

WINGER DENNIS L  
Form 4  
February 05, 2008

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
WINGER DENNIS L

(Last) (First) (Middle)

APPLERA CORPORATION, 301 MERRITT 7

(Street)

NORWALK, CT 06851-1070

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
APPLERA CORP [ABI/CRA]

3. Date of Earliest Transaction (Month/Day/Year)  
02/01/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_ Director \_\_\_ 10% Owner  
 Officer (give title below) \_\_\_ Other (specify below)  
Senior Vice President and CFO

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount (D)	Price	
Applied Biosystems Group Common Stock	02/01/2008		S <sup>(1)</sup>		433	D \$ 31.21	69,120.2555 D
Applied Biosystems Group Common Stock	02/01/2008		S <sup>(1)</sup>		17	D \$ 31.205	69,103.2555 D
Applied Biosystems	02/01/2008		S <sup>(1)</sup>		16	D \$ 31.2	69,087.2555 D

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Group Common Stock							
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	67	D	\$ 31.19	69,020.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	267	D	\$ 31.18	68,753.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	350	D	\$ 31.17	68,403.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	233	D	\$ 31.16	68,170.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	250	D	\$ 31.15	67,920.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	233	D	\$ 31.14	67,687.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	183	D	\$ 31.13	67,504.2555	D
Applied Biosystems Group Common Stock	02/01/2008	S <sup>(1)</sup>	117	D	\$ 31.12	67,387.2555	D
Applied Biosystems Group	02/01/2008	S <sup>(1)</sup>	67	D	\$ 31.11	67,320.2555	D

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Common Stock							
Applied Biosystems Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	200	D	\$ 31.1	67,120.2555	D
Applied Biosystems Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	33	D	\$ 31.09	67,087.2555	D
Applied Biosystems Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	67	D	\$ 31.07	67,020.2555	D
Applied Biosystems Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	33	D	\$ 31.06	66,987.2555	D
Applied Biosystems Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	100	D	\$ 31.05	66,887.2555	D
Celera Group Common Stock	02/01/2008	M	3,125	A	\$ 6.7201	37,107.6986	D
Celera Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	25	D	\$ 15.55	37,082.6986	D
Celera Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	121	D	\$ 15.54	36,961.6986	D
Celera Group Common Stock	02/01/2008	<u>S<sup>(1)</sup></u>	12	D	\$ 15.53	36,949.6986	D
Celera Group Common	02/01/2008	<u>S<sup>(1)</sup></u>	24	D	\$ 15.52	36,925.6986	D

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Stock								
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	25	D	\$ 15.51	36,900.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	24	D	\$ 15.49	36,876.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	36	D	\$ 15.47	36,840.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	24	D	\$ 15.45	36,816.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	36	D	\$ 15.44	36,780.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	24	D	\$ 15.43	36,756.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	24	D	\$ 15.4	36,732.6986	D	
Celera Group Common Stock	02/01/2008	S <sup>(1)</sup>	36	D	\$ 15.39	36,696.6986	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned
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Derivative Security	Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	(Instr. 3 and 4)
										Own

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WINGER DENNIS L APPLERA CORPORATION 301 MERRITT 7 NORWALK, CT 06851-1070			Senior Vice President and CFO	

## Signatures

/s/ Thomas P. Livingston, Attorney-In-Fact for Dennis L. Winger 02/05/2008

\*\*Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Reflects sale by independent third-party administrator under the issuer's Insider Diversification Program.

### Remarks:

This is the third of four forms being filed by the reporting person on February 5, 2008.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. E 7 - INCOME (LOSS) PER COMMON SHARE Basic income (loss) per share is computed on the basis of the weighted average number of common shares outstanding. Diluted income (loss) per share is computed on the basis of the weighted average number of common shares outstanding plus the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted. Stock options and warrants, and conversion of the Series A Preferred Stock, were excluded from the diluted loss per share computation for the three-month period ended June 30, 2004 and for the nine-month period ended June 30, 2003, since the Company incurred a loss for these periods and the inclusion of such securities would be antidilutive. 9 The following table sets forth the components used in the computation of basic and diluted income (loss) per common share:

	Three Months Ended	Nine Months Ended	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net income (loss) attributable to common stockholders - basic	\$ (310,000)	\$ 363,000	\$ 1,450,000	\$ (388,000)		
Effect of dilutive securities - preferred stock dividends	(70,000)	(62,000)	(196,000)	(187,000)		
Net income (loss) attributable to common stockholders - diluted	\$ (380,000)	\$ 301,000	\$	\$		

1,254,000	\$ (575,000)	=====		
=====			Basic-weighted average common shares outstanding 3,397,885	
3,367,558	3,377,630	3,110,530	Dilutive stock options and warrants - 7,166 599,099 - Weighted average assumed conversion of 9% cumulative convertible preferred stock - 1,854,998 2,078,465 - -----	
-----			Diluted-weighted average common shares outstanding 3,397,885 5,229,722 6,055,194	
3,110,530	=====		Net	
income (loss) attributable to common stockholders - basic	\$ (0.11)	\$ 0.09	\$ 0.37	\$ (0.18)
=====				Net income (loss)
income (loss) attributable to common stockholders - diluted	\$ (0.11)	\$ 0.06	\$ 0.21	\$ (0.18)

===== For the three-month periods ended June 30, 2004 and 2003, 2,747,647 shares and 2,356,065 shares, respectively, attributable to outstanding stock options and warrants were excluded from the calculation of diluted net income (loss) per share because the effect was antidilutive. For the nine-month periods ended June 30, 2004 and 2003, 975,150 shares and 2,376,065 shares, respectively, attributable to outstanding stock options and warrants were excluded from the calculation of diluted net income (loss) per share because the effect was antidilutive. NOTE 8 - THE AMERICAN STOCK EXCHANGE In February 2003, the Company received a letter from The American Stock Exchange (the "Exchange") indicating that it was not in compliance with certain listing standards relating to (1) shareholders' equity of less than \$2.0 million and losses from continuing operations and/or net losses in two out of its three most recent fiscal years, and (2) the requirement to have and maintain an audit committee comprised of at least three independent directors. The Company submitted to the Exchange a plan that indicated compliance with these items. In May 2003, the Exchange notified the Company that it had accepted the Company's plan of compliance and granted the Company an extension until August 5, 2004 to satisfy the financial standards requirements, and an extension until July 18, 2003 to comply with the independent audit committee requirement, which was satisfied in July 2003. The Company will be subject to periodic review by the Exchange Staff during the extension period. As of August 12, 2004, the Company has not received any notification from the Exchange with respect to the 10 financial standards requirements. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in the Company's common stock being delisted from the Exchange. In the event that the Company fails to comply with the listing standards, the Company's common stock could trade on the OTC Bulletin Board or in the "pink sheets" maintained by the National Quotation Bureau, Inc. Such alternatives are generally considered to be less efficient markets, and the Company's stock price, as well as the liquidity of the Company's common stock, may be adversely impacted as a result. NOTE 9 - EXTENSION OF NOTES In February 2004, National and the holder of a \$1.0 million secured demand note that matured on February 1, 2004, extended the term of the \$1.0 million secured demand note to March 1, 2005. Upon completion of the note renewal, the noteholder's warrant to purchase 75,000 shares of the Company's common stock at a price of \$5.00 per share, that was to expire on February 1, 2004, was repriced to \$1.25 per share, with an allocated fair value of approximately \$68,000, and the expiration date of such warrants was extended to July 31, 2005. The expiration date for the noteholder's warrant to purchase an additional 75,000 shares of the Company's common stock at a price of \$1.75 per share was also extended from January 25, 2004 to July 31, 2005. In January 2004, two other noteholders extended the maturity dates on \$1.0 million of notes issued to them by the Company from January 25, 2004 to July 31, 2005. Effective February 1, 2004, the interest rate on each note was increased to 12% from 9% per annum. Additionally, each of the noteholders' warrants to purchase, in the aggregate, 100,000 shares of the Company's common stock at a price of \$5.00 per share expiring on February 1, 2004 was repriced to \$1.25 per share, with an allocated fair value of approximately \$90,000, and the expiration date of such warrants was extended to July 31, 2005. The expiration date for the noteholders' warrants to purchase, in the aggregate, an additional 100,000 shares of the Company's common stock at a price of \$1.75 per share was also extended from January 25, 2004 to July 31, 2005. The Company is amortizing the total allocated fair value of \$158,000 over the extended 18-month term of these notes. Such amortization has been included in "Interest" on the accompanying condensed consolidated June 30, 2004 financial statements. NOTE 10 - PRIVATE PLACEMENTS In January 2004, the Company consummated a private offering of its securities to a limited number of accredited investors pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act") wherein the Company issued an aggregate of \$200,000 of three-year, 10% senior subordinated promissory notes to five unaffiliated parties. The noteholders received three-year warrants to purchase an aggregate of

50,000 shares of the Company's common stock at an exercise price of \$1.40 per share, with an allocated fair value of approximately \$40,000. In February 2004, the Company consummated a private offering of its securities to a limited number of accredited investors pursuant to Rule 506 of Regulation D under the Securities Act wherein the Company issued an aggregate of \$850,000 of three-year, 10% senior subordinated promissory notes to four unaffiliated parties. The noteholders received three-year warrants to purchase an aggregate of 170,000 shares of the Company's common stock at an exercise price of \$1.50 per share, with an allocated fair value of approximately \$143,000. National acted as the placement agent for the private offering. The offering period for the private offering expired on May 30, 2004. The Company is amortizing the total allocated fair value of \$183,000 over the three-year term of these promissory notes. Such amortization has been included in "Interest" on the accompanying condensed consolidated June 30, 2004 financial statements. The holders of the warrants received certain registration rights relating to the common stock issuable upon exercise of the warrants.

**11 NOTE 11 - STOCKHOLDERS' EQUITY** At the Company's annual meeting of shareholders on March 16, 2004, the shareholders voted, effective immediately, to amend the Company's Certificate of Incorporation to decrease the number of shares of the Company's common stock, par value \$.02 per share, from 60,000,000 shares to 30,000,000 shares, and to increase the number of shares of Preferred Stock, par value \$.01 per share, from 100,000 shares to 200,000 shares. In the quarter ended June 30, 2004, the Company received proceeds of \$225,000 from the exercise of outstanding employee stock options and warrants.

**PART II. OTHER INFORMATION**

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Quarterly Report may contain certain statements of a forward-looking nature relating to future events or future business performance. Any such statements that refer to the Company's estimated or anticipated future results or other non-historical facts are forward-looking and reflect the Company's current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, risks and uncertainties detailed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 29, 2003. Any forward-looking statements contained in or incorporated into this Quarterly Report speak only as of the date of this Quarterly Report. The Company undertakes no obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

**RESULTS OF OPERATIONS**

**Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003** The Company's third quarter of fiscal year 2004 resulted in revenues only slightly lower compared to the third quarter of fiscal year 2003, but sharply lower compared to the second quarter of fiscal year 2004, and a modest increase in expenses compared to the same period last year. The lower revenues are primarily due to the recent weaker securities markets. As a result, the Company reported a net loss before income taxes of \$310,000 compared with net income before income taxes of \$363,000 for the third quarters of fiscal years 2004 and 2003, respectively. Total revenues decreased \$221,000, or 1%, in the third quarter of fiscal year 2004 to \$14,854,000 from \$15,075,000 in the third quarter of fiscal year 2003. This decrease reflects the weaker securities markets that impact trading volume, the number of commission tickets generated, and the charge per ticket that affects commission revenue. During the third quarter of fiscal year 2004, trading volume increased by approximately 14%, compared to the third quarter of fiscal year 2003. Commission revenue increased \$286,000, or 3%, to \$10,852,000 from \$10,566,000 during the third quarter of fiscal year 2004 compared with the 12 same period in fiscal year 2003. Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased \$1,477,000, or 46%, to \$1,715,000 from \$3,192,000 during the third quarter of fiscal year 2004 compared with the same period in fiscal year 2003. The decrease is primarily due to a reduction in proprietary trading in the bond market, reflecting an overall decline in this market, and the weaker equity markets in general. During the third quarter of fiscal year 2004, revenues from proprietary trading decreased \$1,337,000, or 46%, to \$1,561,000 from \$2,898,000 in the third quarter of fiscal year 2003, revenues from market making activities decreased \$85,000, or 37%, to \$147,000 from \$232,000 in the third quarter of fiscal year 2003, and revenues from customer mark-ups and mark-downs decreased \$56,000, or 89%, to \$7,000 from \$63,000 in the third quarter of fiscal year 2003. Investment banking revenue increased \$184,000, or 86%, to \$398,000 from \$214,000 in the third quarter of fiscal year 2004 compared with the third quarter of fiscal year 2003. The increase in investment banking revenues is attributed to the Company's completion of private placements and an initial public offering during the current quarter. Interest and dividend income increased \$578,000 or 161%, to

\$937,000 from \$359,000 in the third quarter of fiscal year 2004 compared with the same period last year. The increase in interest income is attributable to an increase in the amount of customer debits in National's customers' accounts and an increase in the interest rate charged to such debits from the same period last year. Transfer fees increased \$197,000, or 34%, to \$769,000 in the third quarter of fiscal year 2004 from \$572,000 in the third quarter of fiscal year 2003. The increase is due to increased fees charged on certain accounts. Other revenue, consisting of asset management fees and miscellaneous transaction fees and trading fees, increased \$11,000, or 6%, to \$183,000 from \$172,000 during the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase is due to an increase in asset management fees in the third quarter of fiscal year 2004 compared to the same period last year. In comparison with the 1% decrease in total revenues, total expenses increased 3% or \$452,000 to \$15,164,000 for the third quarter of fiscal year 2004 compared to \$14,712,000 in the third quarter of fiscal year 2003. The increase in total expenses is primarily attributable to increased employee compensation and increased professional fees. Commission expense, which includes expenses related to commission revenue, net dealer inventory gains and investment banking, decreased \$32,000, or less than 1%, to \$10,296,000 in the third quarter of fiscal year 2004 from \$10,328,000 in the third quarter of fiscal year 2003. In the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003, commission expense related to commission revenue increased \$1,060,000, or 13%, to \$9,230,000 from \$8,170,000; commission expense related to net dealer inventory gains decreased \$1,239,000, or 62%, to \$748,000 from \$1,987,000; and commission expense related to investment banking increased \$147,000, or 86%, to \$318,000 from \$171,000. The increase of commission expense as a percentage of commission revenues and the decrease of commission expense as a percentage of net dealer inventory gains are both attributable to changes in the production of particular brokers, not all of whom are compensated at the same commission rate. Commission expense as a percentage of investment banking was relatively unchanged between the third quarter of fiscal year 2004 and the third quarter of fiscal year 2003. Commission expense includes the amortization of advances to registered representatives of \$215,000 and \$198,000 for the third quarter of fiscal year 2004 and 2003, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National. Employee compensation expense increased \$501,000, or 56%, to \$1,399,000 in the third quarter of fiscal year 2004 from \$898,000 in the third quarter of fiscal year 2003. This increase is attributable to the hiring of new employees and salary increases for certain employees. Overall, combined commission and employee compensation expense, as a percentage of revenue increased to 79% from 74% in the third quarter of fiscal year 2004 and 2003, respectively. 13 Clearing fees decreased \$134,000, or 17%, to \$635,000 in the third quarter of fiscal year 2004 from \$769,000 in the third quarter of fiscal year 2003. Clearing fees in the third quarter of fiscal year 2004 were reduced by the \$250,000 conversion assistance payment the Company received from its new clearing firm, Fiserv, to offset conversion costs incurred by the Company. In the third quarter of fiscal year 2003, clearing fees were reduced by forgiveness of debt, that was fully repaid in February 2004, from the Company's current clearing firm based on ticket volume in the amount of \$133,000. Communication expenses increased \$57,000, or 8%, to \$751,000 from \$694,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase is due to an increase in voice and data charges. Occupancy costs increased \$179,000, or 29%, to \$807,000 from \$628,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase in occupancy expense is due to the expansion of office facilities in order to accommodate new brokers. Professional fees increased \$255,000, or 67%, to \$637,000 from \$382,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase in professional fees is due to an increase in the legal fees relating to various lawsuits and arbitrations, and legal fees related to the NASD investigation of mutual fund trading activities and other regulatory matters. Professional fees include litigation and NASD related expenses of \$484,000 and \$213,000 in the third quarter of fiscal year 2004 and 2003, respectively. Interest expense increased \$87,000, or 281%, to \$118,000 from \$31,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase is due to interest on the notes issued by the Company in the second quarter of fiscal year 2004, and the amortization of \$42,000 attributable to newly issued notes and modified notes. Taxes, licenses and registration increased \$87,000, or 92%, to \$182,000 from \$95,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The increase in taxes, licenses and registration expense is due to an increase in the number of brokers associated with the Company from the prior period. Other expenses decreased \$548,000, or 62%, to \$339,000 from \$887,000 in the third quarter of fiscal year 2004 compared to the third quarter of fiscal year 2003. The decrease in other expenses is due to the Company's efforts to control its fixed operating expenses, net of an increase in the reserve for



uncollectible accounts on its other receivables, related to registered representatives formerly associated with National in the amount of \$75,000 and \$300,000 in the third quarter of fiscal year 2004 and 2003, respectively. The Company reported a net loss before income taxes of \$310,000 in the third quarter of fiscal year 2004 compared to net income before income taxes of \$363,000 in the third quarter of fiscal year 2003. Overall, the diluted net loss attributable to common stockholders in the third quarter of fiscal year 2004 was \$380,000, or \$.11 per common share, as compared to diluted net earnings attributable to common stockholders of \$301,000, or \$.06 per common share in the third quarter of fiscal year 2003. The net loss attributable to common stockholders for the third quarter of fiscal year 2004 and the net income attributable to common stockholders for the third quarter of fiscal year 2003 reflects \$70,000 and \$62,000, respectively, of cumulative dividends on the Company's Series A Preferred Stock. Nine Months Ended June 30, 2004 Compared to Nine Months Ended June 30, 2003 The Company's first nine months of fiscal year 2004 resulted in a significant increase in revenues, and a comparatively lesser increase in expenses compared to the same period last year. The increase in revenues is primarily due to the improved securities markets experienced during the first six months of the fiscal year, which weakened during the third quarter of fiscal year 2004, and the gain on extinguishments of debt. As a result of this overall improvement, the Company reported net income before income taxes of \$1,450,000 compared with a net loss before income taxes of \$388,000 for the first nine months of fiscal years 2004 and 2003, respectively. This represents an improvement of \$1,838,000 from the prior period. Total revenues increased \$15,541,000, or 44%, in the first nine months of fiscal year 2004 to \$50,602,000 from \$35,061,000 in the first nine months of fiscal year 2003. This increase is mainly due to the improved securities markets experienced during the first six months of the fiscal year that increased commission revenues, the number of commission tickets generated, and the charge per ticket that affects commission revenue. During the first nine months of fiscal year 2004, trading volume increased by approximately 27%, compared to the first nine months of fiscal year 2003. Commission revenue increased \$15,064,000, or 67%, to \$37,525,000 from \$22,461,000 during the first nine months of fiscal year 2004 compared with the same period in fiscal year 2003. Net dealer inventory gains, which includes profits on proprietary trading, market making activities and customer mark-ups and mark-downs, decreased \$3,650,000, or 39%, to \$5,767,000 from \$9,417,000 during the first nine months of fiscal year 2004 compared with the same period in fiscal year 2003. The decrease is due to a reduction in proprietary trading in the bond market, reflecting an overall decline in this market compared to the strength realized in the equity markets during the first six months of the current fiscal year. During the first nine months of fiscal year 2004, revenues from proprietary trading decreased \$3,528,000, or 41%, to \$4,987,000 from \$8,515,000 in the first nine months of fiscal year 2003, revenues from market making activities decreased \$78,000, or 11%, to \$663,000 from \$741,000 in the first nine months of fiscal year 2003, and revenues from customer mark-ups and mark-downs decreased \$44,000, or 27%, to \$117,000 from \$161,000 in the first nine months of fiscal year 2003. Investment banking revenue increased \$753,000, or 218%, to \$1,098,000 from \$345,000 in the first nine months of fiscal year 2004 compared with the first nine months of fiscal year 2003. The increase in investment banking revenues is attributed to the Company's completion of private placements and an initial public offering during the current period. Interest and dividend income increased \$1,493,000 or 153%, to \$2,468,000 from \$975,000 in the first nine months of fiscal year 2004 compared with the same period last year. The increase in interest income is attributable to an increase in the amount of customer debits in National's customers' accounts and an increase in the interest rate charged to such debits from the same period last year. Transfer fees increased \$805,000, or 62%, to \$2,098,000 in the first nine months of fiscal year 2004 from \$1,293,000 in the first nine months of fiscal year 2003. The increase is due to the increase in transaction volume associated with the Company's retail brokerage business during the first six months of the current year, and increased fees charged on certain accounts. The Company realized a gain on extinguishment of debt of \$1,131,000 from its clearing firm, First Clearing, in the first nine months of fiscal year 2004 (See Note 4). Other revenue, consisting of asset management fees and miscellaneous transaction fees and trading fees, decreased \$55,000, or 10%, to \$515,000 from \$570,000 during the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The decrease is due to reduced fees attributable to a reduction in the volume of institutional business in the first nine months of fiscal year 2004 compared to the same period last year. In comparison with the 44% increase in total revenues, total expenses increased 39% or \$13,703,000 to \$49,152,000 for the first nine months of fiscal year 2004 compared to \$35,449,000 in the first nine months of fiscal year 2003. The increase in total expenses is primarily a result of greater commission expenses directly associated with commission revenues. The increase in total expenses was minimized by the Company's efforts to streamline its operations and control the fixed expenses associated with its business. Commission expense, which includes expenses

related to commission revenue, net dealer inventory gains and investment banking, increased \$11,330,000, or 49%, to \$34,604,000 in the first nine months of fiscal year 2004 from \$23,274,000 in the first nine months of fiscal year 2003. In the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003, commission expense related to commission revenue increased \$13,574,000, or 80%, to \$30,549,000 from \$16,975,000; commission expense related to net dealer inventory gains decreased 15 \$2,846,000, or 47%, to \$3,177,000 from \$6,023,000; and commission expense related to investment banking increased \$602,000, or 218%, to \$878,000 from \$276,000. The increase of commission expense as a percentage of commission revenues and the decrease of commission expense as a percentage of net dealer inventory gains are both attributable to changes in the production of particular brokers, not all of whom are compensated at the same commission rate. Commission expense as a percentage of investment banking was relatively unchanged between the first nine months of fiscal year 2004 and the first nine months of fiscal year 2003. Commission expense includes the amortization of advances to registered representatives of \$483,000 and \$574,000 for the first nine months of fiscal year 2004 and 2003, respectively. These amounts fluctuate based upon the amounts of advances outstanding and the time period for which the registered representatives have agreed to be affiliated with National. Employee compensation expense increased \$1,228,000, or 41%, to \$4,207,000 in the first nine months of fiscal year 2004 from \$2,979,000 in the first nine months of fiscal year 2003. This increase is attributable to the hiring of new employees, salary increases for certain employees and the establishment of a bonus pool for senior management. Overall, combined commission and employee compensation expense, as a percentage of revenue increased to 77% from 75% in the first nine months of fiscal year 2004 and 2003, respectively. Clearing fees increased \$404,000, or 20%, to \$2,397,000 in the first nine months of fiscal year 2004 from \$1,993,000 in the first nine months of fiscal year 2003. Although there was an increase in trading volume, clearing fees, as a percentage of related revenues, decreased due to an increase in the number of lower priced tickets from the prior period. Clearing fees in the third quarter of fiscal year 2004 were reduced by the \$250,000 conversion assistance payment the Company received from its new clearing firm, Fiserv, to offset conversion costs incurred by the Company. Clearing fees were reduced by forgiveness of debt, that was fully repaid in February 2004, from the Company's clearing firm based on ticket volume in the amount of \$250,000 and \$325,000 in the first nine months of fiscal year 2004 and 2003, respectively. Communication expenses increased \$100,000, or 5%, to \$2,061,000 from \$1,961,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The increase is due to an increase in voice and data charges. Occupancy costs increased \$191,000, or 9%, to \$2,248,000 from \$2,057,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The increase in occupancy expense is due to the expansion of office facilities in order to accommodate new brokers. Professional fees increased \$550,000, or 60%, to \$1,462,000 from \$912,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The increase in professional fees is due to an increase in the legal fees relating to various lawsuits and arbitrations, and legal fees related to the NASD investigation of mutual fund trading activities and other regulatory matters. Professional fees include litigation and NASD related expenses of \$1,183,000 and \$529,000 in the first nine months of fiscal year 2004 and 2003, respectively. In January 2004, an arbitration panel awarded damages against the Company of approximately \$400,000 related to an employment contract with a former employee of the Company. This amount was recorded as "Litigation settlement" and paid during the first nine months of fiscal year 2004. Interest expense increased \$151,000, or 139%, to \$260,000 from \$109,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The increase is due to interest on the notes issued by the Company in the second quarter of fiscal year 2004, and the amortization of \$68,000 attributable to newly issued notes and modified notes. Taxes, licenses and registration increased \$215,000, or 94%, to \$444,000 from \$229,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The increase in taxes, licenses and registration expense is due to an increase in the number of brokers associated with the Company from the prior period. Other expenses decreased \$866,000, or 45%, to \$1,069,000 from \$1,935,000 in the first nine months of fiscal year 2004 compared to the first nine months of fiscal year 2003. The decrease in other expenses is due to the Company's efforts to control its fixed operating expenses, net of an increase in the reserve for uncollectible accounts on its other receivables, related to registered representatives formerly associated with National in the amount of \$75,000 and \$300,000 in the first nine months of fiscal year 2004 and 2003, respectively. 16 The Company reported net income before income taxes of \$1,450,000 in the first nine months of fiscal year 2004 compared to a net loss before income taxes of \$388,000 in the first nine months of fiscal year 2003. Overall, the diluted net earnings attributable to common stockholders in the first nine months of fiscal year 2004 was \$1,254,000, or \$.21 per common

share, as compared to the diluted net loss attributable to common stockholders of \$575,000, or \$.18 per common share in the first nine months of fiscal year 2003. The net income attributable to common stockholders for the first nine months of fiscal year 2004 reflects \$196,000 of cumulative preferred stock dividends, and the net loss attributable to common stockholders for the first nine months of fiscal year 2003 reflects \$187,000 of cumulative dividends, on the Company's Series A Preferred Stock. LIQUIDITY AND CAPITAL RESOURCES National, as a registered broker-dealer, is subject to Rule 15c3-1, the Uniform Net Capital Rule of the Securities and Exchange Commission (the "SEC"), that requires the maintenance of minimum net capital. National has elected to use the alternative standard method permitted by the rule. This requires that National maintain minimum net capital equal to the greater of \$250,000 or a specified amount per security based on the bid price of each security for which National is a market maker. On December 12, 2003, the Company was advised by the NASD that, pursuant to National's pledge of its assets as security for loans to the Company from First Clearing (such loans aggregated \$2,131,000 as of September 30, 2003), National was inadvertently not in compliance with its net capital requirements. Accordingly, at September 30, 2003, National reported an excess net capital deficiency of \$829,000. This compliance requirement was corrected on December 15, 2003, upon termination of the security agreement with First Clearing. At June 30, 2004, National's net capital exceeded the requirement by \$518,000. Advances, dividend payments and other equity withdrawals from the Company's subsidiary are restricted by the regulations of the SEC and other regulatory agencies. These regulatory restrictions may limit the amounts that a subsidiary may dividend or advance to the Company. The objective of liquidity management is to ensure that the Company has ready access to sufficient funds to meet commitments, fund deposit withdrawals and efficiently provide for the credit needs of customers. In July 2004, the Company filed a Registration Statement on Form S-3 under the Securities Act for the resale of certain shares of common stock and shares of common stock issuable upon the exercise of certain warrants previously issued in connection with private placement transactions, and certain warrants that were issued in the private placements that have been completed in the current fiscal year. The Registration Statement became effective on August 11, 2004. In August 2001, the Company entered into an agreement with First Clearing under which First Clearing provides clearing and related services for National. The Clearing Agreement expanded the products and services capabilities for National's retail and institutional business, and enabled National to consolidate its existing clearing operations and reduce the fixed overhead associated with its self-clearing activities. The conversion to First Clearing began in December 2001 and was completed in March 2002. It is standard business practice in the brokerage industry for clearing firms to provide financial support to correspondent clearing firms. As such, in connection with the Clearing Agreement, the Company executed a ten-year promissory note in favor of First Clearing under which the Company immediately borrowed \$1,000,000. The funds were contributed by the Company to National, and were being used as a deposit to secure National's performance under the Clearing Agreement. The Clearing Agreement also provided for another \$1,000,000 loan that was extended to the Company upon substantial completion of the conversion on December 31, 2001 that was also contributed to National. The amount of the note that was repayable on each anniversary date was the principal, and interest if any, then outstanding divided by the remaining life of the note. Borrowings under the promissory note were forgivable annually based on achieving certain business performance and trading volumes of the Company over the life of the loan. In connection with the Clearing Agreement, additional borrowings were available to the Company upon the attainment by National of certain volume and profitability goals. In finalizing the conversion, a dispute arose among the Company, US Clearing (one of its former clearing firms) and First Clearing, regarding the responsibility for debit balances in certain trading accounts. The three parties agreed to share the expense equally. The Company's share of this settlement, \$548,000, was advanced to the Company by First Clearing and added to the existing promissory note. As part of the settlement, the minimum level of stockholders' equity the Company was required to maintain under the promissory note was reduced from \$2,000,000 to \$1,000,000 and no further borrowings are available under the promissory note, as amended. In the first quarter of fiscal year 2003, First Clearing loaned the Company an additional \$375,000 in the form of clearing fee rebates. The loan was due to be paid in January 2004. In December 2003, the Company engaged in various discussions with the NASD relating to the Security Agreement between National and First Clearing, and its effect on the computation of National's net capital. As a result of these discussions, on December 15, 2003, the Company and First Clearing agreed in principle to the following: (1) National's clearing deposit was reduced from \$1,000,000 to \$500,000, (2) the excess \$500,000 was paid to First Clearing to reduce the Company's outstanding loan balance on its promissory note and (3) the Security Agreement between National and First Clearing was terminated. Furthermore, First Clearing forgave payment of the

\$375,000 that was due to be paid in January 2004. In February 2004, the Company paid First Clearing \$250,000 to fully repay its promissory note. As a result of the repayment of this note, the Company realized a gain on extinguishment of debt of approximately \$756,000. Additionally, National and First Clearing mutually agreed to terminate their clearing relationship by June 30, 2004. On June 22, 2004, National entered into an agreement with Fiserv to clear its brokerage business. The conversion from First Clearing to Fiserv is expected to be completed in the first week of October 2004. As part of this transaction, Fiserv will provide National with an \$800,000 conversion assistance payment, \$250,000 of which was paid upon execution of the clearing agreement, \$250,000 of which is payable in mid-August 2004, and \$300,000 of which is payable upon completion of the conversion in October 2004. The Company believes that the overall effect of the new clearing relationship will be beneficial to the Company's cost structure, liquidity and capital resources. As of June 30, 2004, advances to registered representatives increased \$1,030,000 to \$1,674,000 from \$644,000 as of September 30, 2003. This increase is attributable to advances made to registered representatives who became affiliated with National during this period. In February 2004, National and the holder of a \$1.0 million secured demand note that matured on February 1, 2004, extended the term of the \$1.0 million secured demand note to March 1, 2005 (See Note 9). In January 2004, two other noteholders extended the maturity dates on \$1.0 million of notes issued to them by the Company from January 25, 2004 to July 31, 2005. Effective February 1, 2004, the interest rate on each note was increased to 12% from 9% per annum (See Note 9). In January 2004, the Company issued an aggregate of \$200,000 of three-year, 10% senior subordinated promissory notes to five unaffiliated parties. Such 18 noteholders received three-year warrants, with certain registration rights, to purchase an aggregate of 50,000 shares of the Company's common stock at an exercise price of \$1.40 per share (See Note 10). In February 2004, the Company issued an aggregate of \$850,000 of three-year, 10% senior subordinated promissory notes to four unaffiliated parties. Such noteholders received three-year warrants, with certain registration rights, to purchase an aggregate of 170,000 shares of the Company's common stock at an exercise price of \$1.50 per share (See Note 10). In the quarter ended June 30, 2004, the Company received proceeds of \$225,000 from the exercise of outstanding employee stock options and warrants. Although the Company has operated profitably in the first nine months of fiscal year 2004, it reported a loss in the third quarter resulting from the weaker securities market. These market conditions have weakened further in the fourth quarter of fiscal year 2004. If market conditions do not improve, the Company may consider curtailing certain of its business activities, further reducing fixed overhead costs and/or seeking additional sources of financing. Additionally, the Company may need to secure additional financing in order to assure that it has adequate regulatory capital at such time that a proposed settlement is reached with the NASD regarding the investigation of mutual fund trading activities (See Note 5 herein). The Company's ability to obtain such financing may be adversely affected by recent developments relating to the listing of the Company's common stock on The American Stock Exchange (See Note 8 herein).

**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** The Company's primary market risk arises from the fact that it engages in proprietary trading and makes dealer markets in equity securities. Accordingly, the Company may be required to maintain certain amounts of inventories in order to facilitate customer order flow. The Company may incur losses as a result of price movements in these inventories due to changes in interest rates, foreign exchange rates, equity prices and other political factors. The Company is not subject to direct market risk due to changes in foreign exchange rates. However, the Company is subject to market risk as a result of changes in interest rates and equity prices, which are affected by global economic conditions. The Company manages its exposure to market risk by limiting its net long or short positions. Trading and inventory accounts are monitored daily by management and the Company has instituted position limits. Credit risk represents the amount of accounting loss the Company could incur if counterparties to its proprietary transactions fail to perform and the value of any collateral proves inadequate. Although credit risk relating to various financing activities is reduced by the industry practice of obtaining and maintaining collateral, the Company maintains more stringent requirements to further reduce its exposure. The Company monitors its exposure to counterparty risk on a daily basis by using credit exposure information and monitoring collateral values. The Company maintains a credit committee, which reviews margin requirements for large or concentrated accounts and sets higher requirements or requires a reduction of either the level of margin debt or investment in high-risk securities or, in some cases, requiring the transfer of the account to another broker-dealer. The Company monitors its market and credit risks daily through internal control procedures designed to identify and evaluate the various risks to which the Company is exposed. There can be no assurance, however, that the Company's risk management procedures and internal controls will prevent losses from occurring as a result of such risks. 19 The

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following table shows the quoted market values of the Company's securities held for resale ("long"), securities sold, but not yet purchased ("short") and net positions as of June 30, 2004: Long Short Net -----  
 ----- Corporate Stocks \$ 255,000 \$ 148,000 \$ 107,000 Corporate Bonds 10,000 194,000 (184,000)  
 Government Obligations 348,000 399,000 (51,000) ----- \$ 613,000 \$ 741,000 \$  
 (128,000) =====

ITEM 4 - CONTROLS AND PROCEDURES Evaluation of disclosure controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) required by the Exchange Act Rules 13a-15(b) or 15d-15(b), the Company's Chief Executive Officer and Acting Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting subsequent to the date of our evaluation. PART II - OTHER INFORMATION ITEM 1 - LEGAL PROCEEDINGS The NASD has recently commenced an industry-wide investigation of mutual fund trading activities. National is one of the numerous broker-dealers that have been contacted by the NASD with respect to this investigation. The NASD has identified certain customer mutual fund transactions ordered through National during the time period from October 2000 to February 2003 that it believes may have constituted mutual fund timing and/or excessive trading activity. National has been engaged in ongoing discussions and negotiations with the NASD to informally resolve these matters. Such resolution could result in a settlement, whereby National, without admitting or denying any violations, would make both restitution and pay a fine to the NASD, that in the aggregate would approximate \$600,000. Despite our on-going discussions and negotiations with the NASD, no assurances can be given that informal resolution will be achieved, that a formal proceeding will not be commenced, or that the possible resulting penalties and fines would not be in a materially greater amount. If required to litigate this matter, National believes it has meritorious defenses, and if necessary, intends to vigorously defend this matter, although the ultimate outcome cannot be determined at this time. During the quarter ended June 30, 2004, there were no other significant developments in the Company's legal proceedings. For a detailed discussion of the Company's legal proceedings, please refer to Note 5 herein, and the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003. ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS None. 20 ITEM 3 - DEFAULTS UPON SENIOR SECURITIES None. ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS None. ITEM 5 - OTHER INFORMATION None. ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits 31.1 Chief Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 31.2 Acting Chief Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32.1 Chief Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 32.2 Acting Chief Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (b) Reports on Form 8-K The Company filed a Report on Form 8-K on June 24, 2004 reporting that National Securities Corporation entered into a new agreement to clear its brokerage business. 21 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. OLYMPIC CASCADE FINANCIAL CORPORATION AND SUBSIDIARY August 13, 2004 By: /s/ Mark Goldwasser ----- Mark Goldwasser President and Chief Executive Officer August 13, 2004 By: /s/ Robert H. Daskal ----- Robert H. Daskal Acting Chief Financial Officer 22