

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA, OAKLAND DIVISION

IN RE APPLIED SIGNAL TECHNOLOGY, INC. SECURITIES  
LITIGATION

MASTER FILE NO. C 05-1027 (SBA)

**CLASS ACTION**

THIS DOCUMENT RELATES TO: ALL ACTIONS

**NOTICE OF PENDENCY OF PROPOSED SETTLEMENT OF  
CLASS ACTION AND SETTLEMENT HEARING**

**TO: ALL PERSONS WHO PURCHASED THE COMMON STOCK (THE "SHARES") OF APPLIED SIGNAL TECHNOLOGY, INC. ("APPLIED SIGNAL") FROM AUGUST 25, 2004 THROUGH FEBRUARY 22, 2005, INCLUSIVE (THE "SETTLEMENT CLASS," OR, THE "SETTLEMENT CLASS PERIOD")**

**IMPORTANT**

**PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. THIS NOTICE RELATES TO A PROPOSED SETTLEMENT OF LITIGATION AND CONTAINS IMPORTANT INFORMATION REGARDING YOUR RIGHTS.**

**1. Purpose of Notice**

The purpose of this Notice is to inform you of a proposed settlement of Litigation described below. This Notice describes rights you may have under the proposed settlement and what steps you may take in relation to this Litigation. This Notice is not an expression of any opinion by the Court as to the merits of any of the claims or defenses asserted by any party in this Litigation, or the fairness or adequacy of the proposed settlement.

**2. Notice of Settlement Hearing**

Pursuant to Federal Rule of Civil Procedure 23, and the May 22, 2009 Order of the United States District Court, Northern District of California, Oakland Division, a hearing will be held on July 28, 2009, at 1:00 p.m., before the Honorable Sandra Brown Armstrong, Courtroom #3, 3rd Floor, 1301 Clay Street, Oakland, California 94612-5212 (the "Settlement Hearing") to determine: (1) whether the settlement of the Litigation in the amount of \$2,700,000, plus any accrued interest thereon should be approved as fair, reasonable, and adequate to the Settlement Class; (2) whether the proposed Plan of Allocation is fair, reasonable, and adequate; (3) whether the application of Lead Counsel for the Settlement Class ("Lead Counsel") for an award of attorneys' fees, costs and expenses (the "Fee and Expense Award") and for an award to the Lead Plaintiff relating to his representation of the Settlement Class (the "Lead Plaintiff's Expense Award") should be approved; and (4) whether claims of the Settlement Class Members against the Defendants should be dismissed on the merits and with prejudice as set forth in the Stipulation of Settlement (the "Settlement Stipulation"), filed with the Court. To share in the distribution of the Settlement Fund, Settlement Class Members must establish their rights and submit the Proof of Claim and Release form accompanying this Notice on or before **October 21, 2009**. If you desire to be excluded from the Settlement Class or to object to the Settlement, the Fee and Expense Award and/or Lead Plaintiff's Expense Award, you must submit a request for exclusion or file your objection by **July 14, 2009**.

**3. Summary of the Settlement**

**Recovery to the Settlement Class:** The aggregate amount of the Settlement Fund proposed to be distributed to the Class is \$2,700,000 plus interest earned thereon and less the costs of notice to the Settlement Class, costs of administration of the Settlement Fund, taxes and tax expenses associated with the Settlement Fund, any amounts awarded by the Court to Lead Counsel for attorneys' fees and reimbursement of costs and expenses, and any amounts awarded by the Court to Lead Plaintiff. Lead Counsel estimates that the average recovery per damaged share of Applied Signal common stock under the Settlement is \$0.60 per damaged share before deduction of Court-awarded attorneys' fees and expenses. A Settlement Class Member's actual recovery will be a proportion of the Net Settlement Fund determined by the authorized claimant's claim as compared to the total recognized claims of all Settlement Class Members who submit acceptable Proofs of Claim and Release. Individual Settlement Class Members' actual recoveries under the Settlement will vary, depending upon when the Shares were purchased, the amount they paid for their Shares, the amount of proceeds they received, if any, if the Shares purchased during the Settlement Class Period were sold, when the Shares were sold, and the number of claimants who actually file Proofs of Claim and Releases.

**Potential Outcome of the Case:** The Parties disagree on both liability and damages and do not agree on the amount of damages per share that would be recoverable if Plaintiff were to have prevailed on each claim alleged. Among other things, the Parties do not agree on (i) whether Defendants made any misrepresentations during the Settlement Class Period; (ii) whether Defendants had knowledge or were reckless with respect to any alleged misrepresentations made during the Settlement Class Period; (iii) whether any of the alleged misrepresentations caused the price of the Shares to be artificially inflated during the Settlement Class Period; (iv) whether any drops in the price of Shares during or after the Settlement Class Period were caused by the alleged misrepresentations; (v) the appropriate economic model for determining the amount of artificial inflation (if any) during the Settlement Class Period; (vi) the effect of various market forces influencing the trading price of the Shares at various times during the Settlement Class Period; and (vii) the extent to which external factors (such as industry conditions) influenced the trading price of the Shares during the Settlement Class Period. If the case went to trial, there is no guarantee that Lead Plaintiff would prevail on any of the claims presented.

**Attorneys' Fees, Costs and Expenses Sought:** As compensation for their time and risk in prosecuting the Litigation on a contingent fee basis, Lead Counsel intend to apply to the Court for an award of attorneys' fees in an amount not to exceed thirty percent (30%) of the Settlement Fund (including interest accruing on the Settlement Fund). Lead Counsel also intend to seek reimbursement of costs and expenses incurred on behalf of the Settlement Class not to exceed \$55,000.00. Lead Counsel also intends to apply for an award relating to the Lead Plaintiff's representation of the Settlement Class. If the amounts requested by Lead Counsel for fees, costs and expenses are approved by the Court, the average cost per damaged share for these amounts will be approximately \$0.194.

**Identification of Lawyers' Representatives:** The following representative of Lead Counsel is available to answer questions from Settlement Class Members about any matter contained in this Notice: Jeffrey S. Nobel of IZARD NOBEL LLP, 29 South Main Street, Suite 215, West Hartford, CT 06107, Tel. (860) 493-6292.

**Reasons for Settlement:** Lead Counsel believes that the claims asserted in the Litigation have merit and that the information obtained and examined by Lead Counsel supports the claims asserted. However, Lead Counsel recognizes that there are significant risks, uncertainty, and expense in proceeding with the Litigation through trial and any appeals. Lead Counsel is also mindful of the inherent problems of proof under,

and possible defenses to, federal securities law claims. Lead Counsel believes that the Settlement confers substantial benefits upon the Settlement Class and each Settlement Class Member. Lead Plaintiffs and Lead Counsel have determined that a recovery now will provide an immediate benefit to Settlement Class Members, which is superior to the risk of proceeding with the Litigation. As a result of these considerations, and based upon extensive arms-length settlement negotiations with Defendants' Counsel, Lead Plaintiffs and Lead Counsel have determined that the Settlement is in the best interests of the Lead Plaintiffs and the Settlement Class and each Settlement Class Member.

The Defendants do not believe that claims and contentions alleged by Lead Plaintiffs on behalf of the Settlement Class have merit. Nonetheless, the Defendants have concluded that further conduct of the Litigation would be protracted and expensive, and that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in the Settlement Stipulation in order to limit further expense, inconvenience and distraction, and to dispose of the burden of protracted litigation. The Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this Litigation.

The Defendants have, therefore, determined that it is desirable and beneficial to them that the Litigation be settled in the manner and upon the terms and conditions set forth in the Settlement Stipulation. The Defendants enter into the Settlement Stipulation and Settlement without in any way acknowledging any fault, liability, or wrongdoing of any kind. There has been no adverse determination by any court or otherwise against any of the Defendants on the merits of the claims asserted by Lead Plaintiffs. The Defendants enter into the Settlement Stipulation and Settlement based upon, among other things, the parties' agreement that, to the fullest extent permitted by law, neither the Settlement Stipulation nor any of its terms or provisions, nor any of the negotiations or proceedings connected therewith, shall be offered as evidence in the Litigation or in any pending or future civil, criminal, or administrative action or other proceeding to establish any liability or admission by any of the Defendants or any of their respective Related Entities or any other matter adverse to any of the Defendants or any of their respective Related Entities, except as expressly set forth in the Settlement Stipulation.

#### 4. Summary of the Litigation

**Nature of the Litigation:** This is a securities class action (the "Litigation") brought pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, alleging that Defendants made materially false or misleading public statements either knowingly or with deliberate recklessness.

**Definition of the Settlement Class:** The suit is brought on behalf of all persons who purchased the common stock of Applied Signal Technology, Inc. ("Applied Signal") during the period from August 25, 2004 through February 22, 2005, inclusive, with the exception of the following excluded Persons: Defendants, the Company's employees, officers, directors, members of Defendants' immediate families; any entity in which any Defendant has a controlling interest or which the Company is a parent or subsidiary; and the legal representatives, heirs, successors or assigns of any excluded Person.

**Identity of Defendants:** Defendants are Applied Signal, Gary Yancey and James Doyle, who were the CEO and CFO of Applied Signal (respectively) during the Settlement Class Period.

**Class Claims:** On August 12, 2005, Lead Plaintiff filed a Consolidated Amended Class Action Complaint (the "Complaint"). The Complaint alleged that during the Settlement Class Period, Defendants issued false and misleading statements concerning the amount of the Company's backlog, that these statements artificially inflated Applied Signal's stock price, and that subsequent disclosures caused Applied Signal's stock price to decline, injuring the Settlement Class.

**History of the Litigation:** The Litigation was commenced in March of 2005. By an Order dated July 13, 2005, the Court appointed Frank Whiting as Lead Plaintiff and approved Lead Plaintiff's selection of Schatz & Nobel, P.C. (now IZARD NOBEL LLP) as Lead Counsel. On August 12, 2005, Lead Plaintiff filed the Complaint, and Defendants filed a Motion to Dismiss. On February 6, 2006, the District Court (Armstrong, J.) dismissed the Complaint with prejudice, and denied the pending Motion for Class Certification as moot. Plaintiff appealed the dismissal, and on June 5, 2008 the 9th Circuit reversed the District Court's ruling. Defendants subsequently filed an Answer to the Complaint, and the parties then commenced discovery.

**How the Settlement Was Achieved:** The Settlement was the result of arms-length settlement negotiations. After four years of litigation counsel for the parties conferred and agreed to explore the possibility of settlement through mediation. On January 31, 2009, the parties participated in a full-day mediation session before the Honorable Daniel Weinstein (Ret.) in New York City, during which factual and legal presentations were made by counsel concerning, *inter alia*, the merits of the factual and legal claims asserted in the Litigation and size of potential damages to the Settlement Class, if any. Following the mediation session, the Parties agreed in principle upon the terms of the Settlement, upon the recommendation of Judge Weinstein. On March 26, 2009, counsel for the parties executed the written Settlement Stipulation, and on May 22, 2009, the Court, *inter alia*, certified a class for settlement purposes only, as defined above, preliminarily approved the fairness, reasonableness and adequacy of the Settlement and scheduled the Settlement Hearing.

Before entering into of the Settlement, Plaintiff's Counsel conducted extensive factual and legal research and investigation, including: (1) consultation with experts on issues concerning the damages that may have been suffered by Plaintiff and the Settlement Class; (2) consultation with witnesses and potential witnesses concerning the allegations in the Complaint; (3) analysis of analyst reports, newspaper articles, public filings, press releases, and other public statements by and about Applied Signal; (4) research of the applicable law with respect to the claims asserted against Defendants, and the potential defenses thereto; and (5) review and analysis of internal Applied Signal documents produced by Defendants to Plaintiff's Counsel.

#### 5. Key Terms of the Settlement

**What you get:** Under the terms of the Settlement Stipulation, Defendants and their insurers have agreed to make payment of \$2,700,000 in cash to create a Settlement Fund. After payment of (i) the costs of notice, and the costs of administering and distributing the Settlement Fund, including any taxes payable or tax expenses and (ii) the attorneys' fees, costs and reimbursement of expenses awarded by the Court, and any amounts awarded by the Court to Lead Plaintiff, the balance of the Settlement Fund, together with any interest earned thereon (the "Net Settlement Fund"), shall be distributed to the Settlement Class in accordance with the Plan of Allocation described below.

**What you give up:** Under the terms of the Settlement Stipulation, you, and all members of the Settlement Class who do not request to be excluded from the Settlement – regardless of whether you submit a Proof of Claim and Release – will be deemed to have released all claims, whether known or unknown, which are based upon or related to the purchase of APSG common stock during the Settlement Class Period, against any and all of the Defendants and persons and entities related to them. The complete terms of the Release are set forth in the attached Proof of Claim and Release form.

**Conditions:** The Settlement is conditioned upon, among other things: (1) entry of the Judgment by the Court as provided for in the Settlement Stipulation; and (2) expiration of the time to appeal from the Judgment. If any one of the conditions described in the Settlement Stipulation is not met, the Settlement Stipulation might be terminated and, if terminated, will become null and void, and shall not prejudice the rights, claims, defenses or positions of any Party to the Stipulation.

## 6. Your Options

If you are one of the Persons falling within the definition of the Settlement Class (a "Settlement Class Member"), you will remain a Settlement Class Member unless you elect to be excluded from the Settlement Class by the procedure described below. All Settlement Class Members who do not request to be excluded from the settlement will be bound by any judgment entered in the Litigation pursuant to the Settlement Stipulation, whether or not that Person files a Proof of Claim and Release and whether or not that Person receives a distribution from the Net Settlement Fund. If you wish to remain a Settlement Class Member, you need do nothing (other than timely file a Proof of Claim and Release in order to participate in the distribution of the Net Settlement Fund) and your rights will be represented by Lead Counsel. If you wish, you may enter a legal appearance individually or through your own counsel at your own expense.

TO BE ELIGIBLE TO PARTICIPATE IN THE DISTRIBUTION OF THE NET SETTLEMENT FUND, YOU MUST TIMELY AND VALIDLY COMPLETE AND RETURN THE PROOF OF CLAIM AND RELEASE FORM THAT ACCOMPANIES THIS NOTICE. The Proof of Claim and Release ("Proof of Claim and Release") must be postmarked and delivered to the Claims Administrator at the address below on or before **October 21, 2009**.

The following is a summary of your options and how to exercise them:

**SUBMIT A CLAIM FORM:** If you submit a claim and release form, you will be eligible to share in distribution of the Net Settlement Fund, and you will be bound by the judgment. To exercise this option, you must fully complete and timely mail a "Proof of Claim and Release" form to the Claims Administrator by no later than **October 21, 2009**. NOTE: The Proof of Claim and Release Form is attached to this Notice, and can also be downloaded from [www.izardnoble.com](http://www.izardnoble.com). Copies of supporting documents must be submitted with your Proof of Claim and Release Form. Please follow all instructions to ensure that your filing is complete. Unless the Court orders otherwise, if you do not timely submit a valid Proof of Claim and Release Form, you will be forever barred from receiving any payments from the Net Settlement Fund, but will in all other respects be bound by the Settlement and the Judgment.

**OBJECT:** If you wish to participate in the Settlement, but object to some of the terms of the Settlement, the Plan of Allocation, the Fee and Expense Application, or the Lead Plaintiff's Expense Application, you may send an objection in writing to the Court. The Court will consider any objection you present with respect to the Settlement, the Plan of Allocation, the Fee and Expense Application, or the Lead Plaintiff's Expense Application. If the Court nonetheless approves the Settlement, you will be bound by the judgment, however, you also will be entitled to participate in distribution of the Net Settlement Fund so long as you timely filed a Proof of Claim and Release form. To exercise this option, you must send a letter saying that you object to the Settlement in *In re Applied Signal Technology, Inc. Securities Litigation*, Master File No. C 05-1027 (SBA). Include your name, address, telephone number, your signature, the number of shares of Applied Signal common stock purchased during the Class Period, and the reasons you object to the Settlement. To be considered, **any objection to the Settlement must be postmarked by no later than July 14, 2009** and sent to the Court and to counsel for the parties at the following addresses:

**Court:**  
Clerk of the Court  
UNITED STATES OF DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
United States Courthouse  
1301 Clay Street  
Oakland, California 94612-5212

**Class Counsel:**  
Jeffrey S. Nobel  
Mark P. Kindall  
Izard Nobel LLP  
29 South Main Street, Suite 215  
West Hartford, CT 06107

**Counsel for all Defendants:**  
David Priebe  
DLA PIPER LLP (US)  
2000 University Avenue  
East Palo Alto, CA 94303-2248

You may also appear at the Court's Settlement Hearing either in person or through counsel, but you are not required to do so. Only members of the Settlement Class who have properly submitted written notices of objection in the manner set forth below will be entitled to be heard at the Settlement Hearing, unless the Court orders otherwise.

**EXCLUDE YOURSELF FROM THE SETTLEMENT:** The Court will exclude you from the Settlement Class upon your written request. If you file a request for exclusion from the Settlement, you will have no rights under the Settlement Stipulation, and you will not share in the distribution of the Net Settlement Fund. However, you will not be bound by the Settlement Stipulation or the Judgment. To exercise this option, you must mail a written request asking to be excluded from the Settlement Class to: Applied Signal Technology, Inc. Securities Litigation Claims Administrator, c/o FRG Information Systems Corp., P.O. Box 460, Peck Slip Station, New York, NY 10272. The request for exclusion must state: (1) your name, address, and telephone number; (2) the name and address of the Person (or nominee) in whose name the Applied Signal Shares were registered; (3) your purchases and sales of Applied Signal Shares made during the Settlement Class Period, including the dates, amounts of Shares and price for each such purchase or sale; and (4) that you wish to be excluded from the Settlement Class. **Your written exclusion request must be postmarked, or your electronic exclusion request must be submitted, on or before July 14, 2009.**

**DO NOTHING:** If you do nothing, you will have no rights under the Settlement Stipulation. You will not share in the distribution of the Net Settlement Fund, but you **will** be bound by the Judgment, and you will be deemed to have released your claims against the Defendants.

## 7. Plan of Allocation

After the costs, fees and expenses described above have been paid, the balance of the Settlement (the "Net Settlement Fund") will be distributed to all Settlement Class Members who submit a valid, timely Proof of Claim and Release ("Authorized Claimants"). To the extent there are sufficient funds in the Net Settlement Fund, each Authorized Claimant will receive an amount equal to his or her "Recognized Loss" as described below. If, however, the amount in the Net Settlement Fund is not sufficient to permit payment of the total Recognized Loss of each Authorized Claimant, then each Authorized Claimant shall receive a pro rata share. Payment of claims in accordance with this Plan of Allocation is considered to conclusively resolve the claims of all Authorized Claimants.

However, if you made a profit on a sale of Applied Signal common stock purchased during the Settlement Class Period (*i.e.*, the sales price per share of Applied Signal common stock was higher than the purchase price per share of Applied Signal common stock), then the Recognized Loss for those shares of common stock is zero, and any such profits will be offset against the Recognized Loss, if any, from any other Settlement Class Period purchases of Applied Signal common stock. For purposes of calculating Recognized Loss, Settlement Class Period sales of Applied Signal common stock will be matched against and offset the most recent prior Settlement Class Period purchases of Applied Signal common stock on a first-in, first-out ("FIFO") basis. However, for the purpose of calculating Recognized Loss, the "sale price" of Applied

Signal common stock purchased during the Settlement Class Period and not sold as of the close of trading on February 22, 2005, is considered to be \$23.24, regardless of when (or whether) the Shares were subsequently sold or for how much they were sold. In no event shall there be any Recognized Loss arising out of transactions by Settlement Class Members in which Applied Signal stock was "sold short."

Your "Recognized Loss" is the amount of your actual loss that can be traced to the declines in the price of Applied Signal shares following disclosures Plaintiff alleged to be related to Defendants' alleged misconduct – disclosures that took place on September 9, 2004, December 21, 2004, and February 22, 2005.

The amount of an Authorized Claimant's Recognized Loss shall be determined as follows:

- (a) For each share of Applied Signal common stock *purchased between August 25, 2004 and September 9, 2004, inclusive* and
  - (i) sold on or before September 9, 2004, the Recognized Loss per share is \$0.
  - (ii) sold between September 10, 2004, and December 21, 2004, inclusive, for a loss, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and the sales price, or (2) \$4.67.
  - (iii) sold between December 22, 2004, and February 22, 2005, inclusive, for a loss, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and the sales price, or (2) \$6.15.
  - (iv) not sold as of the close of trading on February 22, 2005, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and \$23.24 or (2) \$10.43.
- (b) For shares of Applied Signal common stock *purchased between September 10, 2004, and December 21, 2004, inclusive* and
  - (i) sold on or before December 21, 2004, the Recognized Loss per share is \$0.
  - (ii) sold between December 22, 2004, and February 22, 2005, inclusive, for a loss, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and the sales price, or (2) \$1.48.
  - (iii) not sold as of the close of trading on February 22, 2005, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and \$23.24 or (2) \$5.76.
- (c) For shares of Applied Signal common stock *purchased between December 22, 2004, and February 22, 2005, inclusive*, and
  - (i) sold on or before February 22, 2005, the Recognized Loss per share is \$0.
  - (ii) not sold as of the close of trading on February 22, 2005, the Recognized Loss per share shall be the lesser of (1) the difference between the purchase price and \$23.24 or (2) \$4.28.
- (d) There is no Recognized Loss for losses on short sales of Applied Signal common stock.

The Court has reserved jurisdiction to allow, disallow or adjust the claim of any Settlement Class member on equitable grounds.

## 8. Dismissal and Releases

If the proposed Settlement is approved, the Court will enter a Judgment (the "Judgment"), dismissing all Released Claims against the Released Persons (as defined in the Stipulation of Settlement and in the Proof of Claim and Release which accompanies this Notice), and Settlement Class Members may not thereafter assert any of such claims against the Released Persons. The Judgment will provide that the fact of the Settlement or the terms thereof may not be used against Released Persons in any action or proceeding, except to enforce the Judgment.

The Judgment will also provide that all Settlement Class Members who do not validly and timely request to be excluded from the Settlement Class shall be deemed to have released and forever discharged all Released Claims against all Released Persons.

## 9. Examination of Papers

For additional details concerning the Settlement, you may desire to review the Settlement Stipulation filed with the Court, which may be inspected at the office of the Clerk of the United States District Court, Northern District of California, Oakland Division, United States Courthouse, 1301 Clay Street, Oakland, California 94612-5212, during business hours. The Settlement Stipulation is also available at [www.izardnobel.com](http://www.izardnobel.com). If you have any questions about the settlement of the Litigation, you may contact Lead Counsel or your own personal attorney.

INQUIRIES SHOULD NOT BE DIRECTED TO THE COURT OR TO THE CLERK OF THE COURT OR TO THE DEFENDANTS

### SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES:

If you purchased any publicly-traded common stock of Applied Signal during the Settlement Class Period as nominee for a beneficial owner, then, within ten (10) days after you receive this Notice, you must either: (1) send a copy of this Notice and the Proof of Claim and Release by first class mail to all such Persons, or (2) provide a list of the names and addresses of such Persons to the Claims Administrator:

Applied Signal Technology, Inc. Securities Litigation  
Claims Administrator  
c/o FRG Information Systems Corp.  
P.O. Box 460, Peck Slip Station  
New York, NY 10272  
[claims\\_administrator@frginfosys.com](mailto:claims_administrator@frginfosys.com)

If you choose to mail the Notice and Proof of Claim and Release yourself, you may obtain (without cost to you) as many additional copies of these documents as you will need to complete the mailing from the Claims Administrator.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for or advancement of reasonable administrative costs actually incurred in connection with forwarding the Notice and Proof of Claim and Release, and which would not have been incurred but for the obligation to forward the Notice and Proof of Claim and Release.

Dated: June 23, 2009

By Order of the United States District Court,  
Northern District of California