Company c/o MFS Service Center, Inc. P.O. Box 55024 Boston, MA 02205-5024 1-800-637-2304 [logo] M F S(R) 500 Boylston Street Boston, MA 02116-3741 (C) 2003 MFS Investment Management(R) 500 Boylston Street, Boston, MA 02116 MMT-ANN-12/03 75M ITEM 2. CODE OF ETHICS. The Registrant has adopted a Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in the instructions to Form N-CSR that applies to the Registrant's principal executive officer and principal financial and accounting officer. ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT. Messrs. J. Atwood Ives and Ward Smith, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of "audit committee financial expert" as such term is defined in the instructions to Form N-CSR. In addition, Messrs. Ives and Smith are both "independent" members of the Audit Committee as defined in the instructions to Form N-CSR. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. Not applicable at this time. [Applicable for annual reports filed for the first fiscal year ending after December 15, 2003 (beginning with annual N-CSR filings at the end of February, 2004 for December 31, 2003 reporting period.)] ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable at this time. [Applicable for closed-end fund annual reports covering periods ending on or after the compliance date for the listing standards applicable to the closed-end fund. Listed issuers must be in compliance with the new listing rules by the earlier of the registrant's first annual shareholders meeting after January 15, 2004 or October 31, 2004.] ITEM 6. [RESERVED] ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. The Board of Trustees and the Board of Managers of the investment companies (the "MFS Funds") advised by Massachusetts Financial Services Company ("MFS") have delegated to MFS the right and obligation to vote proxies for shares that are owned by the MFS Funds, in accordance with MFS' proxy voting policies and procedures (the "MFS Proxy Policies"). The MFS Proxy Policies are set forth below: MASSACHUSETTS FINANCIAL SERVICES COMPANY PROXY VOTING POLICIES AND PROCEDURES SEPTEMBER 17, 2003 Massachusetts Financial Services Company, MFS Institutional Advisors, Inc. and MFS' other investment adviser subsidiaries (collectively, "MFS") have adopted proxy voting policies and procedures, as set forth below, with respect to securities owned by the clients for which MFS serves as investment adviser and has the power to vote proxies,

including the registered investment companies included within the MFS Family of Funds (the "MFS Funds"). These policies and procedures include: A. Voting Guidelines; B. Administrative Procedures; C. Monitoring System; D. Records Retention; and E. Reports.

A. VOTING GUIDELINES

1. GENERAL POLICY; POTENTIAL CONFLICTS OF INTEREST

MFS' policy is that proxy voting decisions are made in what MFS believes to be the best long-term economic interests of MFS' clients, and not in the interests of any other party or in MFS' corporate interests, including interests such as the distribution of MFS Fund shares, administration of 401(k) plans, and institutional relationships. MFS has carefully reviewed matters that in recent years have been presented for shareholder vote by either management or shareholders of public companies. Based on the guiding principle that all votes made by MFS on behalf of its clients must be in what MFS believes to be the best long-term economic interests of such clients, MFS has adopted proxy voting guidelines, which are set forth below, that govern how MFS generally plans to vote on specific matters presented for shareholder vote. In all cases, MFS will exercise its discretion to vote these items in accordance with this guiding principle. These underlying guidelines are simply that - guidelines. Each proxy item is considered on a case-by-case basis, in light of all relevant facts and circumstances, and there may be instances in which MFS may vote proxies in a manner different from these guidelines. As a general matter, MFS maintains a consistent voting position with respect to similar proxy proposals made by various issuers. In addition, MFS generally votes consistently on the same matter when securities of an issuer are held by multiple client accounts. However, MFS recognizes that there are gradations in certain types of proposals that might result in different voting positions being taken with respect to the different proxy statements. There also may be situations involving matters presented for shareholder vote that are not clearly governed by the guidelines, such as proposed mergers and acquisitions. Some items that otherwise would be acceptable will be voted against the proponent when it is seeking extremely broad flexibility without offering a valid explanation. MFS reserves the right to override the guidelines with respect to a particular shareholder vote when such an override is, in MFS' best judgment, consistent with the guiding principle of voting proxies in the best long-term economic interests of MFS' clients. From time to time, MFS receives comments on these guidelines and regarding particular voting issues from its clients. Those comments are reviewed and considered periodically, and these guidelines are reviewed each year with MFS Equity Research Department management, the MFS Proxy Review Group and the MFS Proxy Consultant and are revised as appropriate. These policies and procedures are intended to address any potential material conflicts of interest on the part of MFS or its affiliates that could arise in connection with the voting of proxies on behalf of MFS' clients. MFS shall be mindful of any and all potential material conflicts of interest that could arise in the voting of these proxies, shall identify, analyze, document and report on any such potential conflicts, and shall ultimately vote these proxies in what MFS believes to be the best long-term economic interests of its clients. The MFS Proxy Review Group is responsible for monitoring and reporting on all potential conflicts of interest.

2. MFS' POLICY ON SPECIFIC ISSUES

NON-SALARY COMPENSATION PROGRAMS

Managements have become increasingly creative and generous with compensation programs involving common stock. The original stock option plans, which called for the optionee to pay the money to exercise the option, are now embellished with no risk benefits such as stock appreciation rights, the use of unexercised options to "buy" stock, and restricted stock at bargain prices. Stock option plans are supposed to reward results rather than tenure, so the use of restricted stock at bargain prices is not favored. In some cases, restricted stock is granted to the recipient at deep discounts to fair market value, sometimes at par value. The holder cannot sell for a period of years, but in the meantime is able to vote and receive dividends. Eventually the restrictions lapse and the stock can be sold. MFS votes against option programs for officers, employees or non-employee directors that do not require an investment by the optionee, that give "free rides" on the stock price, or that permit grants of restricted stock at deep discounts to fair market value. MFS generally votes against stock option plans that involve stock appreciation rights or the use of unexercised options to "buy" stock. MFS opposes plans that provide unduly generous compensation for officers, directors or employees, or could result in excessive dilution to other shareholders. As a general guideline, MFS votes against stock option plans if all such plans for a particular company involve potential dilution, in the aggregate, of more than 15%. MFS votes in favor of stock option plans for non-employee directors as long as they satisfy the requirements set forth above with respect to stock option plans for employees. Stock option plans that include options for consultants and other third parties not involved in the management of the company generally are opposed by MFS.

"GOLDEN PARACHUTES"

From time to time, shareholders of companies have submitted proxy proposals that would require shareholder approval of any severance packages for executive officers that exceed certain predetermined thresholds. MFS votes in favor of such shareholder proposals when they would require shareholder

approval of any severance package for an executive officer that exceeds a certain percentage of such officer's annual compensation. When put to a vote, MFS votes against very large golden parachutes. ANTI-TAKEOVER MEASURES In general, MFS votes against any measure that inhibits capital appreciation in a stock, including a possible takeover and any proposal that protects management from action by shareholders. These types of proposals take many forms, ranging from "poison pills" and "shark repellents" to board classification and super-majority requirements. REINCORPORATION AND REORGANIZATION PROPOSALS When presented with a proposal to reincorporate a company under the laws of a different state, or to effect some other type of corporate reorganization, MFS considers the underlying purpose and ultimate effect of such a proposal in determining whether or not to support such a measure. While MFS generally votes in favor of management proposals that it believes are in the best long-term economic interests of its clients, MFS may oppose such a measure if, for example, the intent or effect would be to create additional inappropriate impediments to possible acquisitions or takeovers. DILUTION There are many reasons for issuance of stock and most are legitimate. As noted above under "Non-Salary Compensation Programs", when a stock option plan (either individually or when aggregated with other plans of the same company) would substantially dilute the existing equity (e.g., by approximately 15% or more), MFS generally votes against the plan. In addition, MFS votes against proposals where management is asking for authorization to issue common or preferred stock with no reason stated (a "blank check") because the unexplained authorization could work as a potential anti-takeover device. CONFIDENTIAL VOTING MFS votes in favor of proposals to ensure that shareholder voting results are kept confidential. For example, MFS supports proposals that would prevent management from having access to shareholder voting information that is compiled by an independent proxy tabulation firm. INDEPENDENCE OF BOARDS OF DIRECTORS AND COMMITTEES THEREOF While MFS acknowledges the potential benefits of a company's inclusion of directors who are "independent" from management, MFS generally opposes shareholder proposals that would require that a majority (or a "super-majority") of a company's board be comprised of "independent" directors. Such proposals could inappropriately reduce a company's ability to engage in certain types of transactions, could result in the exclusion of talented directors who are not deemed "independent", or could result in the unnecessary addition of additional "independent" directors to a company's board. However, in view of the special role and responsibilities of various the audit committees of a board of directors, MFS supports proposals that would require that the Audit, Nominating and Compensation Committees be comprised entirely of directors who are deemed "independent" of the company. INDEPENDENT AUDITORS Recently, some shareholder groups have submitted proposals to limit the non-audit activities of a company's audit firm. Some proposals would prohibit the provision of any non-audit services (unless approved in advance by the full board) whereas other proposals would cap non-audit fees so that such fees do not exceed a certain percentage of the audit fees. MFS supports such shareholder proposals that would cap non-audit fees at an amount deemed to be not excessive. BEST PRACTICES STANDARDS Best practices standards are rapidly evolving in the corporate governance areas as a result of recent corporate failures, the Sarbanes-Oxley Act of 2002 and revised listing standards on major stock exchanges. MFS generally support these changes. However, many issuers are not publicly registered, are not subject to these enhanced listing standards or are not operating in an environment that is comparable to that in the United States. In reviewing proxy proposals under these circumstances, MFS votes for proposals that enhance standards of corporate governance so long as we believe that -- within the circumstances of the environment within which the issuers operate - the proposal is consistent with the best long-term economic interests of our clients. FOREIGN ISSUERS - SHARE BLOCKING In accordance with local law or business practices, many foreign companies prevent the sales of shares that have been voted for a certain period beginning prior to the shareholder meeting and ending on the day following the meeting ("share blocking"). Depending on the country in which a company is domiciled, the blocking period may begin a stated number of days prior to the meeting (e.g., one, three or five days) or on a date established by the company. While practices vary, in many countries the block period can be continued for a longer period if the shareholder meeting is adjourned and postponed to a later date. Similarly, practices vary widely as to the ability of a shareholder to have the "block" restriction lifted early (e.g., in some countries shares generally can be "unblocked" up to two days prior to the meeting whereas in other countries the removal of the block appears to be discretionary with the issuer's transfer agent). Due to these restrictions, MFS must balance the benefits to its clients of voting proxies against the potentially serious portfolio management consequences of a reduced flexibility to sell the underlying shares at the most advantageous time. For companies in countries with potentially long block periods, the disadvantage of being unable to sell the stock regardless of changing conditions generally outweighs the advantages of voting at the shareholder meeting for

routine items. Accordingly, MFS generally will not vote those proxies in the absence of an unusual, significant vote. Conversely, for companies domiciled in countries with very short block periods, MFS generally will continue to cast votes in accordance with these policies and procedures. **SOCIAL ISSUES** There are many groups advocating social change, and many have chosen the publicly-held corporation as a vehicle for their agenda. Common among these are resolutions requiring the corporation to refrain from investing or conducting business in certain countries, to adhere to some list of goals or principles (e.g., environmental standards) or to report on various activities. MFS votes against such proposals unless their shareholder-oriented benefits will outweigh any costs or disruptions to the business, including those that use corporate resources to further a particular social objective outside the business of the company or when no discernible shareholder economic advantage is evident. The laws of various states may regulate how the interests of certain clients subject to those laws are voted. For example, the General Laws of The Commonwealth of Massachusetts prohibit the investment of state funds, including retirement system assets, in the following types of investments: (i) financial institutions which directly or through any subsidiary have outstanding loans to any individual or corporation engaged in manufacturing, distribution or sale of firearms, munitions, rubber or plastic bullets, tear gas, armored vehicles or military aircraft for use or deployment in any activity in Northern Ireland; or (ii) any stocks, securities or obligations of any company so engaged. Because of these statutory restrictions, it is necessary when voting proxies for securities held in Massachusetts public pension accounts to support the purpose of this legislation. Thus, on issues relating to these or similar state law questions, it may be necessary to cast ballots differently for these portfolios than MFS might normally do for other accounts. **B. ADMINISTRATIVE**

PROCEDURES **1. MFS PROXY REVIEW GROUP** The administration of these policies and procedures is overseen by the MFS Proxy Review Group, which includes senior MFS Legal Department officers and MFS' Proxy Consultant. The MFS Proxy Review Group: a. Reviews these policies and procedures at least annually and recommends any amendments considered to be necessary or advisable; b. Determines whether any material conflicts of interest exist with respect to instances in which (i) MFS seeks to override these guidelines and (ii) votes not clearly governed by these guidelines; and c. Considers special proxy issues as they may arise from time to time. The current MFS Proxy Consultant is an independent proxy consultant who performs these services exclusively for MFS. **2. POTENTIAL CONFLICTS OF INTEREST** The MFS Proxy Review Group is responsible for monitoring potential material conflicts of interest on the part of MFS or its affiliates that could arise in connection with the voting of proxies on behalf of MFS' clients. Any attempt to influence MFS' voting on a particular proxy matter should be reported to the MFS Proxy Review Group. The MFS Proxy Consultant will assist the MFS Proxy Review Group in carrying out these responsibilities. In cases where proxies are voted in accordance with these policies and guidelines, no conflict of interest will be deemed to exist. In cases where (i) MFS is considering overriding these policies and guidelines, or (ii) matters presented for vote are not clearly governed by these policies and guidelines, the MFS Proxy Review Group and the MFS Proxy Consultant will follow these procedures: a. Compare the name of the issuer of such proxy against a list of significant current and potential (i) distributors of MFS Fund shares, (ii) retirement plans administered by MFS, and (iii) MFS institutional clients (the "MFS Significant Client List"); b. If the name of the issuer does not appear on the MFS Significant Client List, then no material conflict of interest will be deemed to exist, and the proxy will be voted as otherwise determined by the MFS Proxy Review Group; c. If the name of the issuer appears on the MFS Significant Client List, then the MFS Proxy Review Group will carefully evaluate the proposed votes in order to ensure that the proxy ultimately is voted in what MFS believes to be the best long-term economic interests of MFS' clients, and not in MFS' corporate interests; and d. For all potential material conflicts of interest identified under clause (c) above, the MFS Proxy Review Group will document: the name of the issuer, the issuer's relationship to MFS, the analysis of the matters submitted for proxy vote, and the basis for the determination that the votes ultimately were cast in what MFS believes to be the best long-term economic interests of MFS' clients, and not in MFS' corporate interests. The MFS Proxy Review Group is responsible for creating and maintaining the MFS Significant Client List, in consultation with MFS' distribution, retirement plan administration and institutional business units. The MFS Significant Client List will be reviewed and updated as necessary, but no less frequently than quarterly. **3. GATHERING PROXIES** Nearly all proxies received by MFS originate at Automatic Data Processing Corp. ("ADP"). ADP and issuers send proxies and related material directly to the record holders of the shares beneficially owned by MFS' clients, usually to the client's custodian or, less commonly, to the client itself. Each client's custodian is responsible for forwarding all proxy solicitation materials to MFS (except in the case of certain institutional clients for which MFS does not vote proxies). This material will include proxy cards, reflecting the proper shareholdings of

Funds and of clients on the record dates for such shareholder meetings, and proxy statements, the issuer's explanation of the items to be voted upon. MFS, on behalf of itself and the Funds, has entered into an agreement with an independent proxy administration firm, Institutional Shareholder Services, Inc. (the "Proxy Administrator"), pursuant to which the Proxy Administrator performs various proxy vote processing and recordkeeping functions for MFS' Fund and institutional client accounts. The Proxy Administrator does not make recommendations to MFS as to how to vote any particular item. The Proxy Administrator receives proxy statements and proxy cards directly from various custodians, logs these materials into its database and matches upcoming meetings with MFS Fund and client portfolio holdings, which are input into the Proxy Administrator's system by an MFS holdings datafeed. Through the use of the Proxy Administrator system, ballots and proxy material summaries for the upcoming shareholders' meetings of over 10,000 corporations are available on-line to certain MFS employees, the MFS Proxy Consultant and the MFS Proxy Review Group and most proxies can be voted electronically. In addition to receiving the hard copies of materials relating to meetings of shareholders of issuers whose securities are held by the Funds and/or clients, the ballots and proxy statements can be printed from the Proxy Administrator's system and forwarded for review.

4. ANALYZING PROXIES After input into the Proxy Administrator system, proxies which are deemed to be completely routine (e.g., those involving only uncontested elections of directors, appointments of auditors, and/or employee stock purchase plans)(1) are automatically voted in favor by the Proxy Administrator without being sent to either the MFS Proxy Consultant or the MFS Proxy Review Group for further review. Proxies that pertain only to merger and acquisition proposals are forwarded initially to an appropriate MFS portfolio manager or research analyst for his or her recommendation. All proxies that are reviewed by either the MFS Proxy Consultant or a portfolio manager or analyst are then forwarded with the corresponding recommendation to the MFS Proxy Review Group.(2) ----- (1) Proxies for foreign companies often contain significantly more voting items than those of U.S. companies. Many of these items on foreign proxies involve repetitive, non-controversial matters that are mandated by local law. Accordingly, there is an expanded list of items that are deemed routine (and therefore automatically voted in favor) for foreign issuers, including the following: (i) receiving financial statements or other reports from the board; (ii) approval of declarations of dividends; (iii) appointment of shareholders to sign board meeting minutes; (iv) the discharge of management and supervisory boards; and (v) approval of share repurchase programs. (2) From time to time, due to travel schedules and other commitments, an appropriate portfolio manager or research analyst is not available to provide a recommendation on a merger or acquisition proposal. If such a recommendation cannot be obtained within a few business days prior to the shareholder meeting, the MFS Proxy Review Group will determine the vote in what MFS believes to be the best long-term economic interests of its clients. Recommendations with respect to voting on non-routine issues are generally made by the MFS Proxy Consultant in accordance with the policies summarized under "Voting Guidelines," and all other relevant materials. His or her recommendation as to how each proxy proposal should be voted is indicated on copies of proxy cards, including his or her rationale on significant items. These cards are then forwarded to the MFS Proxy Review Group. As a general matter, portfolio managers and investment analysts are consulted and involved in developing MFS' substantive proxy voting guidelines, but have little or no involvement in or knowledge of proxy proposals or voting positions taken by MFS. This is designed to promote consistency in the application of MFS' voting guidelines, to promote consistency in voting on the same or similar issues (for the same or for multiple issuers) across all client accounts, and to minimize or remove the potential that proxy solicitors, issuers, and third parties might attempt to exert influence on the vote or might create a conflict of interest that is not in what MFS believes to be the best long-term economic interests of our clients. In limited, specific instances (e.g., mergers), the MFS Proxy Consultant or the MFS Proxy Review Group may consult with or seek recommendations from portfolio managers or analysts. The MFS Proxy Review Group would ultimately determine the manner in which all proxies are voted. As noted above, MFS reserves the right to override the guidelines when such an override is, in MFS' best judgment, consistent with the guiding principle of voting proxies in the best long-term economic interests of MFS' clients. Any such override of the guidelines shall be examined, explained and reported in accordance with the procedures set forth in these policies.

5. VOTING PROXIES After the proxy card copies are reviewed, they are voted electronically through the Proxy Administrator's system. In accordance with its contract with MFS, the Proxy Administrator also generates a variety of reports for the MFS Proxy Consultant and the MFS Proxy Review Group, and makes available on-line various other types of information so that the MFS Proxy Review Group and the MFS Proxy Consultant may monitor the votes cast by the Proxy Administrator on behalf of MFS' clients. C.

MONITORING SYSTEM It is the responsibility of the Proxy Administrator and MFS' Proxy Consultant to monitor

the proxy voting process. As noted above, when proxy materials for clients are received, they are forwarded to the Proxy Administrator and are input into the Proxy Administrator's system. Additionally, through an interface with the portfolio holdings database of MFS, the Proxy Administrator matches a list of all MFS Funds and clients who hold shares of a company's stock and the number of shares held on the record date with the Proxy Administrator's listing of any upcoming shareholder's meeting of that company. When the Proxy Administrator's system "tickler" shows that the date of a shareholders' meeting is approaching, a Proxy Administrator representative checks that the vote for MFS Funds and clients holding that security has been recorded in the computer system. If a proxy card has not been received from the client's custodian, the Proxy Administrator calls the custodian requesting that the materials be forward immediately. If it is not possible to receive the proxy card from the custodian in time to be voted at the meeting, MFS may instruct the custodian to cast the vote in the manner specified and to mail the proxy directly to the issuer.

D. RECORDS RETENTION MFS will retain copies of these policies and procedures in effect from time to time and will retain all proxy voting reports submitted to the Board of Trustees and Board of Managers of the MFS Funds for a period of six years. Proxy solicitation materials, including electronic versions of the proxy cards completed by the MFS Proxy Consultant and the MFS Proxy Review Group, together with their respective notes and comments, are maintained in an electronic format by the Proxy Administrator and are accessible on-line by the MFS Proxy Consultant and the MFS Proxy Review Group. All proxy voting materials and supporting documentation, including records generated by the Proxy Administrator's system as to proxies processed, the dates when proxies were received and returned, and the votes on each company's proxy issues, are retained for six years.

E. REPORTS MFS Periodically, MFS will report the results of its voting to the Board of Trustees and Board of Managers of the MFS Funds. These reports will include: (i) a listing of how votes were cast; (ii) a review of situations where MFS did not vote in accordance with the guidelines and the rationale therefor; (iii) a review of the procedures used by MFS to identify material conflicts of interest; and (iv) a review of these policies and the guidelines and, as necessary or appropriate, any proposed modifications thereto to reflect new developments in corporate governance and other issues. Based on these reviews, the Trustees and Managers of the MFS Funds will consider possible modifications to these policies to the extent necessary or advisable.

ALL MFS ADVISORY CLIENTS At any time, a report can be printed by MFS for each client who has requested that MFS furnish a record of votes cast. The report specifies the proxy issues which have been voted for the client during the year and the position taken with respect to each issue. Generally, MFS will not divulge actual voting practices to any party other than the client or its representatives (unless required by applicable law) because we consider that information to be confidential and proprietary to the client.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. Not applicable at this time. [Required for closed-end funds for periods ending on or after June 15, 2004 (beginning with N-CSR's filed at the end of August, 2004 for June 30, 2004 reporting period.)]

ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. Not required at this time. [Required for reporting periods ending after January 1, 2004 (beginning with N-CSR's filed at the end of March 2004, for January 31, 2004 reporting period.)]

ITEM 10. CONTROLS AND PROCEDURES. (a) Based upon their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this Form N-CSR, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 11. EXHIBITS. (a) File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated. (1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Code of Ethics attached hereto. (2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Act (17 CFR 270.30a-2): Attached hereto. (3) Any written solicitation to purchase securities under 23c-1 under the Act (17 C.F.R. 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. Not applicable at this time. [For closed-end funds for periods ending on or after June 15, 2004 (beginning with N-CSR's filed at the end of August 2004 for June 30, 2004 reporting period.)] (b)

If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the Act (17 CFR 270.30a-2(b)), Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for the purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference: Attached hereto. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. (Registrant) MFS MULTIMARKET INCOME TRUST By (Signature and Title)* JOHN W. BALLEEN

----- John W. Ballen, President Date: January 5, 2004 -----

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By (Signature and Title)* JOHN W. BALLEEN ----- John W. Ballen, President (Principal Executive Officer) Date: January 5, 2004 ----- By (Signature and Title)* RICHARD M. HISEY ----- Richard M. Hisey, Treasurer (Principal Financial Officer and Accounting Officer) Date: January 5, 2004 ----- * Print name and title of each signing officer under his or her signature.