

APPLIED SIGNAL TECHNOLOGY INC
Form 8-K
June 07, 2010

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 8-K
Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: June 2, 2010
(Date of earliest event reported)

Applied Signal Technology, Inc.
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

000-21236
(Commission file
number)

77-0015491
(I.R.S. Employer
Identification No.)

400 West California Ave., Sunnyvale, CA 94086
(Address of principal executive offices)

(408) 749-1888
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02: Results of Operations and Financial Condition

On June 2, 2010, Applied Signal Technology, Inc. issued a press release announcing its financial results for the quarter ended April 30, 2010, and hosted a conference call to discuss the financial results for the quarter ended April 30, 2010. The full text of the Company's press release and a transcript of the related conference call are attached hereto as Exhibit 99.1 and Exhibit 99.2, respectively.

Item 9.01: Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Description
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<u>99.1</u>	
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Press Release dated June 2, 2010 announcing financial results for the quarter ended April 30, 2010

99.2 Transcript of conference call held on June 2, 2010

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 hereunto duly authorized.

Date: June 7, 2010

Applied Signal Technology, Inc.
(Registrant)

By: /s/ James E Doyle
James E. Doyle
Vice President and Chief Financial Officer

Exhibit Index

Exhibit Number	Description
<u>99.1</u>	Press Release dated June 2, 2010 announcing financial results for the quarter ended April 30, 2010
<u>99.2</u>	Transcript of conference call held on June 2, 2010

Exhibit 99.1 Press Release

Applied Signal Technology, Inc. Announces Fiscal Second Quarter Operating Results

Second Quarter Bookings Increase 25% to \$71 Million

Sunnyvale, CA. June 2, 2010 - Applied Signal Technology, Inc. (NASDAQ - APSG) announced operating results for the second quarter of fiscal 2010, which ended April 30, 2010. Revenues for the second quarter increased 9% to \$58,163,000 compared to the year-ago period's revenues of \$53,500,000. This increase resulted from a combination of organic growth in the Company's broadband communications business and the acquisition of Pyxis Engineering, which closed on September 1, 2009. The Company noted that its recent acquisition of Seismic Engineering closed on April 28, 2010 and therefore did not make a material contribution to the results for the second quarter.

Earnings per share during the second quarter were \$0.24 per share compared to \$0.31 per share in the year-ago second quarter. The year-over-year reduction in earnings resulted primarily from acquisition-related expenses. On a non-GAAP basis, excluding the transaction-related expenses associated primarily with the Pyxis and Seismic acquisitions, the Company reported earnings per share of \$0.30. The year-over-year reduction in non-GAAP earnings resulted primarily from a higher tax rate versus the prior year's quarter.

William Van Vleet, President and Chief Executive Officer of Applied Signal Technology, Inc., commented, "We are pleased to have executed well during the second quarter. In our core business, we responded to continued strong

demand for our broadband communications systems, received significantly increased bookings and delivered a solid performance on the Next Generation ASA program.”

Mr. Van Vleet continued, “In addition to a healthy core business, our acquisition of Seismic Engineering reinforces our emerging position as a leading cybersecurity solutions provider. We believe that the platform we are building will distinguish itself through strong leadership, a large and capable engineering and analytical team, and cutting edge research and development. We have achieved a significant degree of scale in this business and are confident that we are now effectively positioned for a wide range of programs, both as an important partner and as a prime contractor.”

The Company’s operating income for the second quarter of fiscal 2010 was \$5,458,000 compared to \$6,455,000 in the second quarter of fiscal year 2009. On a non-GAAP basis, excluding acquisition-related expenses, operating income for the second quarter of fiscal 2010 was \$6,696,000. A detailed reconciliation between GAAP and non-GAAP results is provided in a table following the consolidated statements of cash flows.

The Company reported significant strength in its order book, as new orders received during the second quarter increased by 25% to \$70,628,000 compared to \$56,454,000 of new orders received during the second quarter of fiscal year 2009. New orders for the first six months of fiscal year 2010 were \$100,650,000 representing a 12% increase when compared to new orders of \$89,575,000 for the same period of fiscal year 2009. The increase in new orders and revenues during the second quarter and year-to-date were primarily driven by demand for broadband communications development programs and network intelligence services.

Mr. Van Vleet concluded, “It remains our mission to further establish our leadership position in the rapidly developing intelligence, surveillance and reconnaissance (ISR) market. We are very excited to have quickly developed scale and expertise to address the still emerging cyber-security opportunity, a fast growing segment of the ISR market. We are dedicated to growing our company internally and will continue to search for strategic acquisitions to position the Company for sustained growth.”

Forward Looking Guidance

Applied Signal Technology anticipates fiscal 2010 revenues between \$223 million and \$233 million and operating income, measured on a GAAP basis, between \$18 million and \$21 million. These projections anticipate a fiscal 2010 effective tax rate of between 38-39% and assume the R&D tax credit is extended.

Applied Signal adopted the revised accounting standard for business combinations (ASC Topic 805) during fiscal year 2010 and therefore must expense, rather than capitalize the Seismic acquisition costs. Other acquisition related costs including the amortization of intangibles, retention bonuses and compensation expense related to a potential earn-out will also be expensed. In addition, Applied Signal continues to aggressively protect its intellectual property and anticipates increased litigation expenses this fiscal year.

Year to Date Results

Revenues for the first six months of fiscal 2010 were \$106,243,000 compared to \$98,884,000 during the first six months of fiscal 2009. Operating income for the first six months of fiscal 2010 was \$10,652,000 compared to \$12,103,000 in the same period of the prior year. Net income for the first six months of fiscal year 2010 was \$6,435,000 or \$0.48 per diluted share compared to the year-ago level of \$7,589,000 or \$0.58 per diluted share. Net income on a non-GAAP basis, excluding the impact of acquisition-related expenses, for the first six months of fiscal year 2010 was \$7,351,000 or \$0.55 per diluted share compared to the year-ago level of \$7,616,000 or \$0.58 per diluted share. A detailed reconciliation between GAAP and non-GAAP results is provided in a table following the consolidated statements of cash flows.

Use of Non-GAAP Financial Information

To help investors understand past financial performance and project future results, the Company supplements the financial results provided in accordance with generally accepted accounting principles, or on a GAAP basis, with certain non-GAAP financial measures. To supplement the consolidated financial results prepared under GAAP, the Company uses a non-GAAP conforming, or non-GAAP, measure of net loss that is GAAP net income and earnings per share adjusted to exclude certain costs related to completed acquisitions including the transaction costs, the amortization of intangibles, retention bonuses and compensation expense related to a potential earn-out. Non-GAAP net income and earnings per share gives an indication of the baseline performance before acquisition expenses that are considered by management to be outside the core operating results. These measures are not in accordance with, or an alternative for, GAAP and may be materially different from non-GAAP measures used by other companies. Non-GAAP net income is computed by adjusting GAAP net income for acquisition-related expenses. These non-GAAP results should be read only in conjunction with the consolidated financial statements prepared in accordance with GAAP. AST management regularly uses supplemental non-GAAP financial measures to internally understand, manage and evaluate the business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning and forecasting future periods. Management believes that these non-GAAP financial measures reflect an additional way of viewing aspects of operations that, when viewed with GAAP results, provide a more complete understanding of factors and trends affecting the business. Management compensates for the limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures. Investors are encouraged to review the reconciliation of our non-GAAP financial measures to the comparable GAAP results attached to this earnings release.

Attached to this news release are condensed, consolidated statements of income, balance sheets, statements of cash flows and a reconciliation between net income on a GAAP basis and non-GAAP net income for the second quarter and first six months of fiscal year 2010 ended April 30, 2010.

Investor Conference Call

The Company will host a conference call on June 2, 2010 to discuss second quarter fiscal 2010 results. If you wish to participate in the conference call, please dial 1-877-407-8031 for domestic callers or 1-201-689-8031 for international callers on June 2, 2010 at 5:00 p.m. eastern time/2:00 p.m. pacific time. There is no pass code required. This call may be listened to simultaneously at the Web site www.InvestorCalendar.com. A rebroadcast of the call will be available upon its completion and will remain available for a limited time.

Applied Signal Technology, Inc. provides advanced intelligence, surveillance and reconnaissance (ISR) products, systems and services to enhance global security. For further information about Applied Signal Technology visit our website at www.appsig.com.

Except for historical information contained herein, matters discussed in this news release may contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Statements relating to the expected future organic and new complementary growth opportunities and the order opportunities available in the rapidly developing intelligence, surveillance and reconnaissance (ISR) and cyber-security markets, the ability to executive additional strategic acquisitions and position the company for growth, as well as statements related to our forward-looking guidance for the fiscal year are forward-looking statements. The risks and uncertainties associated with these statements include the ability to achieve the anticipated benefits of the acquisitions, the ability to capture organic growth opportunities and to utilize the strategic advantages of a strong capital position; the ability to obtain new orders from procurers, including the U. S. Government when anticipated and to successfully perform and achieve profitability on such contracts; the ability to hire qualified staff as needed; and other risks detailed from time to time in the Company's SEC reports including the latest Form 10-K filed for the fiscal year ended October 31, 2009. The Company assumes no obligation to update the information provided in this news release.

Applied Signal Technology, Inc.
Condensed Consolidated Statements of Income
(in thousands except per share data)

	Three Months Ended		Six Months Ended	
	April 30, 2010	May 1, 2009	April 30, 2010	May 1, 2009
Revenues from contracts	\$56,219	\$51,618	\$102,832	\$95,305
Revenues from royalties	1,944	1,882	3,411	3,579
	-----	-----	-----	-----
Total revenues	58,163	53,500	106,243	98,884
Operating expenses:				
Contract costs	40,850	37,489	74,850	69,020
Research and development	4,046	3,797	7,093	6,872
General and administrative	7,809	5,759	13,648	10,889
	-----	-----	-----	-----
Total operating expenses	52,705	47,045	95,591	86,781
	-----	-----	-----	-----
Operating income	5,458	6,455	10,652	12,103
Interest income/(expense), net	(34)	69	(37)	181
	-----	-----	-----	-----
Income before provision for income taxes	5,424	6,524	10,615	12,284
Provision for income taxes	2,128	2,450	4,180	4,695
	-----	-----	-----	-----
Net income	\$3,296	\$4,074	\$6,435	\$7,589
	=====	=====	=====	=====
Net income per share – basic	\$0.25	\$0.31	\$0.48	\$0.58
Average shares – basic	13,091	12,852	13,079	12,803
Net income per share – diluted	\$0.24	\$0.31	\$0.48	\$0.58

Average shares – diluted	13,230	13,033	13,222	12,978
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Applied Signal Technology, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	April 30, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$9,738	\$4,102
Short term investments	10,010	43,454
	-----	-----
Cash, cash equivalents, and short term investments	19,748	47,556
Accounts receivable	49,739	47,063
Inventory	11,698	8,378
Receivable – Pyxis acquisition related	—	1,093
Other current assets	11,218	9,424
	-----	-----
Total current assets	92,403	113,514
Property and equipment, at cost	72,908	70,400
Accumulated depreciation and amortization	(57,738)	(55,405)
	-----	-----
Net property and equipment	15,170	14,995
Goodwill	54,682	33,158
Intangible assets, net	5,349	1,904
Long-term deferred tax asset, net	4,308	4,196
Long term investment	1,062	2,129
Other assets	1,593	1,104
	-----	-----

Total assets	\$174,567 =====	\$171,000 =====
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Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable, accrued payroll and benefits	\$17,967	\$22,158
Notes payable	1,429	1,429
Income taxes payable	2,135	444
Other accrued liabilities	4,343 -----	2,298 -----
Total current liabilities	25,874	26,329

Long-term liabilities:

Long-term notes payable	1,786	2,500
Other long-term liabilities	3,078 -----	3,146 -----
Total long-term liabilities	\$4,864	\$5,646

Shareholders' equity	143,829 -----	139,025 -----
Total liabilities and shareholders' equity	\$174,567 =====	\$171,000 =====

Applied Signal Technology, Inc.
Condensed Statements of Cash Flows
Increase (decrease) in cash and cash equivalents
(in thousands)

Six Months Ended**2010** **2009****Operating activities:**

Net Income	\$6,435	\$7,589
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		

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Depreciation and amortization	3,541	3,056
Stock-based compensation	1,049	1,068
Excess tax benefits from stock-based payment arrangements	(74)	(251)
Changes in:		
Accounts receivable	735	(4,486)
Inventory, prepaid expenses, and other assets	(5,517)	(2,281)
Accounts payable, taxes payable and accrued liabilities	(3,450)	(2,413)
	-----	-----
Net cash provided by operating activities	2,719	2,282
Investing activities:		
Cash paid for business acquired, net	(24,327)	—
Cash received from Pyxis's escrow account, net	673	—
Purchase of available-for-sale securities	(39,134)	(28,801)
Maturity of available-for-sale securities	73,108	31,285
Additions to property and equipment	(2,812)	(2,684)
	-----	-----
Net cash provided by (used in) investing activities	7,508	(200)
Financing Activities:		
Issuance of common stock	772	2,331
Shares repurchased for tax withholding of vested restricted stock awards	(168)	(127)
Excess tax benefits from stock-based payment arrangements	74	251
Term loans	(1,954)	(834)
Dividends paid	(3,315)	(3,227)
	-----	-----
Net cash (used in) financing activities	(4,591)	(1,606)

Net increase (decrease) in cash and cash equivalents	5,636	476
Cash and cash equivalents, beginning of period	4,102	4,668
	-----	-----
Cash and cash equivalents, end of period	\$9,738	\$5,144
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	108	149
Income taxes paid	2,265	4,733

Applied Signal Technology, Inc.
GAAP to Non-GAAP Reconciliation
For the Periods Ended April 30, 2010, and May 1, 2009
(in thousands except per share data)

	Three Months Ended		Six Months Ended	
	April 30, 2010	May 1, 2009	April 30, 2010	May 1, 2009
General and Administrative Operating Expenses				
GAAP general and administrative expenses	\$7,809	\$5,759	\$13,648	\$10,889
Non-GAAP acquisition expenses:				
Transaction costs	a (901)	(7)	(911)	(8)
Amortization of intangibles	b (192)	(18)	(385)	(36)
Compensation expense	c (145)	0	(296)	0
	-----	-----	-----	-----
Total non-GAAP acquisition expenses	(1,238)	(25)	(1,592)	(44)
Non-GAAP general and administrative expenses	6,571	5,734	12,056	10,845
	=====	=====	=====	=====
Operating Expenses				
GAAP operating expenses	52,705	47,045	95,591	86,781
Non-GAAP acquisition expenses:				

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Transaction costs	a	(901)	(7)	(911)	(8)
Amortization of intangibles	b	(192)	(18)	(385)	(36)
Compensation expense	c	(145)	0	(296)	0
		-----	-----	-----	-----
Total non-GAAP acquisition expenses		(1,238)	(25)	(1,592)	(44)
Non-GAAP operating expenses		<u>51,467</u>	<u>47,020</u>	<u>93,999</u>	<u>86,737</u>
Operating Income					
GAAP operating income		5,458	6,455	10,652	12,103
Non-GAAP acquisition expenses:					
Transaction costs	a	901	7	911	8
Amortization of intangibles	b	192	18	385	36
Compensation expense	c	145	0	296	0
		-----	-----	-----	-----
Total non-GAAP acquisition expenses		1,238	25	1,592	44
Non-GAAP operating income		<u>6,696</u>	<u>6,480</u>	<u>12,244</u>	<u>12,147</u>
Net Income					
GAAP net income		3,296	4,074	6,435	7,589
Non-GAAP acquisition expenses:					
Transaction costs	a	901	7	911	8
Amortization of intangibles	b	192	18	385	36
Compensation expense	c	145	0	296	0
Income tax effect on non-GAAP adjustments	d	(523)	(9)	(676)	(17)
		-----	-----	-----	-----
Total non-GAAP acquisition expenses		715	16	916	27
Non-GAAP net income		<u>\$4,011</u>	<u>\$4,090</u>	<u>\$7,351</u>	<u>\$7,616</u>

Non-GAAP net income per share – basic	\$0.30	\$0.31	\$0.55	\$0.59
Average shares – basic	13,091	12,852	13,079	12,803
Non-GAAP net income per share – diluted	\$0.30	\$0.31	\$0.55	\$0.58
Average shares – diluted	13,230	13,033	13,222	12,978

- a. *Transaction Costs.* Transaction costs are primarily legal, due diligence, and other consulting costs that are incurred directly as a result of the acquisition activities.
- b. *Amortization of intangibles.* Amortization of intangibles arise from current and prior acquisitions and is non-cash in nature.
- c. *Compensation Expense.* Compensation expense includes the retention bonuses payable to the employees of the acquired Pyxis business.
- d. *Income tax effect on non-GAAP adjustments.* This amount adjusts the provision for income taxes to reflect the effect of the non-GAAP adjustments on non-GAAP net income.

Exhibit 99.2 Transcript of Applied Signal Technology Second Quarter 2010 Earnings Conference Call, June 2, 2010

Participants

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Jim McEllery, Analyst, Merriman Curhan Ford & Company

Brian Rutenber, Analyst, Morgan Keegan & Company

Irene Karkoff, Private Investor

Jeremy Devaney, Analyst, BB&T Capital Markets

Ed Keller, Analyst, Oppenheimer Company, Inc.

Matt Fuerger, Analyst, Raymond James

Presentation

Moderator

Greetings, and welcome to the Applied Signal Technology Second Quarter 2010 earnings conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Bill Van Vleet, Chief Executive Officer for Applied Signal Technology. Thank you, Mr. Van Vleet, you may begin.

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Thank you, Jen. Good afternoon, and thank you for joining us to discuss our second-quarter results. With me today is Jim Doyle, our Chief Financial Officer. Before we begin, I'd like to summarize our Safe Harbor statement: Our presentation today may contain forward-looking statements which reflect the company's current judgment on future events. Because these statements deal with future events, they are subject to risks and uncertainties that could cause the actual results to differ materially. In addition to the factors that may be discussed in this call, important factors which could cause the actual results to differ materially are contained in our company's recent 10Q's and 10K.

We had a good second quarter and made good progress on a number of key initiatives to accelerate our growth rate as we go forward. Our core Broadband Communications business performed well. Our Tactical SIGINT business is showing signs of resurgence. We completed a second acquisition to reinforce our network intelligence business, and on an adjusted basis, we nearly equaled the earnings we reported in this period a year ago.

I'm very pleased to report that we've had success in capturing new programs and we've executed well for our customers. As a result, our second-quarter bookings are up 25% versus the same time last year. Now, I'll go into each of these developments in some detail, but I want to begin by reinforcing the importance of the Seismic acquisition in terms of our long-term strategic development of the business. This acquisition has reinforced our leadership position, expanded our range of capabilities and given us a critical degree of scale in the network intelligence business. We're now among a small number of companies that can effectively address, either as a prime or as a subcontractor, many of the larger still emerging cyber-security programs. This is a large emerging opportunity in the ISR market and we're both proud and pleased to have quickly built a highly capable platform to address this opportunity.

We continue to have a strong balance sheet with a low level of debt, and while there is some year-one dilution associated with each of these acquisitions, largely because of the structure of the transaction, we believe that the intermediate and long-term potential for this business adds significant value to our company is excellent. Before I go into greater detail on our growth plans and business development accomplishments, I'd like to run through the highlights of the second quarter.

First, revenues in the quarter grew by 9% to \$58.2 million versus last year's \$53.5 million. We saw growth in several important areas: our core Broadband Communications business performed very well. In general there, revenues were driven by the recapitalization of existing programs with Next Generation ISR assets, as well as by new engineering development activities to address future challenges and changes in the environment.

We also continued to receive a stronger royalty stream from our DoubleTalk license this quarter and we're pleased with the adoption rate of that product. Network Intelligence grew at the fastest pace of any of our businesses, even without Seismic, which closed at the very end of the quarter and therefore didn't contribute to the revenues in that period. Tactical SIGINT continued to be an offset to growth in the quarter, but our business in that area appears to have stabilized and should begin to show improvement. Finally, Sensor Systems' revenues remained consistent in the quarter year over year due to continued demand in Navy science and technology programs.

The anticipated increased demand for our high-definition sonar products, including our process software sales, were delayed out of the quarter as a result of recent issues experienced by the oil industry in the Gulf of Mexico. We are seeing increased interest in exploration, however, that may translate to additional sales next quarter.

The second key point is that the shift in our operating margin in the quarter largely reflected our acquisition projects as well as a higher rate of legal expense for intellectual property defense, and was 9.4% of sales versus 12.1% last year. But if you add back the \$1.2 million of acquisition-related expenses that we've broken out in the financial statements with the press release, you note that our operating income was slightly higher versus the excellent second-quarter financial results that we reported in the same period a year ago.

Excluding these one-time costs, on a non-GAAP basis our EPS for the period was \$0.30 per share versus the \$0.31 we reported last year, and the remaining year-over-year difference in non-GAAP earnings resulted primarily from a higher tax rate versus the prior year's quarter.

The third major highlight is that looking to the future, we see a strong growth opportunity in cyber and network intelligence. This includes the full spectrum of systems, analytics and high-end engineering services to know the networks, exploit the knowledge, and to execute critical national missions. I'd like to give one very clear example of how we're expanding our capabilities and how this will help us capture new business.

Over the course of the second quarter, we inaugurated an advanced research, development, testing and demonstration facility for our cyber business. This facility can create a real-world model of complex network systems in a closed-network environment and then simulate specific attacks and specific defenses over a wide range of cyber-intrusion scenarios. The network environment is highly configurable and highly complex, and is enabling a new paradigm for the development of both threat identification and mitigation technologies.

The first facility we've opened is in California, but we plan to open a similar facility on the East Coast. We believe that they will prove to be highly valuable in terms of both demonstrating our products and services to our customers. More importantly, we believe that these facilities will lead to further advancements in cyber-security technology.

I would also say that while the advancement of capabilities in this area is an urgent national security project, the ramifications of the evolving cyber threat are already and will continue to be a cause for concern among major corporations. Over time, we hope to be able to develop and implement a wide range of sophisticated, highly customized cyber-security solutions for additional customers outside of our traditional base.

Now, this is a clear reinforcement of the network intelligence platform we've built through the acquisitions of first Pyxis Engineering and then, just prior to the close of the second quarter, Seismic. As I mentioned at the beginning of my remarks, Seismic was an important transaction for us that essentially rounded out the capabilities of our cyber effort and puts us on a very small list of companies that can address a wide range of programs. We now have over 220 software engineers in our services business, all of whom have security clearances. This human resources challenge, which we've very successfully addressed, is the most challenging barrier to entry into these markets. Combined with a strong leadership team, we believe we're in an excellent competitive position.

We're confident that we can now pursue opportunities that were previously unavailable to either us or the two companies prior to joining forces. This is specifically important at this point in time because cyber is still an emerging category in the ISR market, and those companies that are early in the development of customer relationships and can establish execution track records have an opportunity to establish a formidable incumbency status on what will clearly be long-term programs and initiatives.

Now, extending the theme of our continued investment in the business, I'd also like to highlight that during the quarter we were appraised as fully compliant at maturity level 3 with the Software Engineering Institute's CMMI or Capability Maturity Model Integration, version 1.2. This is an extensive evaluation that now certifies Applied Signal's engineering development and management processes against rigorous CMMI standards. These standards are used throughout industry as a prerequisite and an evaluation factor for the acquisition of military and government programs with significant systems and software engineering content. The rating is only granted to companies that have established well-defined, repeatable and effective standards for project management, hardware and software

engineering, systems integration and quality assurance, while maintaining a focus on continuous process improvement. For AST, it serves as an important milestone that demonstrates our commitment to excellence.

That position is obviously best demonstrated by program performance and new-program capture. In the second quarter we had three programs with award fee determinations. All three received awards of 90% or greater, and one program received an award fee of 100%, indicating the highest level of customer satisfaction. This excellent program performance is translating in to the strong bookings increase we reported for the quarter. As I noted earlier, new bookings in the second quarter increased by 25% versus the same time last year.

Some of the major awards include a \$28 million booking of additional task orders against the Next Generation ASA program; over \$16 million in bookings for new task orders in our Network Intelligence service program, which was spread over ten different programs, with the major awards of over \$4 million each on the Divinaci and Ocean Surf programs. We received \$11 million on the Tiffany program for an advanced deep pack and inspection capability, and we were a member of the winning teams on the NANA program, a major cyber-security services contract, and the SITE program, which is a broad IDIQ contract for the CIA.

Earlier I mentioned that we're seeing an inflection point in our Tactical SIGINT business performance. This business has been soft for the last few quarters, as shipments of our radar product tailed off with completion of the initial deliveries and as the Stone Face phase 2 program wound down. However, the performance of our products in the field has been outstanding and our equipment has clearly validated usefulness to our customers. We believe that the successful field deployment of this technology for high-value targeted acquisition and tracking will demonstrate a broader suite of potential applications and tactics, and will grow the addressable market.

In this market we're beginning to see some traction in quick-reaction contracts for rapid deployment of equipment for overseas contingency operations, and with DARPA for advanced technology development. In addition, we're seeing increased interest from the Stone Face customer that is likely to result in an extension of the current contract. We're really excited to see improvement in this area.

I'd like to now turn the call over to our chief financial officer, Jim, to run through the detailed financial results of the quarter.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Thanks, Bill. Good afternoon, everyone. Revenues for the second quarter increased 9% to \$58.2 million compared to the year-ago period's revenues of \$53.5 million. This increase resulted from a combination of both organic growth in Broadband Communications and the acquisition of Pyxis Engineering which closed on September 1, 2009, and was partially offset by a decline in the Tactical SIGINT revenues. I'd also like to note that the recent of Seismic Engineering closed on April 28, 2010, and therefore did not make a material contribution to the results of our second quarter.

Earnings per share during the second quarter were \$0.24 compared to \$0.31 in the year-ago quarter. The year-over-year reduction in earnings resulted primarily from acquisition-related expenses. On a non-GAAP basis, excluding the transaction-related expenses associated primarily with Pyxis and Seismic acquisitions, we reported earnings per share of approximately \$0.30. The year-over-year reduction in non-GAAP earnings resulted primarily from a higher tax rate versus the prior-year's quarter.

With respect to costs, you'll note that our second-quarter contract costs remained relatively static as a percent of total revenues at 70.2% versus 70.1% of costs in the prior-year period. Our R&D was also stable as a percent of revenues. G&A costs increased in absolute dollars and as a percentage of revenues during second quarter when compared to a year ago, primarily because of acquisition-related costs.

Operating income for the second quarter of fiscal 2010 was approximately \$5.5 million compared to approximately \$6.5 million in the second quarter of fiscal year 2009. On a non-GAAP basis, excluding acquisition-related expenses operating income for the second quarter of fiscal '10 was approximately \$6.7 million. As a reminder, a detailed reconciliation between GAAP and non-GAAP results is provided in a table in our press release following the consolidated statements of cash flow.

There was significant strength in bookings as new orders received during the second quarter increased by 25% to approximately \$70.6 million compared to approximately \$56.5 million of new orders received during the second quarter of fiscal 2009. New orders for the first six months of fiscal 2010 were approximately \$100.7 million, representing a 12% increase when compared to new orders of approximately \$89.6 million for the same period of fiscal 2009. The increase in new orders and revenues during the second quarter and year to date were primarily driven by demand for Broadband Communications development programs and Network Intelligence services.

I'd like to briefly mention our year-to-date results. Revenues for the first six months of fiscal year 2010 were approximately \$106.2 million, representing a 7% increase when compared to revenues of approximately \$98.9 million for the first six months of fiscal year 2009. Operating income for the first six months of fiscal '10 was approximately \$10.7 million compared to approximately \$12.1 million in the same period of the prior year.

Net income for the first six months of fiscal year 2010 was approximately \$6.4 million or \$0.48 per diluted share, compared to the year-ago level of approximately \$7.6 million or \$0.58 per diluted share. Net income on a non-GAAP basis, excluding the impact of acquisition-related expenses for the first six months of fiscal year 2010 was approximately \$7.4 million or \$0.55 per diluted share, compared to the year-ago level of approximately \$7.6 million or \$0.58 per diluted share.

Our current backlog is over \$160 million compared to the \$121 million balance that we had at the end of the first quarter of fiscal 2010, representing approximately a increase. Our backlog includes the uncompleted of our contractual obligations and excluded any unexercised contract options.

Turning to the balance sheet now, our combined cash and investment balances at the end of the first quarter were approximately \$21 million. Accounts receivable balances were approximately \$49.7 million, compared to \$47.1 million at October 31, 2009. The billed A/R balance was approximately \$32.6 million compared to the \$26.6 million balance at October 31, 2009. The increase in billed A/R is due in part to increased revenues compared to the fourth quarter of fiscal year 2009, and to delays in payment caused by what we believe to be short-term changes in the government payment process.

The unbilled A/R balances declined to \$17.2 million compared to \$20.4 million at October 31, 2009. The decrease in unbilled A/R balances is primarily due to increases in cost reimbursable contracts, allowing us to bill more frequently than we can bill on fixed-price contracts.

Inventory increased approximately \$3.3 million during the first half of the fiscal year. The inventory balance at April 30, 2010, was \$11.7 million compared to approximately \$8.4 million at October 31, 2009. This increase in inventory is due to increased product inventory in anticipation of future product orders. Prepaid and other current assets were about \$11.2 million at the end of the second quarter of 2010 compared to a balance of about \$10.5 million at October 31, 2009. Included in the second-quarter balance is pre-contract or at-risk costs of approximately \$2 million. Goodwill was approximately \$54.6 million at April 30, 2010, compared to approximately \$33.2 million at October 31, 2009. The increase was due to the acquisition of Seismic Engineering.

Current liabilities were \$25.9 million compared to the balance of \$26.3 million at October 31, 2009. The decrease was due to a reduction in bonus accrual and accounts payable, which was offset by an increase in other accrued liabilities related to the fair value of the Seismic contingent consideration. Our bank debt continues to decline such that our short- and long-term balance at April 30, 2010, is approximately \$3.2 million, and we paid dividends of approximately

\$1.7 million during the second quarter of fiscal 2010.

I'd now like to discuss our outlook for the remainder of fiscal year 2010. We anticipate fiscal 2010 revenues of between \$223 million and \$233 million, which include the projected revenues from Seismic. We anticipate a greater portion of our revenues will be derived from development-related contracts which typically return slightly lower profit margins than our product contracts. There are incremental costs associated with our Pyxis acquisition, including retention bonuses which are considered compensation expense, and the amortization of intangibles. These costs can be found in the detailed reconciliation of GAAP to non-GAAP results towards the end of our press release.

I'd note too that we have adopted the revised accounting standard for business combinations during fiscal year 2010, and therefore must expense instead of capitalize any acquisition-related costs. The acquisition costs related to Seismic consist of, A, transaction-related costs. These costs can also be found in the detailed reconciliation of GAAP to non-GAAP results towards the end of our press release. B, compensation expenses estimated at approximately \$1.2 million in FY '10, consisting of retention bonuses and compensation expense related to the potential Seismic earn-out; and C, preliminary estimates of the amortization of intangible assets.

We also continue to aggressively protect our intellectual property and we anticipate increased litigation expenses this year. We also anticipate a fiscal 2010 effective cash rate of somewhere between 38 and 39%, assuming the R&D tax credit is extended. As a reminder, we have a long-term operating income goal of 8 to 11%. While we operated at the high end of this range in fiscal 2009, we anticipate that our fiscal 2010 operating income will be closer to the lower end of that range as a result of the compensation expenses and other factors I just described. Thus, we anticipate operating income in the 18 to \$22 million range, measured on a GAAP basis. With that, I'll now turn the call back over to Bill for his closing remarks.

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Thanks, Jim. We've covered a lot of points this afternoon, so let me summarize the key takeaways for the quarter. Revenues for the quarter showed good growth, increasing 9% over last year. Margins in the core business remain strong, due to excellent program execution, and the difference in earnings from prior periods is a result of acquisition costs and planned reinvestments in the business. We captured new programs and built our book of business at a fast pace, generating results that were more than twice as much as the first quarter and 25% higher than the same period last year.

We continued to successfully integrate our acquires and are now well positioned to be a major competitor in cyber-security. We've extended our capabilities, reinforced our infrastructure, and continue to protect our intellectual property. The growth opportunities in front of us are plentiful and we are prepared to capitalize on our enhanced competitive position and to further advance the underlying technology driving each of our businesses. With that, we'll now open the call for any questions.

Moderator

Thank you. (Instructions.) Your first question comes from the line of Jim McEllery with Merriman, Curran, Ford & Company. Please proceed with your question.

Jim McEllery, Analyst, Merriman Curhan Ford & Company

Thank you. Good afternoon. Can you tell me how many open requisitions you have for personnel outstanding at the current time, either quantity or in terms of where you were last quarter and last year – versus where you were last quarter and last year?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

In total, the number of employees we have in the company is about 900 this year, and last year at this time we were probably closer to in the 700's. So we have quite a few more, mainly due to the acquisitions. But we've also been hiring as well. Most of our open requisitions, Jim, are on the East Coast where we're seeing a lot of demand, particular in the services programs, and I think we have well in excess of 100 open req's still in those programs today.

Jim McEllery, Analyst, Merriman Curhan Ford & Company

Okay. Can you give a sense for the major groupings in terms of revenue? That is, generally speaking how much of the revenue is coming from broadband, sensors, network intel?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Sure. Broadband is about 60% of the business – 60% of revenues are coming from the broadband. A little over 15% are coming from Network Intelligence. A little under 15% are coming from Tactical SIGINT. And about 10% from sensors. Hopefully that adds up to 100, right?

Jim McEllery, Analyst, Merriman Curhan Ford & Company

If it doesn't, I'll just make the last one a plug.

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

I think that's close enough, yes.

Jim McEllery, Analyst, Merriman Curhan Ford & Company

Okay. Then lastly, can you talk a little bit about the integration efforts that you'll need to undertake in order to put together Pyxis, Seismic and then the nascent part that you had within AST to begin with, on the network Intel side?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Sure. We're well into our progress on integration of Pyxis. It's been several months on that. So we've been working to pull those two companies together. The Pyxis and the Heritage AST services business, if you will, are largely integrated at this point in terms of services. One of the recent changes we've had in the last quarter is we rolled out a new services benefit plan to get everybody in our services business on a common benefit structure, and that's been favorably received by that community.

We are just beginning our process of Seismic acquisition. Frankly, we took a little bit different approach, we took a little more measured approach to integrating Seismic in that we're taking six months to understand how Seismic's business – educate Seismic on how AST does business, and we have a team comprised of people from AST, Pyxis and Seismic to go address the concept of culture. That's one of the bigger areas where – particularly when you acquire small companies, where you can fail, and it's an area we're placing a lot of emphasis on. We're getting help from the participants of the teams to do that. So we're really trying to identify the best practices of each of the three companies and to create a new culture leveraging the best of the best.

Jim McEllery, Analyst, Merriman Curhan Ford & Company

Okay, that's helpful, thank you.

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

You bet.

Moderator

Thank you. Our next question is from the line of Brian Ruttener with Morgan Keegan and Company. Please proceed with your question.

Brian Ruttener, Analyst, Morgan Keegan & Company

Thank you very much. I just had a question about your balance sheet. Where is it now currently in June? Maybe you can talk about where you expect your cash balances to be at the end of the year, your cash and debt.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Let me start with the easier ones first. As far as debt at the end of the year, we do anticipate the continued pay-down of our debt. Our debt is a little over \$3 million, and we are making payments on that and will continue to be able to service that debt for the rest of the year.

Brian Ruttener, Analyst, Morgan Keegan & Company

Does that mean it's going to be zero at the end of the year – I'm sorry, on the debt?

Jim Doyle, CFO, Applied Signal Technology, Inc.

No. It runs at a rate of about \$1.4 million pay-down of that debt, \$1.4 million annually, so we probably have about another year left after we get through this year. Then, I'm not sure, your question on the balance sheet. What we've reported here are reviewed financial statements, so I'm not sure I understand your question about the June balance sheet.

Brian Ruttener, Analyst, Morgan Keegan & Company

There isn't a June balance sheet, I understand that. I'm asking you how much cash and debt do you have right now.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Oh, I'm sorry, yes, okay. Cash stays about the same level. We finished the quarter at about \$21 million in cash. We're at about a similar cash level. Then the debt is just paid down slightly over the last two months, so it's a similar debt level.

Brian Ruttener, Analyst, Morgan Keegan & Company

Okay, so nothing has changed dramatically.

Jim Doyle, CFO, Applied Signal Technology, Inc.

No.

Brian Ruttener, Analyst, Morgan Keegan & Company

And by year-end, you expect to have your debt down to about \$1.6 million or somewhere around there?

Jim Doyle, CFO, Applied Signal Technology, Inc.

Actually it's going to be a little bit higher. We pay at a rate of about \$1.4 million annually, so it's whatever – I don't have that in front of me – but whatever the monthly rate is. So the 3.2 will go down some, and then as far as our cash balances, we do anticipate cash will increase over the remainder of the fiscal year.

Brian Rутtenber, Analyst, Morgan Keegan & Company

Okay. Do you have a number that you expect to end with on cash? \$25 million, \$30 million?

Jim Doyle, CFO, Applied Signal Technology, Inc.

Brian, I don't want to go into the specific details, but I think we do have a good chance of being in excess of \$25 million in cash.

Brian Rутtenber, Analyst, Morgan Keegan & Company

Okay. And do you consider Seismic acquisition totally integrated at this point, or do you have a lot more to do?

Jim Doyle, CFO, Applied Signal Technology, Inc.

I'll let Bill answer that.

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Brian, no, we just started the Seismic integration. We're going to take this period over the next six months to create the best practices, as I was discussing in response to Jim's question, and at that point we'll really begin the integration in earnest, such that that business, the Seismic business, will be fully integrated probably about six months later.

Brian Rутtenber, Analyst, Morgan Keegan & Company

Okay. Is there a lot of cost involved in that integration?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

No, there's not much cost. They have one building that they occupy. Probably in six months we'll talk about consolidation of buildings. I think their lease is up by then. But there's no substantial cost associated with the integration.

Brian Rутtenber, Analyst, Morgan Keegan & Company

Okay. Thank you very much.

Moderator

Our next question is from the line of Irene Karkoff, private investor. Please proceed with your question.

Irene Karkoff, Private Investor

I was wondering if you can comment on – we hear that Argon is sort of up for sale and there's three potential bidders looking at it. Are you worried that whoever doesn't get it will come after Applied Signal?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

We're certainly aware of acquisitions in the marketplace, Irene. We realize that going forward in the future as the defense industry sees some flattening, it's often a period where there is consolidation. I'm not in a position where I can obviously comment on Argon, not being either a member of that management team or even a shareholder on it, but they're a well-run company. I think to the extent that there is consolidation in the marketplace, we see that as an opportunity for our company because there are very few companies like us and like the Argons of the world, and if there were a reduction in the number of companies in that space, it creates more opportunity for those that remain.

Irene Karkoff, Private Investor

I see. So you don't think that the entry of sort of a larger, well capitalized competitor should change your position all that much?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

I don't think so. I think it actually creates a market space for us, because we all supply fairly unique equipment to a broad industry community, both government and industry partners. And if one of those suppliers goes away, then the remaining government and industry suppliers have to go search for other sources, and we think that may create some more opportunity for us, if something like that were to occur, of course.

Irene Karkoff, Private Investor

Right. Excellent. Thank you very much.

Moderator

Thank you. Our next question is from the line of Michael Lewis with BB&T Capital Markets. Please proceed with your question.

Jeremy Devaney, Analyst, BB&T Capital Markets

Good evening, gentlemen. This is Jeremy Devaney on for Mike Lewis. Thanks for taking the call. The first question is regarding stock comp expense. Jim, could you break out for us the allocation to contract cost R&D and G&A on the stock comp expense?

Jim Doyle, CFO, Applied Signal Technology, Inc.

I can, Jeremy. I just have to take a second and find it. I have a copy of it in the queue. What I can help you with is stock comp expense was about \$500K for the quarter – here we go. Total stock comp expense for the quarter was a little over \$500,000. Year to date is a little over a million. It breaks out, contract costs, stock comp expense for the quarter, we're about \$300K. R&D was about \$12K, and then G&A was about \$190K, so that should come up to about \$500K. Do you need a year-to-date?

Jeremy Devaney, Analyst, BB&T Capital Markets

No, just the quarter number is fine for me. Then also just another accounting number; I think I missed it. What was the ending backlog in the quarter?

Jim Doyle, CFO, Applied Signal Technology, Inc.

It's about \$160 million.

Jeremy Devaney, Analyst, BB&T Capital Markets

All right, excellent. Then lastly, given that you guys just executed this transaction with Seismic, could you comment on the M&A environment, how you're seeing pricing? Is it becoming more rational? Are there many targets out there for you guys, or companies in the SIGINT space?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

We still see a number of attractive targets in the opportunities that we're interested in. We tend to be interested in smaller opportunities than some of the larger companies, although we see some competition even from the large companies among smaller companies, depending on the space that they're in. Some of the markets, in particular the cyber-security market, the valuations are pretty rich right now and so we have to be very focused and very diligent in our assessments and evaluation to make sure that we believe they can add long-term shareholder value to us in doing that. So if you're looking at those key markets of ISR and cyber-security, I'd say those two markets are pretty hot right now. There's a lot of competitors and it really puts more emphasis on companies having to do their homework to again make sure we can get the results out that we paid for.

Jeremy Devaney, Analyst, BB&T Capital Markets

Excellent. Thank you very much.

Moderator

Thank you. Our next question comes from Ed Keller with Oppenheimer Company, Inc. Please proceed with your question.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Nice quarter. Thanks for taking my call. I have a question on the backlog and the bookings. It looks like the implied bookings is a little bit higher than the bookings that you gave in the press release, and I'm wondering, is the difference there the acquisition?

Jim Doyle, CFO, Applied Signal Technology, Inc.

I'm sorry, Ed, say that again?

Ed Keller, Analyst, Oppenheimer Company, Inc.

I'm just looking at the backlog at 160. Where was it at the first quarter? Was it about 120?

Jim Doyle, CFO, Applied Signal Technology, Inc.

It was about \$121 million. Seismic also brought backlog to us.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Okay, so the delta is Seismic, then?

Jim Doyle, CFO, Applied Signal Technology, Inc.

It's a combination of Seismic as well as the fact that we had a book to bill of greater than one. We booked over \$70 million and recognized revenue of about \$58 million, so that also increased backlog, that combination, those two things.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Okay, so the bookings number doesn't include what Seismic brought to the table.

Jim Doyle, CFO, Applied Signal Technology, Inc.

That's correct, because we didn't actually book anything in Seismic in the last two days, but we had their backlog on our books by the end of the quarter.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Got it, okay, super. And then could you talk to the litigation expense? I don't think that you gave an amount there. Is there any color that you can provide on where you're at there and how to think about that in terms of size or how it's going to flow in the quarters?

Jim Doyle, CFO, Applied Signal Technology, Inc.

Sure. Let me try and give you some color around what we're trying to do in the process. We are working with our attorneys to try and get to the next step, which is a claims construction process where you review the claims filed by all parties, so that's the next major step. We're going through that right now. We anticipate that we'll go through that through the remainder of the calendar year, and all parties, AST in conjunction with ComTec as well as the other parties that are involved will all be working through that process.

I'm a little hesitant, Ed, to talk about the actual costs right now. There are issues there that we care not to discuss right now, but I'd at least try and give you some idea that another significant event will occur by the end of December, and so we'll know more at that time as to what future costs might be incurred in FY '11 and beyond. But we'll see how things go through this next step in the process.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Okay. Then, the last couple of years, the third quarter has been pretty strong from a cash point of view. Is there any reason to think that that won't occur also this year?

Jim Doyle, CFO, Applied Signal Technology, Inc.

We don't have any indication right now that that won't occur.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Okay. Then, the last one: Could you talk a little bit to R&D and how you expect that to flow through the third and fourth quarter? And that's my last question. Thank you.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Sure. As far as spending?

Ed Keller, Analyst, Oppenheimer Company, Inc.

Yes.

Jim Doyle, CFO, Applied Signal Technology, Inc.

We do anticipate it to run at a similar percentage of revenues than it's been running through the first part of this year. We have a good robust R&D program going and we have a number of projects lined up. We want to continue those and finish those off this year, so we think that R&D spending will stay at a similar range as it had been for the first half of the year.

Ed Keller, Analyst, Oppenheimer Company, Inc.

Okay, thank you.

Moderator

Thank you. Our next question is from the line of Matt Fuerger, Raymond James. Please proceed with your question.

Matt Fuerger, Analyst, Raymond James

Congrats on the quarter, guys. I have just a couple of quick one-off questions first. With regards to the Seismic acquisition, I guess it was mentioned that the costs were not – in terms of just trying to get a sense of what the transaction-related or non-GAAP related expenses, how they might progress in the coming quarters with that acquisition.

Jim Doyle, CFO, Applied Signal Technology, Inc.

Let me try and highlight that. What we showed you with the press release was the reconciliation of GAAP to non-GAAP results. What you can see, the first item there is transaction costs of approximately \$900,000. Those are the legal and accounting costs required to make the transaction happen. The amortization of intangibles, those are essentially related to the Pyxis acquisition. There's still some residual DTI intangibles in there. Those intangibles costs will increase because we will be required to amortize the intangibles associated with Seismic.

The compensation expense of approximately \$145,000 or approximately \$300,000 through the first six months, that compensation expense is all related to retention bonuses for Pyxis Engineering. That compensation expense will increase as a result of the Seismic compensation expenses, and there's two parts to the Seismic compensation expense: One is a retention bonus to the Seismic employees; the other is compensation expense related to achieving the potential earn-out. To kind of recap real quickly, the transaction costs won't increase for the remainder of this year, but the amortization of intangibles will, and then the compensation expenses will.

Matt Fuerger, Analyst, Raymond James

Okay, that's helpful. I guess I'm just trying to get a sense of, obviously, the Seismic acquisition is decent in size. I'm just trying to get a sense of rough amount I guess with relative increase, if that's still available.

Jim Doyle, CFO, Applied Signal Technology, Inc.

I can help you some on the Seismic costs. For FY '10 we reported roughly \$910K for transaction-related costs. Compensation expenses we anticipate to be about \$1.2 million for FY '10, and that includes a little over – about half of that is for retention bonuses and then the other half is for the compensation expense related to the potential Seismic earn-out. Then the last part is the amortization of intangibles, which we currently anticipate to be about \$500,000 for FY '10. That's a preliminary estimate, as we've just gotten a valuation analysis just in the last few weeks, and so we've

recorded a little over \$510,000 for the intangible assets related to Seismic. But that's our original estimate and it's preliminary; it could change. We don't anticipate it would change much, but it could change slightly.

Matt Fuerger, Analyst, Raymond James

Okay, enough with the accounting questions on my end, I guess. Just a couple of questions with regards to some of your programs. I know that Tiffany, I guess the follow-on is supposed to be on track for about 3Q or the second half of the year. Is that still accurate? Also with the new Thunder Dome kind of opportunity; is that still in the back half of the year or is that still on track?

Bill Van Vleet, CEO, Applied Signal Technology, Inc.

Yes, Matt. The Tiffany follow-on we are currently proposing, and we have received the RFP. It's due for award in this third quarter, and the value of that could be between \$175 million and \$230 million, somewhere in that value, for five years. Again, an IDIQ contract, so it wouldn't all book at once, obviously. So we'd book as task quarters are awarded. And the Thunder Dome too, we also expect that to hit in the third quarter as well.

Matt Fuerger, Analyst, Raymond James

Okay, that's helpful. My final question is on the SIGINT side and maybe just some talk around what's going on with the RAIDER, if there's any incremental conversations you might have had with the customers winbsp;

Balance, December 31, 2008

\$89,270 \$87,182,281 \$(7,052,230) \$- \$52,055,071 \$(5,311,666) \$126,962,726

Comprehensive income:

Net income

4,657,975 4,657,975

Change in unrealized loss on securities available for sale, net of taxes

3,526,347 3,526,347

Total comprehensive income

8,184,322

Cumulative effect adjustment (see Note 3)

702,772 702,772

Cost of issuance of common stock

(13,895) (13,895)

Common stock purchased for recognition and retention plan

(4,057,177) (4,057,177)

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ESOP shares released for allocation

28,011 267,810 295,821

Share-based compensation cost

518,118 518,118

Balance, September 30, 2009

\$89,270 \$87,714,515 \$(6,784,420) \$(4,057,177) \$57,415,818 \$(1,785,319) \$132,592,687

The accompanying Notes are an integral part of these Financial Statements.

Table of Contents**HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	For the Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 4,657,975	\$ 3,514,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	709,210	161,437
Depreciation	659,362	606,361
Mortgage servicing amortization	9,747	16,497
Federal Home Loan Bank stock dividends	(3,900)	(25,400)
Gain on sale of fixed assets, net	(400)	-
Amortization of premium/discount on investments, net	(567,120)	1,313,376
Gains on loans sold, net	(420,441)	(192,553)
Proceeds, including principal payments, from loans held for sale	60,360,305	25,344,755
Originations of loans held for sale	(61,003,717)	(24,258,752)
Non-cash compensation	813,939	-
Deferred income tax provision (benefit)	644,912	(32,739)
Increase in accrued interest receivable and other assets	(1,789,875)	(1,149,016)
Increase in cash surrender value of bank-owned life insurance	(192,845)	(194,857)
Increase in accrued interest payable and other liabilities	1,241,649	6,262,374
Net cash provided by operating activities	5,118,801	11,366,172
Cash flows from investing activities		
Purchases of available-for-sale investment securities	(11,432,148)	(38,272,266)
Purchases of held-to-maturity investment securities	(8,150,000)	-
Proceeds from payments on available-for-sale investment securities	27,596,446	13,068,462
Proceeds from maturities and calls of available-for-sale investment securities	-	2,000,000
Proceeds from payments on held-to-maturity investment securities	863,387	816,989
Decrease (increase) in cash invested at other ATM locations	15,441,184	(3,554,426)
Net increase in loans	(4,697,436)	(9,067,010)
(Increase) decrease in interest-bearing deposits in banks	(1,465,000)	2,475,000
Proceeds from sale of real estate owned	36,515	3,710
Purchases of Federal Home Loan Bank stock	-	(1,325,100)
Proceeds from redemption of Federal Home Loan Bank stock	655,900	-
Proceeds from sale of properties and equipment	400	-
Purchases of office properties and equipment	(643,244)	(2,408,486)
Net cash provided by (used in) investing activities	18,206,004	(36,263,127)
Cash flows from financing activities		
Increase (decrease) in deposits	22,490,408	(60,217)
Proceeds from Federal Home Loan Bank advances	561,600,000	424,900,000
Payments on Federal Home Loan Bank advances	(586,141,769)	(425,940,014)
Cost of issuance of common stock	(13,895)	-
Repurchase of common stock for recognition and retention plan	(4,057,177)	-
Cash received for common stock subscriptions	-	74,640,116
Net cash (used in) provided by financing activities	(6,122,433)	73,539,885

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Net increase in cash and cash equivalents	17,202,372	48,642,930
Cash and cash equivalents at beginning of period	20,150,248	11,746,082
Cash and cash equivalents at end of period	\$ 37,352,620	\$ 60,389,012

The accompanying Notes are an integral part of these Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Home Bancorp, Inc., a Louisiana corporation (the Company), was organized by Home Bank (the Bank) in May 2008 to facilitate the conversion of the Bank from the mutual to the stock form (the Conversion) of ownership. The Conversion was completed on October 2, 2008, at which time the Company became the holding company for the Bank, with the Company owning all of the issued and outstanding shares of the Bank's common stock. Shares of the Company's common stock were issued and sold in an offering to certain depositors of the Bank and others. The Company was newly organized and owned no assets during any period prior to October 2, 2008. Therefore, the financial information for any period prior to October 2, 2008 presented in this report is that of the Bank only.

The accompanying unaudited financial statements of the Company were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the nine-month period ended September 30, 2009, are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2008.

In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company's financial condition, results of operations, changes in equity and cash flows for the interim periods presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. Such reclassifications had no effect on previously reported equity or net income.

2. Accounting Developments

In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-01, *Topic 105 – Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. ASU 2009-01 amends the FASB Accounting Standards Codification (ASC) for the issuance of FASB Statement (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. ASU 2009-1 includes SFAS 168 in its entirety, including the accounting standards update instructions contained in Appendix B of the Statement. The FASB Accounting Standards Codification™ (Codification) became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. As of the effective date of this Statement, September 15, 2009, the Codification supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification is no longer authoritative. This Statement is effective for the Company's financial statements beginning in the interim period ended September 30, 2009.

Following this Statement, the FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force (EITF) Abstracts. Instead, it now issues Accounting Standards Updates. The FASB does not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Upon becoming effective, all of the content of the Codification carries the same level of authority, effectively superseding SFAS 162. In other words, the GAAP hierarchy has been modified to include only two levels of GAAP: authoritative and non-authoritative. As a result, this Statement replaces SFAS 162 to indicate this change to the GAAP hierarchy. The adoption of the Codification and ASU 2009-01 did not have any effect on the Company's results of operations or financial position. All references to accounting literature included in the notes to the financial statements have been changed to reference the appropriate sections of the Codification.

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In June 2009, the FASB issued Accounting Standards Update No. 2009-02, *Omnibus Update – Amendments to Various Topics for Technical Corrections*. The adoption of ASU 2009-02 did not have a material effect on the Company's results of operations, financial position or disclosures.

In August 2009, the FASB issued Accounting Standards Update No. 2009-03, *SEC Update – Amendments to Various Topics Containing SEC Staff Accounting Bulletins*. ASU 2009-03 represents technical corrections to various topics containing SEC Staff Accounting Bulletins to update cross-references to Codification text. This ASU did not have a material effect on the Company's results of operations, financial position or disclosures.

In August 2009, the FASB issued Accounting Standards Update No. 2009-04, *Accounting for Redeemable Equity Instruments – Amendment to Section 480-10-S99*. ASU 2009-04 represents an update to Section 480-10-S99, *Distinguishing Liabilities from Equity*, per Emerging Issues Task Force Topic D-98, *Classification and Measurement of Redeemable Securities*. ASU 2009-04 did not have a material effect on the Company's results of operations, financial position or disclosures.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value*. ASU 2009-05 applies to all entities that measure liabilities at fair value within the scope of ASC Topic 820. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

- 1) A valuation technique that uses:
 - a. The quoted price of the identical liability when traded as an asset
 - b. Quoted prices for similar liabilities or similar liabilities when traded as assets.
- 2) Another valuation technique that is consistent with the principles of ASC Topic 820. Two examples would be an income approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

The amendments in ASU 2009-5 also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. It also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance provided in ASU 2009-5 is effective for the Company in the fourth quarter of 2009. Because the Company does not currently have any liabilities that are recorded at fair value, the adoption of this guidance will not have any impact on the Company's results of operations, financial position or disclosures.

In September 2009, the FASB issued Accounting Standards Update No. 2009-06, *Income Taxes (Topic 740) – Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. ASU 2009-06 provides additional implementation guidance on accounting for uncertainty in income taxes by addressing 1) whether income taxes paid by an entity are attributable to the entity or its owners, 2) what constitutes a tax position for a pass-through entity or a tax-exempt not-for-profit entity, and 3) how accounting for uncertainty in income taxes should be applied when a group of related entities comprise both taxable and nontaxable entities. ASU 2009-06 also eliminates certain disclosure requirements for nonpublic entities. The guidance and disclosure amendments included in ASU 2009-06 were effective for the Company in the third quarter of 2009 and had no impact on the Company's results of operations, financial position or disclosures.

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Summary information regarding investment securities classified as available for sale and held to maturity as of September 30, 2009 and December 31, 2008 follows.

<i>(dollars in thousands)</i>	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 1 Year	Over 1 Year	
September 30, 2009					
Available for sale:					
U.S. agency mortgage-backed	\$ 63,262	\$ 1,864	\$ 2	\$ 1	\$ 65,123
Non-U.S. agency mortgage-backed	44,493	349	665	4,250	39,927
Total available for sale	\$ 107,755	\$ 2,213	\$ 667	\$ 4,251	\$ 105,050
Held to maturity:					
U.S. agency mortgage-backed	\$ 4,008	\$ 54	\$ -	\$ -	\$ 4,062
Municipal bonds	1,364	84	-	-	1,448
U.S. government agency securities	6,000	6	3	-	6,003
Total held to maturity	\$ 11,372	\$ 144	\$ 3	\$ -	\$ 11,513

⁽¹⁾ Net of other than temporary impairment charges.

<i>(dollars in thousands)</i>	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 1 Year	Over 1 Year	
December 31, 2008					
Available for sale:					
U.S. agency mortgage-backed	\$ 71,175	\$ 613	\$ 307	\$ 1	\$ 71,480
Non-U.S. agency mortgage-backed	51,108	56	8,339	70	42,755
Total available for sale	\$ 122,283	\$ 669	\$ 8,646	\$ 71	\$ 114,235
Held to maturity:					
U.S. agency mortgage-backed	\$ 2,545	\$ 25	\$ -	\$ -	\$ 2,570
Municipal bonds	1,544	25	5	-	1,564
Total held to maturity	\$ 4,089	\$ 50	\$ 5	\$ -	\$ 4,134

⁽¹⁾ Net of other than temporary impairment charges.

The amortized cost and estimated fair value by maturity of investment securities at September 30, 2009 are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. The expected maturity of a security, in particular certain U.S. agency securities and obligations of states and political subdivisions, may differ from its contractual maturity because of the exercise of call options. Accordingly, actual maturities may differ from contractual maturities.

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<i>(dollars in thousands)</i>	One Year or Less	One Year to Five Years	Five to Ten Years	Over Ten Years	Total
Fair Value					
Securities available for sale:					
U.S. agency mortgage-backed	\$ -	\$ 5,066	\$ 1,768	\$ 58,289	\$ 65,123
Non-U.S. agency mortgage-backed	-	-	3,883	36,044	39,927
Total available for sale	-	5,066	5,651	94,333	105,050
Securities held to maturity:					
U.S. agency mortgage-backed	-	1,973	2,089	-	4,062
Municipal bonds	-	640	808	-	1,448
U.S. government agency securities	-	-	6,003	-	6,003
Total held to maturity	-	2,613	8,900	-	11,513
Total investment securities	\$ -	\$ 7,679	\$ 14,551	\$ 94,333	\$ 116,563

<i>(dollars in thousands)</i>	One Year or Less	One Year to Five Years	Five to Ten Years	Over Ten Years	Total
Amortized Cost					
Securities available for sale:					
U.S. agency mortgage-backed	\$ -	\$ 4,926	\$ 1,671	\$ 56,665	\$ 63,262
Non-U.S. agency mortgage-backed	-	-	3,805	40,688	44,493
Total available for sale	-	4,926	5,476	97,353	107,755
Securities held to maturity:					
U.S. agency mortgage-backed	-	1,924	2,084	-	4,008
Municipal bonds	-	605	759	-	1,364
U.S. government agency securities	-	-	6,000	-	6,000
Total held to maturity	-	2,529	8,843	-	11,372
Total investment securities	\$ -	\$ 7,455	\$ 14,319	\$ 97,353	\$ 119,127

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic and market conditions warrant such evaluations. Consideration is given to (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost, which may extend to maturity and its ability and intent to hold the security for a period of time that allows for the recovery in value in the case of equity securities.

The FASB's ASC Topic on Debt and Equity Securities was updated recently to provide additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. Upon adoption of the new guidance on April 1, 2009, the Company recognized a cumulative effect adjustment in retained earnings from accumulated other comprehensive income to reclassify other than temporary impairments previously taken under the former authoritative accounting guidance for securities held as of April 1, 2009. In accordance with the guidance, the Company determined that of the \$2,833,000 in other than temporary impairments previously recorded in earnings on investments available for sale as of April 1, 2009, \$1,065,000 of these impairments are not considered other than temporary. As a result, the Company increased the amortized cost basis of these investments available for sale by \$1,065,000. The cumulative effect adjustment resulted in a decrease in accumulated other comprehensive income and an increase in retained earnings totaling \$703,000 (net of tax). The

cumulative effect adjustment had no net effect on the Company's shareholders' equity or previously reported net income.

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The Company developed a process to identify securities that could potentially have a credit impairment that is other than temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, bond credit support, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. The Company performs a credit analysis based on different credit scenarios at least quarterly to detect impairment on its investment securities. When the Company determines that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

4. Earnings Per Share

Earnings per common share were computed based on the following:

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Numerator:				
Income applicable to common shares	\$ 1,497	\$ 1,392	\$ 4,658	\$ 3,515
Denominator:				
Weighted average common shares outstanding	8,532	N/A	8,295	N/A
Effect of dilutive securities:				
Stock options	32	N/A	12	N/A
Weighted average common shares outstanding assuming dilution	8,564	N/A	8,307	N/A
Earnings per common share	\$ 0.18	N/A	\$ 0.57	N/A
Earnings per common share assuming dilution	\$ 0.17	N/A	\$ 0.56	N/A

Options on 815,080 shares of common stock were not included in computing diluted earnings per shares for the three and nine months ended September 30, 2009 because the effect of these shares was anti-dilutive. The Company completed its initial public stock offering (IPO) on October 2, 2008 and began trading on the Nasdaq Global Market on October 3, 2008. Therefore, no shares were outstanding during the first nine months of 2008.

5. Fair Value Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC. Under this guidance, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

A description of the valuation methodologies used for instruments measured at fair value follows, as well as the classification of such instruments within the valuation hierarchy.

Securities are classified within Level 1 where quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are unavailable, fair

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value is estimated using pricing models or quoted prices of securities with similar characteristics, at which point the securities would be classified within Level 2 of the hierarchy. Examples may include certain collateralized mortgage obligations. The Company's investment portfolio does not include Level 3 securities as of September 30, 2009.

The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

<i>(dollars in thousands)</i>	September 30, 2009	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. agency mortgage-backed	\$ 65,123	\$ -	\$ 65,123	\$ -
Non-U.S. agency mortgage-backed	\$ 39,927	\$ -	\$ 39,927	\$ -

The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

Certain assets and liabilities are measured at fair value on a non-recurring basis and therefore are not included in the table above. Impaired loans are level 2 assets measured using appraisals from third parties of the collateral less any prior liens. As of September 30, 2009, the fair value of impaired loans was \$1,461,000.

The FASB ASC Topic on Financial Instruments requires the disclosure of each class of financial instruments for which it is practicable to estimate. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Topic on Financial Instruments excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The carrying value of cash and cash equivalents, short-term investments, and cash invested at ATM locations approximate their fair value.

The fair value for investment securities is determined from quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

The carrying value of FHLB stock approximates fair value based upon the redemption provisions of the FHLB.

The fair value of demand deposits, savings, and interest-bearing demand deposits is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for certificates of similar remaining maturities.

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The carrying amount of the FHLB advances is estimated using the rates currently offered for advances of similar maturities.

The fair value of off-balance sheet financial instruments as of September 30, 2009 was immaterial.

<i>(dollars in thousands)</i>	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 37,353	\$ 37,353	\$ 20,150	\$ 20,150
Certificates of deposit in other institutions	3,150	3,150	1,685	1,685
Cash invested at other ATM locations	8,803	8,803	24,244	24,244
Investment securities	116,422	116,563	118,325	118,369
Loans and mortgage loans held for sale, net	339,011	347,686	333,959	343,293
FHLB stock	1,433	1,433	2,085	2,085
Financial Liabilities:				
Deposits	\$ 376,636	\$ 373,068	\$ 354,145	\$ 356,865
Short-term FHLB borrowings	-	-	21,500	21,500
Long-term FHLB debt	19,879	18,861	22,921	22,921

6. Share-based Payment Arrangements

The Company's shareholders approved the 2009 Stock Option Plan and the 2009 Recognition and Retention Plan on May 12, 2009 to provide incentives and awards for directors, officers, and employees of the Company and its subsidiary. These plans are administered by a committee appointed by the Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions and other provisions of the awards. In accordance with the requirements of the FASB ACS Topic on Stock Compensation, the Company has adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period.

Stock Option Plan

The Company issues stock options under the 2009 Stock Option Plan to directors, officers and other key employees. The option exercise price cannot be less than the fair value of the underlying common stock as of the date of the option grant and the maximum option term cannot exceed ten years. The stock options granted were issued with vesting periods of five years. The maximum number of shares issuable under the 2009 Stock Option Plan is 892,687, subject to adjustment. As of September 30, 2009, options had been granted under the 2009 Stock Option Plan for 815,080 shares.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. This model requires management to make certain assumptions, including the expected life of the option, the risk-free rate of interest, the expected volatility, and the expected dividend yield. The following assumptions were made in estimating 2009 fair values:

Expected dividends	1.5%
Expected volatility	34.3%
Risk-free interest rate	2.5%
Expected term (in years)	6.5

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At September 30, 2009, there was \$2,599,000 of unrecognized compensation cost related to stock options which is expected to be recognized over a period of 4.6 years.

For the three and nine months ended September 30, 2009, the Company recognized \$142,000 and \$219,000 in compensation cost related to stock options, respectively, which is included in compensation and benefits expense in the accompanying consolidated statements of income.

The following table represents stock option activity for the nine months ended September 30, 2009 is presented below:

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2009	-	\$ -	-	\$ -
Granted	815,080	11.45		587,000
Outstanding at September 30, 2009	815,080	\$ 11.45	9.6	\$ 587,000
Exercisable at September 30, 2009	-	\$ -	-	\$ -

Recognition and Retention Plan

In May 2009, the shareholders of the Company approved the 2009 Recognition and Retention Plan (the "RRP"). A total of 357,075 shares of the Company's outstanding common stock, or 4% of total shares outstanding, were approved for restricted stock awards under the RRP. During 2009, the Company purchased in the open market all shares required to fund the RRP at an average cost of \$11.81 per share. At September 30, 2009, the cost of such shares held by the RRP totaled \$4,057,000, which is included in the Company's unallocated common stock held by the RRP on the consolidated statements of financial condition.

The Company issues restricted stock under the RRP for directors, officers and other key employees. The RRP allows for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The holders of the restricted stock have the right to vote the shares as awards are earned. The unearned compensation related to these awards is amortized to compensation expense over the five-year vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company's common stock at the date of grant applied to the total number of shares granted and is amortized over the vesting period. As of September 30, 2009, unearned share-based compensation associated with these awards totaled \$3,544,000.

For the three and nine months ended September 30, 2009, the Company recognized \$193,000 and \$299,000 in compensation cost related to restricted stock grants, respectively, which is included in compensation and benefits expense in the accompanying consolidated financial statements.

The following table represents unvested restricted stock activity for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance, beginning of year	-	-	-	-
Granted	-	-	335,600	-
Balance, end of period	-	-	335,600	-

7. Subsequent Events

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The Company evaluated the need for disclosures and/or adjustments resulting from subsequent events through November 13, 2009, the date the financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments under general accounting standards.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Home Bancorp, Inc. and its subsidiary, Home Bank, from December 31, 2008 to September 30, 2009 and on its results of operations for the three and nine months ended September 30, 2009 and September 30, 2008. Home Bancorp, Inc. was newly organized and owned no assets during any period prior to October 2, 2008. Therefore, the financial information for any period prior to October 2, 2008 presented in this report is that of Home Bank only. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the financial statements and related notes appearing in Item 1.

Forward-Looking Statements

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company or Bank, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management's current information, estimates and assumptions and the current economic environment, are generally identified by the use of the words plan, believe, expect, intend, anticipate, estimate, project or similar expressions. The Company and the Bank's actual strategies and results in future periods may differ materially from those currently expected due to various risks and uncertainties. Factors that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the risk factors described under the heading Risk Factors in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2008.

EXECUTIVE OVERVIEW

During the third quarter of 2009, the Company earned \$1.5 million, representing a \$105,000, or 7.6%, increase compared to the third quarter of 2008. For the nine months ended September 30, 2009, net income was \$4.7 million, an increase of \$1.1 million, or 32.5%, over net income for the nine months ended September 30, 2008. Diluted earnings per share were \$0.17 and \$0.56 for the three and nine months ended September 30, 2009, respectively. No shares were outstanding during the first nine months of 2008. Key components of the Company's performance in the third quarter of 2009 are summarized below.

Assets totaled \$533.4 million at September 30, 2009, up \$5.0 million, or 0.9%, from December 31, 2008. The increase was primarily driven by commercial loan growth.

Loans totaled \$340.2 million at September 30, 2009, an increase of \$4.7 million, or 1.4%, from December 31, 2008. The Company's loan mix continues to change as commercial loan balances have grown, while 1-4 family mortgage loans have decreased. Commercial loans (including commercial real estate, construction and land, multi-family residential, and other commercial loans) increased by an aggregate of \$14.1 million, or 8.8%, during the first nine months of 2009.

Customer deposits totaled \$376.6 million at September 30, 2009, an increase of \$22.5 million, or 6.4%, from December 31, 2008. Core deposits (i.e., demand deposit, money market and savings accounts) experienced strong growth in the first nine months of 2009, increasing \$17.6 million, or 8.9%.

Interest income increased \$739,000, or 10.7%, in the third quarter of 2009, compared to the third quarter of 2008. For the nine months ended September 30, 2009, interest income increased \$2.8 million, or 14.0%, compared to the nine months ended September 30, 2008. The increases in the three and nine months ended September 30, 2009 were primarily due to increases in the average balances of interest-earning assets, particularly loans and investment securities, which more than offset decreases in the average yields earned on loans and other interest-earning assets.

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Interest expense decreased \$598,000, or 27.7%, for the third quarter of 2009, compared to the third quarter of 2008. For the nine months ended September 30, 2009, interest expense decreased \$2.2 million, or 30.7%, compared to the nine months ended September 30, 2008. The decreases in the three and nine months ended September 30, 2009 were primarily due to decreases in the average rate paid on interest-bearing liabilities as a result of reduced market rates of interest and changes in the composition of our interest-bearing liabilities.

The provision for loan losses totaled \$287,000 for the third quarter of 2009, an increase of \$195,000 compared to the third quarter of 2008. For the nine months ended September 30, 2009, the provision for loan losses increased \$548,000 from the nine months ended 2008. As of September 30, 2009, the allowance for loan losses as a percentage of total loans was 0.96%, compared to 0.78% at December 31, 2008. Net charge-offs for the first nine months of 2009 were \$43,000, compared to \$85,000 for the same period of 2008.

Noninterest income increased \$138,000, or 17.0%, in the third quarter of 2009, compared to the third quarter of 2008. For the nine months ended September 30, 2009, noninterest income increased \$503,000, or 20.9%, compared to the same period in 2008. The increases were primarily the result of increased gains on the sale of mortgage loans and higher levels of bank card fees and service fees and charges on deposit accounts.

Noninterest expense for the third quarter of 2009 increased \$1.3 million, or 39.2%, compared to the same quarter a year ago. In the nine-month comparison, noninterest expense increased \$3.3 million, or 33.0%, from 2008 to 2009. Noninterest expense levels have increased over the past year due primarily to increased compensation and benefits expense resulting from our Baton Rouge expansion, where two full-service banking offices were opened during the second half of 2008, as well as expense related to the employee stock ownership plan (ESOP) and the stock option and recognition and retention plans. Additionally, noninterest expense for the nine months ended September 30, 2009 includes the FDIC s special assessment of \$200,000 that the Company accrued in the second quarter.

FINANCIAL CONDITION**Loans, Asset Quality and Allowance for Loan Losses**

Loans The loan portfolio increased \$4.7 million, or 1.4%, during the first nine months of 2009. The following table shows the composition of the Company s loan portfolio as of the dates indicated.

<i>(dollars in thousands)</i>	September 30,	December 31,	Increase (Decrease)	
	2009	2008	Amount	Percent
Real estate loans:				
One- to four-family first mortgage	\$ 125,157	\$ 138,173	\$ (13,016)	(9.4)%
Home equity loans and lines	24,258	23,127	1,131	4.9
Commercial real estate	91,964	84,096	7,868	9.4
Construction and land	42,619	35,399	7,220	20.4
Multi-family residential	6,077	7,142	(1,065)	(14.9)
Total real estate loans	290,075	287,937	2,138	0.7
Other loans:				
Commercial	34,521	34,434	87	0.3
Consumer	15,626	13,197	2,429	18.4
Total other loans	50,147	47,631	2,516	5.3
Total loans	\$ 340,222	\$ 335,568	\$ 4,654	1.4%

Commercial real estate loan growth during 2009 has primarily been driven by loans on owner-occupied office buildings in the Bank s market areas. Construction and land loan growth during the year is primarily attributable to loans to builders on pre-sold single-family residential properties in the Bank s market areas. Consumer loan growth in 2009 relates primarily to mobile home loans.

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Asset Quality One of management's key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new loan originations, the Company proactively monitors loans and collection and workout processes of delinquent or problem loans. When a borrower fails to make a scheduled payment, the Company attempts to cure the deficiency by making personal contact with the borrower. Initial contacts are generally made within 10 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. Loans which are designated as special mention, classified or which are delinquent 90 days or more are reported to the Board of Directors of the Company monthly. For loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases. It is our policy, with certain limited exceptions, to discontinue accruing interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Real estate which is acquired as a result of foreclosure is classified as foreclosed property until sold. Foreclosed property is recorded at the lower of cost, which is the carrying value of the loan, or fair value less estimated selling costs. Costs associated with acquiring and improving a foreclosed property are usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial real estate, multi-family residential, construction and land, and commercial business loans are individually evaluated for impairment. As of September 30, 2009 and December 31, 2008, impaired loans amounted to \$1.5 million and \$1.8 million, respectively. The amount of the allowance for loan losses allocated to impaired loans totaled \$351,000 as of September 30, 2009 and \$122,000 as of December 31, 2008.

Federal regulations and internal policies require that the Company utilize an internal asset classification system as a means of reporting problem and potential problem assets. The Company has incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at

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each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

The Company reviews and classifies assets monthly. The Board of Directors is provided with monthly reports on our classified assets. Assets are classified in accordance with the management guidelines described above. As of September 30, 2009, the Company had \$3.8 million of assets classified as substandard, compared to \$1.7 million as of December 31, 2008. There were no assets classified as doubtful or loss at September 30, 2009 or December 31, 2008.

Nonperforming assets, defined as nonaccrual loans, accruing loans past due 90 days or more and foreclosed property, amounted to \$2.7 million, or 0.5% of total assets, at September 30, 2009, compared to \$1.5 million, or 0.3% of total assets, at December 31, 2008. The following table sets forth the composition of the Company's nonperforming assets and troubled debt restructurings as of the dates indicated.

<i>(dollars in thousands)</i>	September 30, 2009	December 31, 2008
Nonaccrual loans:		
Real estate loans:		
One- to four-family first mortgage	\$ 1,685	\$ 871
Home equity loans and lines	545	156
Commercial real estate and multi-family	201	362
Construction and land	169	-
Other loans:		
Commercial	6	9
Consumer	110	29
Total nonaccrual loans	2,716	1,427
Accruing loans 90 days or more past due	-	-
Total nonperforming loans	2,716	1,427
Foreclosed property	-	37
Total nonperforming assets	2,716	1,464
Performing troubled debt restructurings	798	449
Total nonperforming assets and troubled debt restructurings	\$ 3,514	\$ 1,913
Nonperforming loans to total loans	0.80%	0.43%
Nonperforming loans to total assets	0.51%	0.27%
Nonperforming assets to total assets	0.51%	0.28%

Net charge-offs for the third quarter of 2009 were \$37,000, compared to \$80,000 for the same quarter last year. Net charge-offs for the nine months ended September 30, 2009 were \$43,000, compared to \$85,000 for the same nine-month period last year.

Allowance for Loan Losses The allowance for loan losses is established through provisions for loan losses. The Company maintains the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses at least quarterly in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing loans, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. Based on this evaluation, management assigns risk rankings to segments of the loan portfolio. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require management to make additional provisions for estimated loan losses based upon judgments

different from those of management.

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The Company will continue to monitor and modify our allowance for loan losses as conditions dictate. No assurance can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the conditions used by management to determine the current level of the allowance for loan losses.

The following table presents the activity in the allowance for loan losses during the first nine months of 2009.

<i>(dollars in thousands)</i>	Amount
Balance, December 31, 2008	\$ 2,606
Provision charged to operations	709
Loans charged off	(58)
Recoveries on charged off loans	15
Balance, September 30, 2009	\$ 3,272

The allowance for loan losses amounted to 0.96% of total loans and 120.5% of total nonperforming loans at September 30, 2009, compared to 0.78% and 182.6%, respectively, at December 31, 2008. The Company increased its ratio of allowance for loan losses to total loans due to, among other factors, consideration of the rising unemployment rate in the Company's markets and general economic conditions.

Investment Securities

The investment securities portfolio decreased by an aggregate of \$1.9 million, or 1.6%, during the first nine months of 2009, as principal payments and calls of securities available for sale more than offset purchases. Securities available for sale made up the vast majority of the investment securities portfolio at September 30, 2009.

The following table summarizes activity in the Company's investment securities portfolio during the first nine months of 2009.

<i>(dollars in thousands)</i>	Available for Sale	Held to Maturity
Balance, December 31, 2008	\$ 114,235	\$ 4,089
Purchases	11,432	8,150
Principal payments and calls	(27,596)	(863)
(Amortization) of premiums and accretion of discounts	571	(4)
Increase in market value	5,343	-
Cumulative effect adjustment	1,065	-
Balance, September 30, 2009	\$ 105,050	\$ 11,372

At September 30, 2009, the Company had an unrealized loss position on its available for sale investment securities portfolio of \$2.6 million, compared to an unrealized loss of \$8.0 million at December 31, 2008. The unrealized loss position in the market value of the investment securities portfolio relates primarily to our non-agency mortgage-backed securities holdings. The non-agency mortgage-backed securities portfolio totaled \$44.5 million, or 8.3% of total assets, at September 30, 2009. The unrealized loss position of these securities reflects, among other factors, the impact that an illiquid market and distressed sales have had on the market value of non-agency mortgage-backed securities.

In the second quarter of 2009, the Company adopted the new guidance issued on FASB's ASC Topic on Debt and Equity Securities, which was updated to provide additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. As a result of its adoption, the Company recovered the market illiquidity portion of an investment security deemed impaired in the fourth quarter of 2008. The amortized cost of the security increased \$1.1 million and the tax adjusted amount was applied to beginning retained earnings as a cumulative effect adjustment of \$703,000.

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The Company developed a process to identify non-agency mortgage-backed securities that could potentially have a credit impairment that is other than temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, bond credit support, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. The Company performs a credit analysis based on different credit scenarios at least quarterly to detect impairment on its investment securities. When the Company determines that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

The following table summarizes the Company's non-agency mortgage-backed securities portfolio as of September 30, 2009 (dollars in thousands).

Collateral	Tranche	S&P Rating	# of Securities	Amortized Cost	Unrealized Gain (Loss)
Prime	Super senior	AAA	5	\$ 10,667	\$ 194
Prime	Super senior	Below investment grade	2	2,639	(635)
Prime	Senior	AAA ⁽¹⁾	9	20,199	(1,685)
Prime	Senior	Below investment grade	1	3,322	(775)
Prime	Senior support	Below investment grade	4	3,920	(669)
Alt-A	Senior	AAA	1	983	30
Alt-A	Senior	Below investment grade ⁽²⁾	1	1,958	(929)
Alt-A	Senior support	Below investment grade	1	805	(97)
Total non-agency mortgage-backed securities			24	\$ 44,493	\$ (4,566)

⁽¹⁾ Includes one security with an amortized cost of \$2.1 million and an unrealized loss of \$63,000 not rated by S&P. This security is rated Aaa by Moody's.

⁽²⁾ This security was not rated by S&P. It was rated Caa2 by Moody's.

The Company holds no Federal National Mortgage Association (Fannie Mae) or Federal Home Loan Mortgage Corporation (Freddie Mac) preferred stock, equity securities, corporate bonds, trust preferred securities, hedge fund investments, or collateralized debt obligations.

Cash Invested at Other ATM Locations

Home Bank has historically maintained contracts with various counterparties to provide cash for ATMs throughout the United States. The Bank has elected not to renew these contracts; hence, the balance of cash invested at other ATM locations has significantly decreased during 2009.

Cash invested at other ATM locations totaled \$8.8 million at September 30, 2009, a decrease of \$15.4 million from December 31, 2008. The Bank expects to receive the balance of cash invested at other ATM locations from its one remaining counterparty during the fourth quarter of 2009.

Funding Sources

Deposits At September 30, 2009, deposits increased \$22.5 million, or 6.4%, compared to December 31, 2008. The following table sets forth the composition of the Company's deposits at the dates indicated.

(dollars in thousands)	September 30,	December 31,	Increase (Decrease)	
	2009	2008	Amount	Percent
Demand deposit	\$ 66,305	\$ 67,047	\$ (742)	(1.1)%
Savings	21,782	19,741	2,041	10.3
Money market	86,411	68,850	17,561	25.5

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NOW	40,921	42,200	(1,279)	(3.0)
Certificates of deposit	161,217	156,307	4,910	3.1
Total deposits	\$ 376,636	\$ 354,145	\$ 22,491	6.4%

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The increase in deposits relates to several factors, including the Company's emphasis on growing core deposits and expansion into a new market as well as changes in consumer behavior relating to the national recession.

Federal Home Loan Bank Advances At September 30, 2009, the Company had no short-term FHLB borrowings, compared to \$21.5 million at December 31, 2008. The interest paid on these borrowings decreased from the three and nine months ended September 30, 2008 to the three and nine months ended September 30, 2009 as the result of lower average balances in addition to reduced average rates paid for these borrowings. Short-term FHLB borrowings were paid down early in the third quarter of 2009 and no new borrowings were originated. Therefore, the interest paid on short-term borrowings in the third quarter of 2009 was negligible. The average rate paid on short-term FHLB borrowings for the nine months ended September 30, 2009 was 1.01%.

Long-term FHLB debt decreased \$3.0 million, or 13.3%, totaling \$19.9 million at September 30, 2009 compared to December 31, 2008. The interest paid on these borrowings increased from the three and nine months ended September 30, 2008 to the three and nine months ended September 30, 2009. The increases were primarily the result of increased average balances of long-term FHLB debt in three- and nine-month comparisons. The average rate paid on long-term FHLB debt was 3.59% and 3.61%, for the three and nine months ended September 30, 2009, respectively.

Shareholders Equity Shareholders' equity provides a source of permanent funding that allows for future growth and provides the Company with a cushion to withstand unforeseen adverse developments. Shareholders' equity increased \$5.6 million, or 4.4%, from \$127.0 million at December 31, 2008 to \$132.6 million at September 30, 2009.

At September 30, 2009, the Bank had regulatory capital that was well in excess of regulatory requirements. The following table details the Bank's actual levels and current regulatory capital requirements as of September 30, 2009.

<i>(dollars in thousands)</i>	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital	\$ 101,357	29.49%	\$ 13,108	4.00%	\$ 19,662	6.00%
Total risk-based capital	99,553	30.38	26,216	8.00	32,770	10.00
Tier 1 leverage capital	101,357	19.86	20,415	4.00	25,518	5.00
Tangible capital	101,357	19.86	7,656	1.50	N/A	N/A

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT**Liquidity Management**

Liquidity management encompasses our ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring adequate cash flow exists to meet the Company's needs, including operating, strategic and capital. The Company develops its liquidity management strategies as part of its overall asset/liability management process. Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. The Company also maintains excess funds in short-term, interest-bearing assets that provide additional liquidity. At September 30, 2009, cash and cash equivalents totaled \$37.4 million. At such date, available for sale investment securities totaled \$105.1 million.

The Company uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At September 30, 2009, certificates of deposit maturing within the next 12 months totaled \$108.9 million. Based upon historical experience, the Company anticipates that a significant portion of the maturing certificates of deposit will be redeposited with us. For the three months ended September 30, 2009,

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the average balance of our outstanding long-term FHLB debt was \$20.7 million. At September 30, 2009, the Company had \$19.9 million in outstanding FHLB advances and had \$210.2 million in additional FHLB advances available.

In addition to cash flow from loan and securities payments and prepayments as well as from sales of securities available for sale, the Company has significant borrowing capacity available to fund liquidity needs. In recent years, the Company has utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist of advances from the FHLB of Dallas, of which the Company is a member. Under terms of the collateral agreement with the FHLB, the Company pledges residential mortgage loans and investment securities as well as the Company's stock in the FHLB as collateral for such advances.

Asset/Liability Management

The objective of asset/liability management is to implement strategies for the funding and deployment of the Company's financial resources that are expected to maximize soundness and profitability over time at acceptable levels of risk. Interest rate sensitivity is the potential impact of changing rate environments on both net interest income and cash flows. The Company measures its interest rate sensitivity over the near term primarily by running net interest income simulations.

Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company's interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rate as of September 30, 2009.

Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
+200	5.6%
+100	3.0
-100	(0.9)

The actual impact of changes in interest rates will depend on many factors. These factors include the Company's ability to achieve expected growth in earning assets and maintain a desired mix of earning assets and interest-bearing liabilities, the actual timing of asset and liability repricings, the magnitude of interest rate changes and corresponding movement in interest rate spreads, and the level of success of asset/liability management strategies.

Off-Balance Sheet Activities

To meet the financing needs of its customers, the Bank issues financial instruments which represent conditional obligations that are not recognized, wholly or in part, in the statements of financial condition. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments expose the Company to varying degrees of credit and interest rate risk in much the same way as funded loans. The same credit policies are used in these commitments as for on-balance sheet instruments. The Company's exposure to credit losses from these financial instruments is represented by their contractual amounts.

The following table summarizes our outstanding commitments to originate loans, to fund additional amounts of cash at other ATM locations pursuant to existing agreements and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans at September 30, 2009 and December 31, 2008.

(dollars in thousands)	Contract Amount	
	September 30, 2009	December 31, 2008
Letters of credit	\$ 980	\$ 1,034
Lines of credit	25,368	24,493
Cash invested in other ATM locations	-	6,761
Undisbursed portion of loans in process	19,417	18,851
Commitments to originate loans	27,028	34,520

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

The Company is subject to certain claims and litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Company.

RESULTS OF OPERATIONS

The Company reported net income for the third quarter of 2009 of \$1.5 million, an increase of \$105,000, or 7.6%, compared to the third quarter of 2008. For the nine months ended September 30, 2009, the Company reported net income of \$4.7 million, an increase of \$1.1 million, or 32.5%, from the same period in 2008. Diluted earnings per share were \$0.17 and \$0.56 for the three and nine months ended September 30, 2009, respectively. No shares were outstanding in the first nine months of 2008.

Net Interest Income Net interest income is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Company's net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's net interest spread was 4.21% and 3.74% for the three months ended September 30, 2009 and September 30, 2008, respectively, and 4.14% and 3.54% for the nine months ended September 30, 2009 and September 30, 2008, respectively. The Company's net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.83% and 4.31% for the three months ended September 30, 2009 and 2008, respectively, and 4.83% and 4.17% for the nine months ended September 30, 2009 and September 30, 2008, respectively. The net interest spread and margin ratios increased for the three and nine months ended September 30, 2009 compared to the three and nine months ended September 30, 2008, primarily due to the fall in short-term interest rates during the year and the associated repricing of the Company's assets and liabilities as well as changes in the mix of the Company's assets and liabilities.

Net interest income totaled \$6.1 million for the three months ended September 30, 2009, an increase of \$1.3 million, or 28.2%, compared to \$4.7 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009, net interest income totaled \$18.0 million, an increase of \$5.0 million, or 37.9%, compared to \$13.1 million for the nine months ended September 30, 2008.

Interest income increased \$739,000, or 10.7%, in the third quarter of 2009 compared to the third quarter of 2008. For the nine months ended September 30, 2009, interest income increased \$2.8 million, or 14.0%, compared to the nine months ended September 30, 2008. The increases in three and nine months ended September 30, 2009 were primarily due to increases in the average balances of interest-earnings assets, particularly loans and investment securities, which more than offset decreases in the average yields earned on loans and other interest-earning assets.

Interest expense decreased \$598,000, or 27.7%, for the third quarter of 2009 compared to the third quarter of 2008. For the nine months ended September 30, 2009, interest expense decreased \$2.2 million, or 30.7%, compared to the nine months ended September 30, 2008. The decreases in three and nine months ended September 30, 2009 were primarily due to decreases in the average rate paid on interest-bearing liabilities as the result of reduced market rates and mix change. In addition to the decrease in the average rate paid, a reduction in the average balance of interest-bearing liabilities also contributed to the decrease in interest expense for the third quarter 2009 compared to the third quarter 2008.

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The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) net interest spread; and (v) net interest margin. Information is based on average monthly balances during the indicated periods.

<i>(dollars in thousands)</i>	Three Months Ended September 30,					
	2009			2008		
	Average Balance	Interest	Average Yield/ Rate ⁽¹⁾	Average Balance	Interest	Average Yield/ Rate ⁽¹⁾
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$ 343,618	\$ 5,616	6.50%	\$ 319,242	\$ 5,456	6.81%
Investment securities	118,990	1,722	5.79	76,861	1,054	5.49
Other interest-earning assets	36,861	298	3.21	41,459	387	3.71
Total earning assets	499,469	7,636	6.09	437,562	6,897	6.29
Noninterest-earning assets	29,993			27,314		
Total assets	\$ 529,462			\$ 464,876		
Interest-bearing liabilities:						
Deposits:						
Savings, checking and money market	\$ 146,643	\$ 273	0.74%	\$ 128,668	\$ 398	1.23%
Certificates of deposit	161,017	1,099	2.71	167,817	1,478	3.50
Total interest-bearing deposits	307,660	1,372	1.77	296,485	1,876	2.52
Short-term FHLB borrowings	65	-	-	27,089	159	2.35
Long-term FHLB debt	20,744	186	3.59	11,913	121	4.06
Total interest-bearing liabilities	328,469	1,558	1.88	335,487	2,156	2.55
Noninterest-bearing liabilities	69,350			78,121		
Total liabilities	397,819			413,608		
Shareholders' equity	131,643			51,268		
Total liabilities and shareholders' equity	\$ 529,462			\$ 464,876		
Net interest-earning assets	\$ 171,000			\$ 102,075		
Net interest spread		\$ 6,078	4.21%		\$ 4,741	3.74%
Net interest margin⁽²⁾			4.83%			4.31%

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<i>(dollars in thousands)</i>	Nine Months Ended September 30,					
	2009			2008		
	Average Balance	Interest	Average Yield/ Rate ⁽¹⁾	Average Balance	Interest	Average Yield/ Rate ⁽¹⁾
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$ 342,340	\$ 16,735	6.53%	\$ 315,310	\$ 16,256	6.88%
Investment securities	121,906	5,212	5.70	70,703	2,805	5.29
Other interest-earning assets	35,649	960	3.60	33,319	1,037	4.16
Total earning assets	499,895	22,907	6.12	419,332	20,098	6.40
Noninterest-earning assets	29,782			26,432		
Total assets	\$ 529,677			\$ 445,764		
Interest-bearing liabilities:						
Deposits:						
Savings, checking and money market	\$ 140,827	\$ 771	0.73%	\$ 130,148	\$ 1,332	1.37%
Certificates of deposit	160,363	3,449	2.88	170,669	4,996	3.91
Total interest-bearing deposits	301,190	4,220	1.87	300,817	6,328	2.81
Short-term FHLB borrowings	4,997	38	1.01	14,815	305	2.74
Long-term FHLB debt	22,227	601	3.61	12,409	378	4.06
Total interest-bearing liabilities	328,414	4,859	1.98	328,041	7,011	2.86
Noninterest-bearing liabilities	71,034			66,605		
Total liabilities	399,448			394,646		
Shareholders' equity	130,229			51,118		
Total liabilities and shareholders' equity	\$ 529,677			\$ 445,764		
Net interest-earning assets	\$ 171,481			\$ 91,291		
Net interest spread		\$ 18,048	4.14%		\$ 13,087	3.54%
Net interest margin⁽²⁾			4.83%			4.17%

⁽¹⁾ Includes nonaccrual loans during the respective periods. Calculated net of deferred fees and discounts and loans in process.

⁽²⁾ Equals net interest income divided by average interest-earning assets.

Interest income includes interest income earned on earning assets as well as applicable loan fees earned. Interest income that would have been earned on nonaccrual loans had they been on accrual status is not included in the data reported above.

Provision for Loan Losses For the quarter ended September 30, 2009, the Company recorded a provision for loan losses of \$287,000, compared to a provision of \$93,000 for the same period in 2008. For the nine months ended September 30, 2009, the Company recorded a provision of \$709,000, compared to a provision of \$161,000 for the same period in 2008. The increases in the amount of provision for loan losses during the three and nine months ended September 30, 2009 is the result of a change in the loan mix with increasing levels of commercial loans, which generally are considered to have a higher degree of risk than single-family residential mortgage loans, as well as the Company's consideration of, among other factors, rising unemployment rates in its markets and general economic conditions.

Noninterest Income The Company's noninterest income was \$949,000 for the three months ended September 30, 2009, \$137,000, or 17.0%, higher than the \$812,000 in noninterest income earned for the same period in 2008. The primary reasons for the increase in the 2009 period to the 2008 period were increases in gains on sale of mortgage loans of \$64,000, service fees and charges of \$43,000, and bank card fees of \$36,000.

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Noninterest income increased \$503,000, or 20.9%, for the nine months ended September 30, 2009 to \$2.9 million from \$2.4 million for same period of 2008. The primary reasons for the increase in the 2009 period compared to the 2008 period were increases in gains on sale of mortgage loans of \$228,000, bank card fees of \$138,000, and service fees and charges on deposit accounts of \$115,000.

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Noninterest Expense The Company's noninterest expense was \$4.7 million for the three months ended September 30, 2009, an increase of \$1.3 million, or 39.2%, from the \$3.4 million incurred for the same period in 2008. For the nine months ended September 30, 2009, noninterest expense was \$13.3 million, an increase of \$3.3 million, or 33.0%, from the \$10.0 million incurred during the nine months ended September 30, 2008. The primary reason for the increase in noninterest expense relates to increases of \$642,000 and \$1.3 million in compensation and benefits expense in the three- and nine-month comparison, respectively. Compensation and benefits expense has increased primarily due to three factors: 1) the Bank's expansion into Baton Rouge, where two full-service banking offices were opened during the second half of 2008; 2) the employee stock ownership plan (ESOP), which commenced during the fourth quarter of 2008; and 3) award grants under the stock option and recognition and retention plans approved by the Company's shareholders in May 2009. Award grants were issued in May 2009 under the stock option and recognition and retention plans. Regulatory fees increased primarily due to a \$200,000 (pre-tax) special FDIC assessment required for all FDIC-insured depository institutions, which was accrued in the second quarter of 2009. In addition, the FDIC has also increased the base insurance premium assessment on deposits. Other increases in noninterest expense were the result of higher professional and other fees due to the increased cost of operating as a public company and the Louisiana bank shares tax.

Income Taxes For the quarters ended September 30, 2009 and September 30, 2008, the Company incurred income tax expense of \$574,000 and \$716,000, respectively. The Company's effective tax rate amounted to 27.7% and 33.9% during the third quarters of 2009 and 2008, respectively. For the nine months ended September 30, 2009 and September 30, 2008, income tax expense was \$2.3 million and \$1.8 million, respectively. The effective tax rates for the nine months ended September 30, 2009 and September 30, 2008 were 32.8% and 34.0%, respectively. The difference between the effective tax rate and the statutory tax rate primarily relates to variances in items that are non-taxable or non-deductible.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and qualitative disclosures about market risk are presented in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2008, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations Asset/ Liability Management and Market Risk". Additional information at September 30, 2009 is included herein under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Asset/Liability Management".

Item 4. Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Table of Contents**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for December 31, 2008 filed with the Securities and Exchange Committee.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds.

The Company's purchases of its common stock made during the quarter consisted solely of purchases to fund the 2009 Recognition and Retention Plan and Trust, which is an affiliate of the Company, and are set forth in the following table.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs⁽¹⁾
July 1 - July 31, 2009	-	\$ -	263,700	93,375
August 1 - August 31, 2009	27,500	12.48	291,200	65,875
September 1 - September 30, 2009	52,900	12.36	344,100	12,975
Total	80,400	\$ 12.40	344,100	12,975

⁽¹⁾ On May 12, 2009, shareholders of the Company approved the 2009 Recognition and Retention Plan and Trust Agreement (2009 RRP) authorizing the purchase of up to 357,075 shares of the Company's common stock. Purchases to fund the 2009 RRP were completed in October 2009 when the 2009 RRP was fully funded.

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 Financial Statement Schedules.

No.	Description
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer
32.0	Section 1350 Certification

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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.

HOME BANCORP, INC.

November 13, 2009

By: <s>John W. Bordelon
John W. Bordelon
President and Chief Executive Officer

November 13, 2009

By: <s>Joseph B. Zanco
Joseph B. Zanco
Executive Vice President and Chief Financial Officer

November 13, 2009

By: <s>Mary H. Hopkins
Mary H. Hopkins
Home Bank First Vice President and Controller