UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2007

Commission File Number 333 - 89756

ALION
SCIENCE AND TECHNOLOGY

Alion Science and Technology Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**54 - 2061691**
(State or Other Jurisdiction of Incorporation of Organization)	*(I.R.S. Employer Identification No.)*

10 West 35th Street	**1750 Tysons Boulevard, Suite 1300**
Chicago, IL 60616	**McLean, VA 22102**
(312) 567 — 4000	**(703) 918 - 4480**

(Address, including Zip Code and Telephone Number with Area Code, of Principal Executive Offices)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes ☑ No

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☑ No

The number of shares outstanding of Alion Science and Technology Corporation Common Stock as of February 14, 2008, was: Common Stock 5,012,642

ALION SCIENCE AND TECHNOLOGY CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2007

PART I — FINANCIAL INFORMATION		2
Item 1.	Financial Statements (unaudited)	2
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Cash Flows	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 4.	Controls and Procedures	46
Item 4T.	Controls and Procedures	47
PART II — OTHER INFORMATION		48
Item 1.	Legal Proceedings	48
Item 1A.	Risk Factors	48
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 3.	Defaults Upon Senior Securities	48
Item 4.	Submission of Matters to a Vote of Security Holders	48
Item 5.	Other Information	48
Item 6.	Exhibits	48

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ALION SCIENCE AND TECHNOLOGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
As of December 31, 2007 and September 30, 2007

	December 31, 2007	September 30, 2007
	(In thousands, except share and per share information) (Unaudited)	
Current assets:		
Cash and cash equivalents	$ 597	$ 11,684
Accounts receivable, net	225,935	186,660
Stock subscriptions receivable	—	3,378
Prepaid expenses and other current assets	5,078	3,634
Total current assets	231,610	205,356
Property, plant and equipment, net	19,555	19,552
Intangible assets, net	51,977	55,659
Goodwill	398,814	395,926
Other assets	7,512	7,477
Total assets	709,468	683,970
Current liabilities:		
Book cash overdraft	2,065	—
Interest payable	13,824	12,111
Current portion, Term B senior term loan payable	2,430	2,430
Current portion, acquisition obligations	7,874	4,832
Trade accounts payable	49,389	46,104
Accrued liabilities	38,938	33,238
Accrued payroll and related liabilities	47,052	43,702
Billings in excess of costs and estimated earnings on uncompleted contracts	2,665	2,059
Total current liabilities	164,237	144,476
Notes payable to bank	26,550	9,250
Term B senior term loan payable, excluding current portion	237,962	238,356
Senior unsecured notes	243,701	243,483
Subordinated note payable	52,411	51,313
Accrued compensation, excluding current portion	11,597	15,483
Accrued postretirement benefit obligations	1,188	1,175
Non-current portion of lease obligations	6,413	6,203
Redeemable common stock warrants	33,506	33,610
Redeemable common stock, $0.01 par value, 8,000,000 shares authorized, 5,012,642 and 5,012,934 shares issued and outstanding at December 31, 2007 and September 30, 2007	200,756	200,768
Accumulated deficit	(268,853)	(260,147)
Total liabilities, redeemable common stock and accumulated deficit	$ 709,468	$ 683,970

See accompanying notes to condensed consolidated financial statements.

ALION SCIENCE AND TECHNOLOGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2007	2006
	(In thousands, except share and per share information) (Unaudited)	
Contract revenue	$ 183,145	$ 181,139
Direct contract expense	140,382	140,101
Gross profit	42,763	41,038
Operating expenses:		
Indirect contract expense	9,883	9,475
Research and development	161	654
General and administrative	15,473	16,613
Rental and occupancy expense	7,671	8,265
Depreciation and amortization	5,027	5,655
Bad debt expense	268	333
Total operating expenses	38,483	40,995
Operating income	4,280	43
Other income (expense):		
Interest income	155	116
Interest expense	(13,276)	(14,358)
Other	146	74
Total other expenses	(12,975)	(14,168)
Loss before income taxes	(8,695)	(14,125)
Income tax benefit (expense)	(11)	13
Net loss	$ (8,706)	$ (14,112)
Basic and diluted loss per share	$ (1.74)	$ (2.71)
Basic and diluted weighted average common shares outstanding	5,012,838	5,209,858

See accompanying notes to condensed consolidated financial statements.

ALION SCIENCE AND TECHNOLOGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2007	2006
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net loss	$ (8,706)	$(14,112)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,027	5,655
Accretion of debt to face value	246	234
Amortization of debt issuance costs	442	408
Decrease in value of interest rate cap agreement	—	76
Change in fair value of redeemable common stock warrants	(104)	2,024
Stock-based compensation	2,046	3,592
Other	—	(28)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(39,274)	(32,536)
Other assets	(1,480)	(1,729)
Trade accounts payable	3,285	4,137
Accrued liabilities	3,148	5,379
Interest payable	1,713	614
Other liabilities	1,681	1,060
Net cash used in operating activities	(31,976)	(25,226)
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	—	(6,560)
Capital expenditures	(1,223)	(1,533)
Net cash used in investing activities	(1,223)	(8,093)
Cash flows from financing activities:		
Change in book overdraft	2,065	3,261
Repayment of Term B Credit Facility note payable	(618)	(655)
Payment of debt issuance costs	—	(850)
Net borrowings under revolving credit facility	17,300	20,250
Purchase of redeemable common stock from ESOP Trust	(12)	(92)
Cash received from sale of redeemable common stock to ESOP Trust	3,377	8,990
Net cash provided by financing activities	22,112	30,904
Net decrease in cash and cash equivalents	(11,087)	(2,415)
Cash and cash equivalents at beginning of period	11,684	2,755
Cash and cash equivalents at end of period	$ 597	$ 340
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,086	$ 10,038
Cash paid for taxes	11	30

See accompanying notes to condensed consolidated financial statements.

ALION SCIENCE AND TECHNOLOGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(1) Description and Formation of the Business

Alion Science and Technology Corporation and its subsidiaries (collectively, the Company or Alion) provides scientific, engineering and information technology expertise to research and develop technological solutions for problems relating to national defense, homeland security and energy and environmental analysis. The Company provides these research services primarily to agencies of the federal government and, to a lesser extent, to commercial and international customers.

Alion, a for-profit S Corporation, was formed in October 2001 for the purpose of purchasing substantially all of the assets and certain of the liabilities of IIT Research Institute (IITRI), a not-for-profit corporation controlled by Illinois Institute of Technology (IIT). On December 20, 2002, Alion acquired substantially all of the assets and liabilities of IITRI, excluding the assets and liabilities of IITRI's Life Sciences Operation, for aggregate total proceeds of $127.3 million (the Transaction). Prior to that time, the Company's activities were organizational in nature.

(2) Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2007, filed with the SEC on December 28, 2007.

The statements are prepared on the accrual basis of accounting and include the accounts of Alion and its wholly-owned subsidiaries from the date of acquisition or formation. All inter-company accounts have been eliminated in consolidation. The wholly-owned subsidiaries are as follows:

- Human Factors Application, Inc. (HFA) — acquired November 1998
- Innovative Technology Solution Corporation (ITSC) — acquired October 2003
- Alion — IPS Corporation (IPS) — acquired February 2004
- Alion — METI Corporation (METI) — acquired February 2005
- Alion — CATI Corporation (CATI) — acquired February 2005
- Alion Canada (US) Corporation — established February 2005
- Alion Science and Technology (Canada) Corporation — established February 2005
- Alion — JJMA Corporation (JJMA) — acquired April 2005
- Alion Technical Services Corporation (Virginia) — established July 2005
- Alion — BMH Corporation (BMH) — acquired February 2006
- Washington Consulting, Inc. (WCI) — acquired February 2006
- Alion — MA&D Corporation (MA&D) — acquired May 2006
- Alion Technical Services Corporation (Delaware) — established May 2006
- Washington Consulting Government Services, Inc. — established July 2007

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Fiscal and Quarter Periods

The Company's fiscal year ends on September 30. The Company operates based on a three-month quarter, four-quarter fiscal year. Quarter end dates: December 31, March 31, June 30, and September 30.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and operating results reported for a given period. Actual results are likely to differ from those estimates, but the Company's management does not believe such differences will materially affect the Company's financial position, results of operations, or cash flows.

Reclassifications

Certain items in the condensed consolidated financial statements have been reclassified to conform to the current presentation.

Revenue Recognition

The Company's revenue results primarily from technology services under a variety of contracts, some of which provide for reimbursement of costs plus fees and others of which are fixed-price or time-and-material type contracts. The Company generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or products has occurred and collectibility of the contract price is considered reasonably assured.

The Company recognizes revenue on cost-reimbursement contracts as it incurs costs and includes estimated fees earned. The Company recognizes time-and-material contract revenue at negotiated, fixed, contractually billable rates as it delivers labor hours and incurs other direct expenses. The Company uses various performance measures under the percentage of completion method to recognize revenue for fixed-price contracts. The process of estimating contract costs at completion and recognizing revenue appropriately involves significant management estimates. Actual costs may differ from estimated costs and affect estimated profitability and the timing of revenue recognition. From time to time, facts develop that require the Company to revise its estimated total costs or revenues expected. The Company records the cumulative effect of revised estimates in the period in which the facts requiring revised estimates become known. The Company recognizes the full amount of anticipated losses on any type of contract in the period in which they become known. For each of the periods presented, the cumulative effects of revised estimates were immaterial to the financial performance of the Company. Revised estimates did not generate any anticipated losses for any period presented. Further, the Company had no cost overruns on fixed price contracts that materially affected financial performance in any of the periods presented.

Contracts with agencies of the federal government are subject to periodic funding by the contracting agency concerned. A contract may be fully funded at its inception or ratably funded throughout its period of performance as services are provided. If the Company determines contract funding is not probable, it defers revenue recognition until realization is probable.

Contract costs on federal government contracts are subject to audit by the federal government and to adjustment through negotiations between the Company and government representatives. The government considers Alion to be a major contractor and maintains an office on site to perform various audits. Indirect rates have been negotiated and settled through fiscal year 2003. Settlement had no material adverse effect on the Company's results of operations or cash flows. The government has audited all of the Company's federal government contract indirect costs through fiscal year 2004. The Company submitted its fiscal year 2005 and 2006 indirect expense rates to the government in March 2006 and 2007, respectively, and expects to submit its fiscal year 2007 indirect expense rates

to the government in March 2008. The Company has recorded revenue on federal government contracts in amounts it expects to realize.

The Company recognizes revenue on unpriced change orders as it incurs expenses and only to the extent it is probable that the Company will recover such costs. The Company recognizes revenue in excess of costs on unpriced change orders only when management can also estimate beyond a reasonable doubt the amount of excess and experience provides a sufficient basis for recognition. The Company recognizes revenue on claims as expenses are incurred only to the extent it is probable that the Company will recover such costs and it can reliably estimate the amount it will recover.

The Company generates software revenue from licensing software and providing services. In general, professional services are essential to the functionality of the solution sold and the Company applies the percentage of completion method, as prescribed by AICPA SOP 81-1, *Accounting for Performance on Construction-Type and Certain Production-Type Contracts*, to recognize revenue.

Income Taxes

The Company is an S corporation under the provisions of the Internal Revenue Code of 1986, as amended. For federal and certain state income tax purposes, the Company is not subject to tax on its income. The Company's income is allocated to its sole shareholder, Alion Science and Technology Corporation Employee Stock Ownership, Savings and Investment Trust (the Trust). The Company may be subject to state income taxes in those states that do not recognize S corporations and to additional types of taxes including franchise and business taxes. All of the Company's wholly-owned operating subsidiaries are qualified subchapter S or disregarded entities which, for federal income tax purposes, are not treated as separate corporations.

Cash and Cash Equivalents

The Company considers cash in banks, and deposits with financial institutions with maturities of three months or less at time of purchase and that can be liquidated without prior notice or penalty, to be cash and cash equivalents.

Accounts Receivable and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Accounts receivable include billed accounts receivable, amounts currently billable and costs and estimated earnings in excess of billings on uncompleted contracts that represent accumulated project expenses and fees which have not been billed or are not currently billable as of the date of the consolidated balance sheet. The costs and estimated earnings in excess of billings on uncompleted contracts are stated at estimated realizable value. Unbilled accounts receivable include revenue recognized for customer-requested work performed by the Company on new and existing contracts for which the Company had not received contracts or contract modifications. The allowance for doubtful accounts is the Company's best estimate of the amount of probable losses in the Company's existing billed and unbilled accounts receivable. The Company determines the allowance using specific identification and historical write-off experience based on the age of the receivables. Billings in excess of costs and estimated earnings and advance collections from customers represent amounts received from or billed to customers in excess of project revenue recognized to date.

Property, Plant and Equipment

Leasehold improvements, software and equipment are recorded at cost. Maintenance and repairs that do not add significant value or significantly lengthen an asset's useful life are charged to current operations. Software and equipment are depreciated on the straight-line method over their estimated useful lives (typically 3 years for software and 5 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of each such asset's estimated useful life or the life of the lease. Upon sale or retirement of an asset, costs and

related accumulated depreciation are deducted from the accounts, and the gain or loss is recognized in the consolidated statements of operations.

Goodwill and Other Intangibles

As required by SFAS 142, *Goodwill and Other Intangible Assets*, the Company reviews goodwill annually for impairment at the end of each fiscal year or if events or circumstances indicate potential impairment. The Company must recognize an impairment loss if, and to the extent that, goodwill exceeds fair value. The Company completed the fiscal year 2007 annual goodwill impairment analysis in the fourth quarter of fiscal year 2007. Based on this analysis, the Company concluded that no goodwill impairment existed as of September 30, 2007. For the three months ended December 31, 2007, there were no significant events that indicated the existence of goodwill impairment as of December 31, 2007. Intangible assets are amortized over their estimated useful lives, as follows:

Purchased contracts	1-13 years
Internal use software and engineering designs	5-6 years
Non-compete agreements	2-3 years

Postretirement Benefits

The Company accounts for postretirement benefits other than pension in accordance with SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pension* and SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 106 requires the cost to provide the benefits to be accrued over the employees' period of active service. These costs are determined on an actuarial basis. SFAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. The Company curtailed the postretirement benefits plan at the end of fiscal year 2007. See footnote 4 for further discussion.

Redeemable Common Stock

The Company's outstanding shares of common stock are considered redeemable equity securities because eventual redemption of shares of Alion common stock is deemed to be outside the Company's control. Alion is required to increase or decrease the reported value of its outstanding common stock to reflect the estimated redemption value at each reporting date based on management's estimated fair value price per share. The Company records changes in the reported value of Alion's outstanding common stock through an offsetting charge or credit to accumulated deficit, based on the change, if any, in the estimated fair value of a share of Alion common stock and the total shares outstanding at each reporting date. Management used a valuation prepared by an independent, third party appraiser selected by State Street Bank & Trust Company, the ESOP Trust, to estimate the fair value price per share of Alion common stock to determine that outstanding redeemable common stock had an aggregate fair value of approximately $200.8 million as of December 31, 2007.

Concentration of Credit Risk and Fair Value of Financial Instruments

Financial instruments that potentially subject the Company to credit risk consist primarily of cash equivalents and accounts receivable. The Company believes that concentrations of credit risk with respect to cash equivalents are limited due to the high credit quality of these investments. The Company believes that concentrations of credit risk with respect to accounts receivable are limited as they are primarily federal government receivables.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value. It is impracticable for the Company to estimate the fair

value of its subordinated debt because the only market for this financial instrument consists of principal to principal transactions. For all of the following items, the fair value is not materially different than the carrying value.

Cash, cash equivalents, accounts payable and accounts receivable

The carrying amount approximates fair value because of the short maturity of those instruments.

Senior long-term debt

The carrying amount of the Company's senior debt approximates fair value which is estimated based on current rates offered to the Company for debt of the same remaining maturities.

Redeemable common stock warrants

The Company uses an option pricing model to estimate the fair value of its redeemable common stock warrants.

Alion Stock

The estimated fair value price per share is determined based upon management's estimate, which is supported by a valuation performed by an independent, third-party firm.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted this statement and determined that it will not have a significant impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP). This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently analyzing the expected impact from adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on the financial position or results of operations of the Company.

In September 2006, the Securities Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), *Financial Statements — Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 requires companies to quantify the impact of all correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. This pronouncement was effective for the Company in fiscal 2007. SAB 108 did not have a material effect on the Company's financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate

volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently analyzing the impact of adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* which changes the requirements for an acquirer's recognition and measurement of the assets acquired and liabilities assumed in a business combination. This statement is effective for the Company with respect to all business combinations for which the acquisition date is after October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This Statement improves comparability by eliminating that diversity. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently analyzing the impact of adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on its financial position or results of operations.

(3) Employee Stock Ownership Plan (ESOP) and Stock Ownership Trust

On December 19, 2001, the Company adopted the Alion Science and Technology Corporation Employee Ownership, Savings and Investment Plan (the Plan) and the Trust. The Plan, a tax qualified retirement plan, includes an ESOP component and a non-ESOP component. On August 9, 2005, the Internal Revenue Service (IRS) issued a determination letter that the Trust and the Plan, as amended through the Ninth Amendment to the Plan, qualify under Sections 401(a) and 501(a) of the Internal Revenue Code of 1986 (the IRC), as amended. On January 29, 2007, the Company amended and restated the Plan effective as of October 1, 2006 and the Company filed a request with the IRS for a determination letter with respect to the amended and restated Plan on January 30, 2007. The Company believes that the Plan and the Trust have been designed and are currently being operated in compliance with the applicable requirements of the IRC.

(4) Postretirement Benefits

The Company sponsors a medical benefits plan providing certain medical, dental, and vision coverage to eligible employees and former employees. The Company is self-insured with a stop-loss limit under an insurance agreement. The Company provides postretirement medical benefits for employees who meet certain age and service requirements. The plan provides benefits until age 65 and requires employees to pay one-quarter of their health care premiums. A small, closed group of employees is eligible for coverage after age 65. These retirees contribute a fixed portion of the health care premium. The estimated contribution to premiums from retirees is an aggregate of $125,000 for fiscal year 2008. The plan was effectively amended as of September 30, 2007. The amendment eliminates future benefits for those retiring after December 31, 2007. The plan is now closed to new participants.

There were no plan assets as of December 31, 2007 and September 30, 2007. The Company uses a September 30 measurement date.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

(5) Loss Per Share

Basic and diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding excluding the impact of warrants, phantom stock and stock appreciation rights described herein as this impact would be anti-dilutive for all periods presented.

(6) Redeemable common stock owned by ESOP Trust

The ESOP Trust owns all of the Company's common stock, for the benefit of current and former employee participants in the Alion KSOP. Participants or beneficiaries are entitled to a distribution of the fair value of their vested ESOP account balance upon death, disability, retirement or termination of employment. The ESOP permits distributions to be paid over a five year period commencing the year after a participant's retirement at age 65, death or disability. The Company can delay distributions to other terminating participants for five years before commencing payment over a subsequent five year period.

The Company can choose whether to make a distribution in cash or shares of Alion common stock. The IRC and ERISA require that if the Company distributes common stock to a participant or beneficiary, the Company must provide a put option to permit the recipient to sell the stock back to the Company at the estimated fair value price per share, which was $40.05 at December 31, 2007 and September 30, 2007. The Company uses a valuation performed by an independent, third-party firm to determine the estimated fair value price per share. Certain participants who beneficially acquired shares of Alion common stock on December 22, 2002, have the right to sell such shares distributed from their accounts at the greater of the then current estimated fair value per share or the original purchase price ($10.00).

Although the Company and the ESOP retain the right to delay distributions consistent with the terms of the plan and to control the circumstances of future distributions, eventual redemption of shares of Alion common stock is deemed to be outside the Company's control.

(7) Accounts Receivable

	December 31, 2007	September 30, 2007
	(In thousands)	
Billed receivables	$134,974	$126,430
Unbilled receivables:		
Amounts currently billable	56,250	40,539
Revenues recorded in excess of milestone billings on fixed price contracts	2,561	2,059
Revenues recorded in excess of estimated contract value or funding	29,897	17,661
Retainages and other amounts billable upon contract completion	7,789	5,243
Allowance for doubtful accounts	(5,536)	(5,272)
Total Accounts Receivable	$225,935	$186,660

Revenues recorded in excess of milestone billings on fixed price contracts are not yet contractually billable. Amounts currently billable consist principally of amounts to be billed within the next year. Any remaining unbilled balance including retainage is billable upon contract completion or completion of Defense Contract Audit Agency audits. Revenues recorded in excess of contract value or funding are billable upon receipt of contractual amendments or other modifications. Costs and estimated earnings in excess of billings on uncompleted contracts totaled approximately $96.5 million as of December 31, 2007 and included approximately $29.9 million for customer-requested work for

which the Company had not received contracts or contract modifications. In keeping with industry practice, the Company classifies all contract-related accounts receivable as current assets based on contractual operating cycles which frequently exceed one year. Unbilled receivables are expected to be billed and collected within one year except for $7.8 million at December 31, 2007

(8) Property, Plant and Equipment

	December 31, 2007	September 30, 2007
	(In thousands)	
Leasehold improvements	$ 7,479	$ 7,212
Equipment and software	32,344	31,388
Total cost	39,823	38,600
Less: accumulated depreciation and amortization	(20,268)	(19,048)
Net fixed assets	$ 19,555	$ 19,552

Depreciation and leasehold amortization expense for fixed assets was approximately $1.3 million and $1.4 million for the three months ended December 30, 2007 and 2006, respectively.

(9) Goodwill and Intangible Assets

As of December 31, 2007, the Company has recorded goodwill of approximately $398.8 million. Changes in the carrying amount of goodwill during the three months ended December 31, 2007, in the aggregate, are summarized in the following table:

	Total
	(In thousands)
Balance as of October 1, 2007	$395,926
Adjustment to initial allocation made during the three months ended December 31, 2007 (includes earn-out obligations)	2,888
Balance as of December 31, 2007	$398,814

Intangible assets consist primarily of contracts purchased in connection with the acquisitions of JJMA, BMH, WCI and MA&D and the contracts the Company acquired from Anteon Corporation (Anteon Contracts). The components of intangible assets as of December 31, 2007 and September 30, 2007 are as follows:

	December 31, 2007			September 30, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In thousands)					
Purchased contracts	$111,521	$(60,877)	$50,644	$111,519	$(57,296)	$54,223
Internal use software and engineering designs	2,155	(887)	1,268	2,155	(790)	1,365
Non-compete agreements	725	(660)	65	725	(654)	71
Total	$114,401	$(62,424)	$51,977	$114,399	$(58,740)	$55,659

The weighted-average remaining amortization period of intangible assets was approximately seven years at December 31, 2007 and September 30, 2007. Amortization expense was approximately $3.7 million and $4.3 million for the three months ended December 31, 2007 and 2006, respectively. Estimated aggregate

amortization expense for the remainder of fiscal year 2008 and for each of the next five years and thereafter is as follows:

		(In thousands)
For the remaining nine months:	2008	10,800
For the year ending September 30:	2009	12,495
	2010	10,986
	2011	6,843
	2012	6,154
	2013	2,859
	and thereafter	1,840
Total:		$51,977

(10) Long-Term Debt

Term B Senior Credit Facility

The Company entered into various debt agreements (Senior Credit Agreement, Mezzanine Note, and Subordinated Note) on December 20, 2002 to fund its acquisition of substantially all the assets of IITRI. In August 2004, the Company entered into a new Term B senior secured credit facility (the Term B Senior Credit Facility) with a syndicate of financial institutions for which Credit Suisse serves as arranger, administrative agent and collateral agent, and for which LaSalle Bank National Association serves as syndication agent. The following amendments were made to the Term B Senior Credit Facility since August 2004:

- In April 2005, the first amendment to the Term B Senior Credit Facility (Amendment One) made certain changes to the Term B Senior Credit Facility and added $72.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.

- In March 2006, the second amendment to the Term B Senior Credit Facility (Amendment Two) made certain changes to the Term B Senior Credit Facility and increased the senior term loan commitment by $68.0 million, of which the full $68.0 million had been drawn down by the Company as of December 31, 2007, and increased the revolving credit commitment from $30.0 million to $50.0 million.

- On June 30, 2006, the third amendment to the Term B Senior Credit Facility (Amendment Three) made certain changes to the Term B Senior Credit Facility and added $50.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.

- On January 4, 2007, the fourth increment to the Term B Senior Credit Facility (Increment Four) added $15.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.

- On February 6, 2007, the fourth amendment to the Term B Senior Credit Facility (Amendment Four) made certain changes to the Term B Senior Credit Facility, including (i) extending the maturity date of the senior term loans to February 6, 2013, (ii) adjusting the principal repayment schedule to require one balloon principal repayment at maturity, and (iii) adding an incurrence test as an additional condition to the Company's ability to incur permitted indebtedness.

- On July 17, 2007, the fifth increment to the Term B Senior Credit Facility (Increment Five) added $25.0 million in senior term loans to the Company's Term B Senior Credit Facility.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

The Term B Senior Credit Facility consists of:

- a senior term loan, which is comprised of the following balances:

	December 31, 2007	September 30, 2007
	(In thousands)	
Senior term loan	$244,884	$245,502
Less: Unamortized debt issuance costs	(4,492)	(4,716)
Senior term loan payable	$240,392	$240,786
Less: current maturities, net of unamortized debt issue costs	(2,430)	(2,430)
Senior term loan payable, less current maturities	$237,962	$238,356

- a $50.0 million senior revolving credit facility under which approximately $26.6 million was outstanding as of December 31, 2007 and approximately $3.7 million of which was allocated for letters of credit and as such is not available to be borrowed; and
- a $110.0 million uncommitted incremental senior term loan "accordion" facility.

Interest and Fees. Under the Term B Senior Credit Facility, the senior term loan and the senior revolving credit facility can each bear interest at either of two floating rates.

* **Senior Term Loan.** The Company was entitled to elect that interest be payable on the Company's senior term loan at an annual rate equal to either: 1) the applicable alternate base interest rate charged by Credit Suisse plus a 175 basis point spread or 2) the Eurodollar rate plus a 275 basis point spread. As of February 6, 2007, the spread associated with the alternate base interest rate charged by Credit Suisse from time to time was lowered to 150 basis points, and the spread associated with the Eurodollar rate in effect from time to time was lowered to 250 basis points.

* **Senior Revolving Credit Facility.** The Company was also entitled to elect that the senior revolving credit facility bear interest at an annual rate dependent on the Company's leverage ratio and whether the Company made a Eurodollar or an alternate base borrowing. The alternate base rate is the greater of Credit Suisse's prime rate or the federal funds effective rate, plus additional basis points corresponding to the Company's leverage ratio at the time.

On April 1, 2005, the Company chose to have the senior term loan bear interest at the Eurodollar rate and the senior revolving credit facility bear interest at the ABR rate based on Credit Suisse's prime rate. As of December 31, 2007, the Eurodollar rate on the senior term loan was 7.73 percent (4.83 percent plus 2.50 percent Eurodollar spread) and the ABR rate was 9.00 percent (7.50 percent plus 1.50 percent spread).

Other Fees and Expenses. Each quarter the Company is required to pay a commitment fee of 50 basis points per year on the prior quarter's daily, unused balance of the revolving credit facility and senior term loan commitment. As of December 31, 2007, the Company had approximately $26.6 million outstanding on the revolving credit facility and approximately $3.7 million was allocated for letters of credit; and the senior term loan was fully utilized. For the three months ended December 31, 2007, the Company paid approximately $25,000 in commitment fees for the revolving credit facility and no commitment fee for the senior term loan.

The Company is also required to pay an annual agent's fee and a fronting fee not to exceed 25 basis points for each letter of credit issued under the revolving credit facility. Interest is due quarterly in arrears at the applicable revolving credit facility rate for all outstanding letters of credit.

Financial Covenants. The Term B Senior Credit Facility requires the Company to meet certain financial performance measures typical of commercial loans of this type including senior secured leverage and interest coverage ratios. The Term B Senior Credit Facility includes other covenants that restrict the Company's ability to

take certain actions without the prior consent of senior lenders who extended a majority of the outstanding senior term loans. As of December 31, 2007, the Company was in compliance with the Term B Senior Credit Facility covenants.

Senior Unsecured Notes

On February 8, 2007, the Company issued and sold $250.0 million of its 10.25% senior unsecured notes due February 1, 2015 to Credit Suisse, which informed the Company that it resold most of the Senior Unsecured Notes to qualified institutional buyers.

Interest and Fees. The Senior Unsecured Notes bear interest at 10.25% per year, payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2007. The Company will make each interest payment to the holders of record on the immediately preceding January 15 and July 15. The Company will pay interest on overdue principal at 11.25% per annum and will pay interest on overdue installments of interest at 11.25% per annum to the extent lawful.

Covenants. The Indenture governing the Senior Unsecured Notes contains covenants that, among other things, limit the Company's ability and the ability of certain of its subsidiaries to incur additional indebtedness and make certain types of payments.

Interest Payable

Interest Payable consisted of the following balances:

	December 31, 2007	September 30, 2007
	(In thousands)	
Senior Unsecured Notes	$10,677	$ 4,271
Term B Senior Credit Facility	3,147	7,840
Total	$13,824	$12,111

Subordinated Note

On December 20, 2002, the Company issued a $39.9 million note to IITRI (Subordinated Note) as part of the consideration for Alion's acquisition of substantially all of IITRI's assets. On July 1, 2004, IIT acquired all of IITRI's rights and interests in the Subordinated Note and the related warrant agreement. On June 30, 2006, the Company and IIT entered into an agreement that increased the interest rate on the Subordinated Note for two years from December 21, 2006 through December 20, 2008.

The Subordinated Note bears interest at (i) 6% through December 20, 2006, (ii) approximately 6.4% from December 21, 2006 through December 20, 2007, and (iii) approximately 6.7% from December 21, 2007 through December 20, 2008. Interest is payable quarterly by the issuance of paid-in-kind or PIK notes maturing at the same time as the Subordinated Note. The PIK notes have the effect of deferring the underlying cash interest expense on the Subordinated Note. Beginning on December 21, 2008, the Subordinated Note will bear interest at 16% per year payable quarterly in cash until the note has been repaid in full. Principal on the Subordinated Note is payable in equal installments of $19.95 million in December 2009 and December 2010. The PIK notes are due in equal installments of approximately $7.4 million on these same dates.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

As of December 31, 2007, the remaining fiscal year principal repayments (at face amount before debt discount) for outstanding indebtedness are as follows:

	2008	2009	2010	2011	2012	2013	Thereafter	Total
				(In thousands)				
Senior Secured Term B Loan(1)	$1,855	$ 2,474	$ 2,474	$2,474	$2,474	$233,134	$ —	$244,885
Senior Unsecured Notes(2)	—	—	—	—	—	—	250,000	250,000
Subordinated Seller Note(3)	—	19,950	19,950	—	—	—	—	39,900
Subordinated Paid in Kind Note(4)	—	7,402	7,402	—	—	—	—	14,804
Total Principal Payments	$1,855	$29,826	$29,826	$2,474	$2,474	$233,134	$250,000	$549,589

(1) The table does not reflect any prepayments of the senior term loan based on excess cash flow or other conditions as the timing and amount of any such payments are uncertain. The approximate $240.4 million on the face of the balance sheet (current and long-term portion) includes, as of December 31, 2007, approximately $4.5 million of unamortized debt issue costs (which initially totaled approximately $12.3 million). The Company expects to refinance the senior term loan before the end of fiscal year 2012.

(2) The table reflects the $250.0 million of Senior Unsecured Notes currently issued and outstanding. The principal amount of $250.0 million is due and payable on February 1, 2015.

(3) Repayment of $39.9 million for the face value of the Subordinated Note in two equal payments of $19.95 million in years 2009 and 2010. The $39.9 million includes, as of December 31, 2007, approximately $2.6 million of unamortized debt discount assigned to fair value of the detachable warrants. On December 20, 2002, approximately $7.1 million was assigned as the fair value of the warrants in accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially settled in, a Company's Own Stock.* The Company expects to refinance the Subordinated Note before the end of fiscal year 2008.

(4) During the eight-year term of the Subordinated Note, approximately $14.8 million of principal accretes to the note in the form of PIK notes and is included in the principal payments in fiscal years 2009 and 2010. The principal, together with the outstanding balance of the PIK notes, will be due and payable in equal amounts at the end of fiscal years 2009 and 2010. The Company expects to refinance the PIK notes before the end of fiscal year 2008.

(11) Redeemable Common Stock Warrants

In connection with the issuance of the Subordinated Note described in Note 10, the Company issued 1,080,437 detachable redeemable common stock warrants (the Warrants) to IITRI. IITRI subsequently transferred all of its rights, title and interest in the Warrants to IIT. The Warrants have an exercise price of $10 per share and are exercisable until December 2010. The Warrants permit the holders to sell warrants to the Company, at predetermined times, at the then current fair value of the common stock less the exercise price. The Warrants are classified as debt instruments in accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.* The Company recorded the initial $10.3 million estimated fair value of the Warrants as a discount to the face value of the notes issued and as a

liability. The outstanding Warrants had an estimated fair value of $33.5 million as of December 31, 2007. The Company recognizes interest expense for changes in the estimated fair value of the Warrants.

(12) Leases

Future minimum lease payments under non-cancelable operating leases for buildings, equipment and automobiles at December 31, 2007 are set out below. Under these operating leases, the Company subleased some excess capacity to subtenants under non-cancelable operating leases. In connection with the IPS and JJMA acquisitions, the Company assumed operating leases at above-market rates and recorded a loss accrual of approximately $4.9 million based on the estimated fair value of the lease liabilities assumed; which is being amortized over the lease terms. The remaining unamortized accrued loss related to these acquisitions was $1.2 million at December 31, 2007. In connection with the IPS acquisition, the Company also acquired a related sub-lease pursuant to which it receives above-market rates. Based on the estimated fair value of the sublease, the Company recognized an asset of $0.6 million which is being amortized over the lease term. The remaining asset value was $0.2 million at December 31, 2007.

Future Minimum Lease Payments

Fiscal Years Ending	(In thousands)
2008 (for the remainder of fiscal year)	$ 18,993
2009	22,621
2010	19,113
2011	16,341
2012	12,815
2013	11,856
and thereafter	23,171
Gross lease payments	124,910
Less: non-cancelable subtenant receipts	(7,167)
Net lease payments	$117,743

Composition of Total Rent Expense

	December 31,	
	2007	2006
	(In thousands)	
Minimum rentals	$6,356	$6,549
Less: Sublease rental income	(835)	(552)
Total rent expense, net	$5,521	$5,997

(13) Stock Appreciation Rights

As of December 31, 2007, under the 2002 SAR Plan, the Company had granted 236,400 SARs to directors and employees. Under the 2004 SAR Plan, the Company had granted 809,515 SARs to directors and employees. For the three months ended December 31, 2007 and 2006, the Company recognized approximately $0.5 million and $1.2 million, respectively, in compensation expense associated with the two SAR plans.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

The table below sets out the disclosures and the assumptions used to value a share of Alion common stock and the Company's grants of stock appreciation rights as of December 31, 2007 and September 30, 2007. For grants issued prior to October 1, 2006, the Company uses the intrinsic value method to recognize compensation expense. For grants issued on or after October 1, 2006, the Company uses a Black-Scholes-Merton option pricing model to recognize compensation expense pursuant to SFAS No. 123(R) *Share-Based Payment*. The Company uses the fair market value of a share of its common stock to recognize expense for all grants; therefore no additional disclosures are required for these grants. There is no established public trading market for Alion's common stock. The Trust is the only holder of our common stock. The Company uses an independent third party valuation firm to determine the fair market value of a share of Alion common stock. Alion does not expect to pay any dividends on its common stock. The terms of the Term B Senior Credit Facility, the Indenture and the Subordinated Note impose certain limitations on the payment of dividends. The Company currently intends to retain future earnings, if any, for use in the operation of its business.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Alion Science and Technology Corporation
Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Stock Appreciation Rights
As of December 31, 2007

Date of Grant	Shares Granted to Employees	Shares Granted to Directors	Total Shares Granted	Exercise Price	Outstanding at 9/30/07	Outstanding at 12/31/07	Forfeited	Exercised	Expired	Vested at 12/31/07	Exercisable at 12/31/07
December 2002	64,250	—	64,250	$10.00	38,505	35,580	120	2,805	—	35,580	35,580
December 2002	—	29,400	29,400	$10.00	—	—	—	—	—	—	—
May 2003	300	—	300	$11.13	90	—	—	90	—	—	—
June 2003	300	—	300	$11.13	—	—	—	—	—	—	—
November 2003	129,550	—	129,550	$14.71	81,721	75,481	400	5,840	—	57,416	12,043
November 2003	—	12,600	12,600	$14.71	—	—	—	—	—	—	—
November 2004	—	12,600	12,600	$19.94	8,400	8,400	—	—	—	8,400	8,400
February 2005	164,750	—	164,750	$19.94	109,800	107,550	1,050	1,200		47,900	—
March 2005	2,000	—	2,000	$19.94	2,000	2,000	—	—	—	1,000	—
April 2005	33,000	—	33,000	$29.81	24,000	22,500	500	1,000	—	9,000	—
June 2005	2,000	—	2,000	$29.81	2,000	2,000	—	—	—	1,000	—
December 2005	276,675	—	276,675	$35.89	229,288	224,756	2,844	1,688	—	113,019	—
February 2006	13,000	—	13,000	$35.89	10,250	10,250	—	—	—	2,563	—
February 2006	7,500	—	7,500	$35.89	5,000	5,000	—	—	—	1,250	—
May 2006	7,000	—	7,000	$37.06	7,000	7,000	—	—	—	1,750	—
July 2006	15,000	—	15,000	$37.06	15,000	15,000	—	—	—	3,750	—
August 2006	1,250	—	1,250	$37.06	1,250	313	938	—	—	313	—
December 2006	239,290	—	239,290	$41.02	225,600	221,475	4,125	—	—	55,538	—
February 2007	33,450	—	33,450	$41.02	31,700	31,700	—	—	—	—	—
September 2007	2,000	—	2,000	$43.37	2,000	2,000	—	—	—	—	—
Total	991,315	54,600	1,045,915		793,604	771,005	9,977	12,623	—	338,479	56,023
Wtd Avg Exercise Price	$ 29.99	$ 13.38	$ 29.12		$ 26.39	$ 31.73	$34.98	$ 18.16	$—	$ 27.56	$ 12.50

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Alion Science and Technology Corporation
Stock-based Compensation Disclosures per FAS 123 and 123R
Stock Appreciation Rights
As of December 31, 2007

Date of Grant	Risk Free Interest Rate	Volatility	Expected Life	Remaining Life (months)
December 2002	4.06% - 4.49%	60%	5 yrs	0.0
December 2002	4.06% - 4.49%	60%	3 yrs	0.0
May 2003	2.70% - 3.30%	55%	5 yrs	4.3
June 2003	2.70% - 3.30%	55%	5 yrs	5.1
November 2003	4.06% - 4.49%	60%	5 yrs	10.7
November 2003	4.06% - 4.49%	60%	3 yrs	0.0
November 2004	3.10% - 3.60%	45%	3 yrs	0.0
February 2005	3.10% - 3.60%	45%	4 yrs	13.1
March 2005	3.10% - 3.60%	45%	4 yrs	14.2
April 2005	4.10% - 4.20%	45%	4 yrs	15.0
June 2005	4.10% - 4.20%	45%	4 yrs	17.2
December 2005	4.20% - 4.20%	40%	4 yrs	23.7
February 2006	4.20% - 4.20%	40%	4 yrs	25.4
February 2006	4.20% - 4.20%	40%	4 yrs	25.8
May 2006	4.82% - 4.83%	35%	4 yrs	28.6
July 2006	4.82% - 4.83%	35%	4 yrs	30.0
August 2006	4.82% - 4.83%	35%	4 yrs	31.9
December 2006	4.54% - 4.58%	35%	4 yrs	35.7
February 2007	4.54% - 4.58%	35%	4 yrs	37.8
September 2007	4.54% - 4.54%	35%	4 yrs	44.1
Wtd Avg Remaining Life (months)				23.6

(14) Phantom Stock Plans

As of December 31, 2007, under the Initial Phantom Stock Plan, the Company had granted 223,685 shares of phantom stock. Under the Second Phantom Stock Plan, the Company had granted 299,585 shares of retention phantom stock and 207,778 shares of performance phantom stock. Under the Director Phantom Stock Plan, the Company had granted 13,786 shares of phantom stock. For the three months ended December 31, 2007 and 2006, the Company recognized approximately $1.5 million and 2.4 million, respectively, in compensation expense associated with the three phantom stock plans.

The table below sets out the disclosures required by SFAS No. 123 and the assumptions used to value a share of Alion common stock and the Company's grants of phantom stock as of December 31, 2007 and September 30, 2007. The Company uses the intrinsic value method to recognize stock-based compensation expense. There is no established public trading market for Alion's common stock. The ESOP Trust is the only holder of the Company's common stock. The Company uses an independent third party valuation firm to determine the fair market value of a share of Alion common stock. Alion does not expect to pay any dividends on its common stock. The terms of the senior credit facility and the Subordinated Note prohibit paying dividends without consent of the respective lenders. The Company intends to retain future earnings, if any, for use in the business.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Alion Science and Technology Corporation
Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Phantom Stock
as of December 31, 2007

Date of Grant	Shares Granted to Employees	Shares Granted to Directors	Total Shares Granted	Grant Date Price per Share	Outstanding at 9/30/07	Outstanding at 12/31/07	Forfeited	Exercised	Expired	Vested at 12/31/07	Exercisable at 12/31/07
February 2003	171,000	—	171,000	$10.00	26,000	26,000	—	—	—	—	—
November 2003	52,685	—	52,685	$14.71	19,715	13,256	—	6,459	—	5,438	5,438
February 2005	213,215	—	213,215	$19.94	188,140	188,140	—	—	—	—	—
February 2005	98,399	—	98,399	$19.94	98,399	98,399	—	—	—	—	—
February 2005	5,015	—	5,015	$19.94	5,015	5,015	—	—	—	2,508	—
August 2005	2,960	—	2,960	$33.78	2,960	2,960	—	—	—	1,974	—
November 2005	66,592	—	66,592	$35.89	62,413	62,413	—	—	—	—	—
November 2005	—	7,808	7,808	$35.89	6,181	6,181	—	—	—	3,904	3,904
November 2005	55,726	—	55,726	$35.89	55,726	55,726	—	—	—	—	—
November 2006	—	5,978	5,978	$41.02	5,978	5,978	—	—	—	1,993	1,993
November 2006	65,456	—	65,456	$41.02	60,580	60,580	—	—	—	—	—
Total	731,048	13,786	744,834		531,107	524,648	—	6,459	—	15,817	11,335
Wtd Avg Grant Date Fair Value Price per Share	$ 21.85	$ 38.11	$ 22.15		$ 25.71	$ 25.85	$—	$14.71	$—	$ 26.46	$ 26.63

Alion Science and Technology Corporation
Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Phantom Stock
as of December 31, 2007

Date of Grant	Risk Free Interest Rate	Volatility	Expected Life	Remaining Life (months)
February 2003	4.06% - 4.49%	60%	5 yrs	1.3
November 2003	4.06% - 4.49%	60%	5 yrs	10.3
February 2005	3.10% - 3.60%	45%	3 yrs	1.1
February 2005	3.10% - 3.60%	45%	3 yrs	1.1
February 2005	3.10% - 3.60%	45%	4 yrs	13.1
August 2005	3.72% - 3.77%	45%	3 yrs	7.1
November 2005	4.20% - 4.20%	40%	3 yrs	10.3
November 2005	4.20% - 4.20%	40%	3 yrs	10.3
November 2005	4.20% - 4.20%	40%	5 yrs	34.3
November 2006	4.54% - 4.58%	35%	3 yrs	22.5
November 2006	4.54% - 4.58%	35%	3 yrs	22.5
Total				
Wtd Avg Remaining Life (months)				8.9

(15) Segment Information and Customer Concentration

The Company operates in one segment, delivering a broad array of scientific and engineering expertise to research and develop technological solutions for problems relating to national defense, homeland security, and energy and environmental analysis under contracts with the federal government, state and local governments, and commercial customers. The Company's federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use the Company's services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization.

Contract receivables from agencies of the federal government represented approximately $210.0 million, or 90.9%, of accounts receivable at December 31, 2007 and $175.1 million, or 93.5%, of accounts receivable at December 31, 2006. Contract revenues from agencies of the federal government represented approximately 92.0% of total contract revenues during the three months ended December 30, 2007 and 94.3% of total contract revenues during the three months ended December 31, 2006. As a percentage of consolidated revenues, the only customer to comprise 10% or more of consolidated revenues during the three months ended December 31, 2007 and 2006 was as follows:

Government Agency	Contract	For the Three Months Ended December 31, 2007	2006
Department of Defense Navy	SeaPort Multiple Award Contract	18.0%	14.5%

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

(16) Guarantor/Non-guarantor Condensed Consolidated Financial Information

The Company's Senior Unsecured Notes are unsecured general obligations of the Company. Certain of the Company's wholly-owned, domestic subsidiaries have jointly, severally, fully and unconditionally guaranteed the Senior Unsecured Notes. The following information presents condensed consolidating balance sheets as of December 31, 2007 and September 30, 2007, condensed consolidating statements of operations for the three months ended December 31, 2007 and December 31, 2006; and condensed consolidating statements of cash flows for the three months ended December 31, 2007 and December 31, 2006 of the parent company issuer, the guarantor subsidiaries and the non-guarantor subsidiaries. Investments include investments in subsidiaries held by the parent company issuer and have been presented using the equity method of accounting.

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Balance Sheet Information at December 31, 2007

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
			(In thousands)		
Current assets:					
Cash and cash equivalents	$ 597	$ —	$ —	$ —	$ 597
Accounts receivable	220,860	5,043	32	—	225,935
Prepaid expenses and other current assets	5,042	36	—	—	5,078
Total current assets	226,499	5,079	32	—	231,610
Property, plant and equipment, net	19,377	178	—	—	19,555
Intangible assets, net	51,977	—	—	—	51,977
Goodwill	398,814	—	—	—	398,814
Investment in subsidiaries	7,929	—	—	(7,929)	—
Intercompany receivables	—	7,431	—	(7,431)	—
Other assets	7,496	16	—	—	7,512
Total assets	712,092	12,704	32	(15,360)	709,468
Current liabilities:					
Book cash overdraft	1,564	501	—	—	2,065
Interest payable	13,824	—	—	—	13,824
Current portion, Term B Senior Credit Facility note payable	2,430	—	—	—	2,430
Current portion, acquisition obligations	7,874	—	—	—	7,874
Trade accounts payable	48,474	905	10	—	49,389
Accrued liabilities	37,118	1,817	3		38,938
Accrued payroll and related liabilities	45,939	965	148	—	47,052
Billings in excess of costs and estimated earnings on uncompleted contracts	2,665	—	—	—	2,665
Total current liabilities	159,888	4,188	161	—	164,237
Intercompany payables	7,090	—	341	(7,431)	—
Notes payable to bank	26,550	—	—	—	26,550
Term B Senior Credit Facility note payable, excluding current portion	237,962	—	—	—	237,962
Senior Unsecured Notes	243,701	—	—	—	243,701
Subordinated note payable	52,411	—	—	—	52,411
Accrued compensation, excluding current portion	11,597	—	—	—	11,597
Accrued postretirement benefit obligations	1,188	—	—	—	1,188
Non-current portion of lease obligations	6,296	117	—	—	6,413
Redeemable common stock warrants	33,506	—	—	—	33,506
Common stock of subsidiaries	—	2,799	—	(2,799)	—
Redeemable common stock	200,756	—	—	—	200,756
Accumulated surplus (deficit)	(279,125)	5,606	(470)	5,136	(268,853)
Total liabilities, redeemable common stock and accumulated deficit	$ 701,820	$12,710	$ 32	$ (5,094)	$ 709,468

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Balance Sheet Information at September 30, 2007

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
			(In thousands)		
Current assets:					
Cash and cash equivalents	$ 11,718	$ (33)	$ (1)	$ —	$ 11,684
Accounts receivable	180,431	6,224	5	—	186,660
Stock subscriptions receivable	3,378	—	—	—	3,378
Prepaid expenses and other current assets	3,569	64	1	—	3,634
Total current assets	199,096	6,255	5	—	205,356
Property, plant and equipment, net	19,350	202	—	—	19,552
Intangible assets, net	55,659	—	—	—	55,659
Goodwill	395,926	—	—	—	395,926
Investment in subsidiaries	7,679	—	—	(7,679)	—
Intercompany receivables	—	5,996	—	(5,996)	—
Other assets	7,461	16	—	—	7,477
Total assets	685,171	12,469	5	(13,675)	683,970
Current liabilities:					
Interest payable	12,111	—	—	—	12,111
Current portion, Term B Senior Credit Facility note payable	2,430	—	—	—	2,430
Current portion, acquisition obligations	4,832	—	—	—	4,832
Trade accounts payable	45,124	980	—	—	46,104
Accrued liabilities	31,638	1,594	6	—	33,238
Accrued payroll and related liabilities	42,582	968	152	—	43,702
Billings in excess of costs and estimated earnings on uncompleted contracts	2,059	—	—	—	2,059
Total current liabilities	140,776	3,542	158	—	144,476
Intercompany payables	5,760	—	236	(5,996)	—
Notes payable to bank	9,250	—	—	—	9,250
Term B Senior Credit Facility note payable, excluding current portion	238,356	—	—	—	238,356
Senior Unsecured Notes	243,483	—	—	—	243,483
Subordinated note payable	51,313	—	—	—	51,313
Accrued compensation, excluding current portion	14,733	750	—	—	15,483
Accrued postretirement benefit obligations	1,175	—	—	—	1,175
Non-current portion of lease obligations	6,094	109	—	—	6,203
Redeemable common stock warrants	33,610	—	—	—	33,610
Common stock of subsidiaries	—	2,799	—	(2,799)	—
Redeemable common stock	200,768	—	—	—	200,768
Accumulated surplus (deficit)	(260,147)	4,947	(389)	(4,558)	(260,147)
Total liabilities, redeemable common stock and accumulated deficit	$ 685,171	$12,469	$ 5	$(13,675)	$ 683,970

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Statement of Operations for the Three Months Ended December 31, 2007

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
			(In thousands)		
Contract revenue	$176,759	$6,349	$ 37	$ —	$183,145
Direct contract expense	135,803	4,549	30	—	140,382
Gross profit	40,956	1,800	7	—	42,763
Operating expenses:					
Indirect contract expense	8,533	1,268	82	—	9,883
Research and development	161	—	—	—	161
General and administrative	15,218	256	(1)	—	15,473
Rental and occupancy expense	7,664	—	7	—	7,671
Depreciation and amortization	5,006	21	—	—	5,027
Bad debt expense	260	8	—	—	268
Total operating expenses	36,842	1,553	88	—	38,483
Operating income (loss)	4,114	247	(81)	—	4,280
Other income (expense):					
Interest income	155	—	—	—	155
Interest expense	(13,276)	—	—	—	(13,276)
Other	62	84	—	—	146
Equity in net income (loss) of subsidiaries	250	—	—	(250)	—
Income (loss) before income taxes	(8,695)	331	(81)	(250)	(8,695)
Income tax expense	(11)	—	—	—	(11)
Net income (loss)	$ (8,706)	$ 331	$(81)	$(250)	$ (8,706)

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Statement of Operations for the Three Months Ended December 31, 2006

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
			(In thousands)		
Contract revenue	$174,133	$6,924	$ 82	$ —	$181,139
Direct contract expense	135,043	4,996	62	—	140,101
Gross profit	39,090	1,928	20	—	41,038
Operating expenses:					
Indirect contract expense	8,379	1,072	24	—	9,475
Research and development	604	—	50	—	654
General and administrative	16,258	347	8	—	16,613
Rental and occupancy expense	8,258	—	7	—	8,265
Depreciation and amortization	5,622	33	—	—	5,655
Bad debt expense	318	15	—	—	333
Total operating expenses	39,439	1,467	89	—	40,995
Operating income	(349)	461	(69)	—	43
Other income (expense):					
Interest income	116	—	—	—	116
Interest expense	(14,358)	—	—	—	(14,358)
Other	235	(261)	100	—	74
Equity in net income (loss) of subsidiaries	244	—	—	(244)	—
Income (loss) before income taxes	(14,112)	200	31	(244)	(14,125)
Income tax benefit	—	13	—	—	13
Net income (loss)	$ (14,112)	$ 213	$ 31	$(244)	$ (14,112)

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Statement of Cash Flows
Three Months Ended December 31, 2007

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
		(In thousands)		
Net cash used in operating activities	$(31,521)	$(456)	$ 1	$(31,976)
Cash flows from investing activities:				
Cash paid for acquisitions, net of cash acquired	—	—	—	—
Capital expenditures	(1,211)	(12)	—	(1,223)
Net cash used in investing activities	(1,211)	(12)	—	(1,223)
Cash flows from financing activities:				
Change in book overdraft	1,564	501	—	2,065
Repayment of Term B Credit Facility note payable	(618)	—	—	(618)
Net borrowings under revolving credit facility	17,300	—	—	17,300
Purchase of common stock from ESOP Trust	(12)	—	—	(12)
Cash received from sale of common stock to ESOP Trust	3,377	—	—	3,377
Net cash provided by financing activities	21,611	501	—	22,112
Net increase (decrease) in cash and cash equivalents	(11,121)	33	1	(11,087)
Cash and cash equivalents at beginning of year	11,718	(33)	(1)	11,684
Cash and cash equivalents at end of year	$ 597	$ —	$—	$ 597

ALION SCIENCE AND TECHNOLOGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — (Continued)

Condensed Consolidating Statement of Cash Flows
Three Months Ended December 31, 2006

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
		(In thousands)		
Net cash used in operating activities	$(25,169)	$ (83)	$ 26	$(25,226)
Cash flows from investing activities:				
Cash paid for acquisitions, net of cash acquired	(6,560)	—	—	(6,560)
Capital expenditures	(1,500)	—	(33)	(1,533)
Net cash used in investing activities	(8,060)	—	(33)	(8,093)
Cash flows from financing activities:				
Book overdraft	3,261	—	—	3,261
Repayment of Term B Credit Facility note payable	(655)	—	—	(655)
Payment of debt issuance costs	(850)	—	—	(850)
Net borrowings under revolving credit facility	20,250	—	—	20,250
Purchase of shares of common stock from ESOP Trust	(92)	—	—	(92)
Cash received from issuance of common stock to Trust	8,990	—	—	8,990
Net cash provided by financing activities	30,904	—	—	30,904
Net decrease in cash and cash equivalents	(2,325)	(83)	(7)	(2,415)
Cash and cash equivalents at beginning of year	2,728	(32)	59	2,755
Cash and cash equivalents at end of year	$ 403	$(115)	$ 52	$ 340

(17) Commitments and Contingencies

Earn-Out and Hold-Back Commitments

The Company has earn-out and hold-back commitments related to the following acquisitions:

BMH — There was an earn-out provision not to exceed a total of $6.0 million and a hold-back provision not to exceed $1.5 million based on the revenue of the business units that formerly comprised BMH. The obligation continued until December 2007. In the three months ended December 31, 2007, the Company recognized the remaining $3.0 million in estimated earn-out obligations related to BMH.

LogConGroup — There is an earn-out provision not to exceed a total of $0.9 million based on the revenue of the business units that formerly comprised LogConGroup. The obligation continues until September 2013. In the three months ended December 31, 2007, the Company recognized no earn-out obligation related to LogConGroup.

In the opinion of management, the realization of the amounts due under these arrangements will not have a material adverse effect upon the financial position, results of operations, or the liquidity of the Company.

Legal Proceedings

Estate of Joseph Hudert vs. Alion Science and Technology Corporation; Estate of Frank Stotmeister vs. Alion Science and Technology Corporation.

On December 23, 2004, the estate of Joseph Hudert filed an action against Grunley-Walsh Joint Venture, L.L.C. (Grunley-Walsh) and the Company in the District of Columbia Superior Court for damages in excess of

$80 million. On January 6, 2005, the estate of Frank Stotmeister filed an action against the Company in the same court on six counts, some of which are duplicate causes of action, claiming $30 million for each count. The Hudert case has been removed to the United States District Court for the District of Columbia. Several other potential defendants may be added to these actions in the future.

The suits arose in connection with a steam pipe explosion that occurred on or about April 23, 2004 on a construction site at 17th Street, N.W. in Washington, D.C. The plaintiffs died, apparently as a result of the explosion. They were employees of the prime contractor on the site, Grunley-Walsh, and the subcontractor, Cherry Hill Construction Company Inc. Grunley-Walsh had a contract with the U.S. General Services Administration (GSA) for construction on 17th Street N.W. near the Old Executive Office Building in Washington, D.C. Sometime after the award of Grunley-Walsh's construction contract, Alion was awarded a separate contract by GSA. Alion's responsibilities on this contract were non-supervisory monitoring of Grunley-Walsh's activities and reporting to GSA of any deviations from contract requirements.

The Company intends to defend these lawsuits vigorously. Based on the facts underlying the lawsuits known to the Company at this time, and the Company's non-supervisory monitoring role at the project site, the Company's management believes that the potential for Alion to incur a material loss as a result of the lawsuits is remote. Therefore, the Company's management does not believe that these lawsuits will have a material adverse effect upon the Company, its operations, its financial condition, or its cash flows.

Alion's primary provider of general liability insurance, St. Paul Travelers, has assumed defense of these lawsuits. However, since there is some uncertainty as to whether St. Paul Travelers received timely notice of a potential claim by Alion in connection with these lawsuits under its general liability insurance policy, St. Paul Travelers indicated when it assumed defense of the lawsuits, that it was doing so subject to a reservation of rights to deny coverage. Nevertheless, even if St. Paul Travelers is ultimately able to properly deny coverage as a result of late notice of the lawsuits, the Company's management does not believe that the lawsuits will have a materially adverse effect upon the Company, its operations, its cash flows or its financial condition. American International Group, the Company's excess insurance carrier, has also been notified regarding these lawsuits.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect upon the Company's business, financial position, operating results or ability to meet its financial obligations.

Government Audits

The amount of federal government contract revenue and expense reflected in the consolidated financial statements attributable to cost reimbursement contracts is subject to audit and possible adjustment by the Defense Contract Audit Agency (DCAA). The federal government considers the Company to be a major contractor and DCAA maintains an office on site to perform its various audits throughout the year. Contractors found to have violated the False Claims Act, or which are indicted or convicted of violations of other federal laws, may be suspended or debarred from federal government contracting for some period. Such an event could also result in fines or penalties. Given the Company's dependence on federal government contracts, suspension or debarment could have a material adverse effect on our business, financial condition, results of operations, and ability to meet our pending federal obligations. The Company is not aware of any such pending federal government claims or investigations. Indirect rates have been negotiated and settled through fiscal year 2003. The government has audited all of the Company's federal government contract indirect costs through fiscal year 2004. The Company submitted its fiscal year 2005 and 2006 indirect expense rates to the government in March 2006 and 2007, respectively, and expects to submit its fiscal year 2007 indirect expense rates to the government in March 2008. The Company has recorded revenue on federal government contracts in amounts it expects to realize.

(18) Subsequent Events

On January 30, 2008, the Company entered into an interest rate swap with a notional amount of $240 million, to convert a portion of the Term B senior term loan from a floating rate to a fixed rate and to help rebalance the timing of the interest payments on the Term B senior term loan. The variable rates reset every six months, at which time payment or receipt of interest is settled. The first variable rate is from November 1, 2007 to May 1, 2008 and the second variable rate is from May 1, 2008 to November 1, 2008. The Company receives quarterly variable interest rate payments based on the London Interbank Offering Rate (LIBOR) plus a 250 basis point spread in exchange for making semi-annual fixed interest rate payments based on a 6.52% interest rate. The swap matures in November 2008 and is designated as cash flow hedge. As such, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk will be recognized in earnings. Net payments or receipts under the agreement will be recognized as adjustments to interest expense.

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

The following discussion of Alion's financial condition and results of operations should be read together with the condensed consolidated financial statements (unaudited) and the notes to those statements. The following is intended to update the information contained in the Company's Annual Report on Form 10-K/A for the year ended September 30, 2007, and presumes that readers have access to, and will have read, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in that report.

Overview

We provide scientific, engineering and information technology and expertise to research and develop technological solutions for problems relating to national defense, homeland security and energy and environmental analysis. We provide these services primarily to agencies of the federal government and, to a lesser extent, to commercial and international customers. Our revenues increased $2.0 million for the quarter ended December 31, 2007 as compared to the quarter ended December 31, 2006, through a combination of internal growth and acquisitions. The following table reflects, for each period indicated, summary results of operations data:

	Three Months Ended December 31,	
	2007	2006
	(In millions)	
Revenue	$183.1	$181.1
Net loss	(8.7)	(14.1)

The following table summarizes the percentage of revenues attributable to each contract type for the periods indicated.

Contract Type	For the Three Months Ended December 31,			
	2007		2006*	
	(In millions)			
Cost-reimbursement	$128.4	70.1%	$127.9	70.6%
Fixed-price	22.2	12.2%	15.9	8.8%
Time-and-material	32.5	17.7%	37.3	20.6%
Total	$183.1	100.0%	$181.1	100.0%

* The 2006 amounts were revised to conform to the current presentation for the reallocation of the ID/IQ contracts.

We contract primarily with the federal government. We expect most of our revenues to continue to come from government contracts and we expect that most of these contracts will be with the U.S. Department of Defense (DoD). The much smaller balance of our revenue comes from a variety of commercial customers, state and local governments, and foreign governments. The following table sets forth, for each period indicated, the percentage of our revenues from our major types of customers.

Customer Type	For the Three Months Ended December 31,			
	2007		2006	
	(In millions)			
U.S. Department of Defense (DoD)	$159.5	87.1%	$163.9	90.5%
Other Federal Civilian Agencies	8.9	4.9%	6.9	3.8%
Commercial / State / Local and International	14.7	8.0%	10.3	5.7%
Total	$183.1	100.0%	$181.1	100.0%

Results of Operations

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

The selected financial information provided in the table below relate to the financial performance of Alion for the three months ended December 31, 2007, compared to the financial performance for three months ended December 31, 2006.

	Consolidated Operations of Alion Three Months Ended December 31,			
	2007		2006	
	(Dollars in millions)			
Financial Information		% revenue		% revenue
Total Revenue	$183.1		$181.1	
Material and subcontract revenue	79.5	43.4%	78.5	43.3%
Total direct contract expenses	140.4	76.7%	140.1	77.4%
Major components of direct contract expenses Direct labor expense	58.6	32.0%	61.2	33.8%
Material and subcontract expense	76.6	41.8%	74.0	40.9%
Other direct expense	5.2	2.8%	4.9	2.7%
Gross profit	42.8	23.4%	41.0	22.6%
Total operating expense	38.5	21.0%	41.0	22.6%
Major components of operating expense Indirect personnel and facilities	17.6	9.6%	17.7	9.8%
General and administrative (excluding stock- based compensation)	13.4	7.3%	13.0	7.2%
Stock-based compensation	2.0	1.1%	3.6	2.0%
Depreciation and amortization	5.0	2.7%	5.6	3.1%
Income from operations	$ 4.3	2.3%	$ 0.0	0.1%

Revenues. Revenues for the three months ended December 31, 2007 increased $2.0 million, or 1.1%, over the three months ended December 31, 2006. This increase is attributable to work performed on the following contracts:

Contract	Increase (Decrease) (In millions)
SeaPort Multiple Award Contract	$ 6.8
Navy Virtual SYSCOM contract	2.5
Secretary of the Air Force Technical and Analytical Support (SAFTAS) Contract	1.9
Joint Spectrum Center (JSC) contract	(7.7)
Modeling and Simulation Information Analysis Center (MSIAC) Contract	(6.6)
All other contracts	5.1
Net increase in revenue	$ 2.0

As a component of revenue, material and subcontract (M&S) revenue for the three months ended December 31, 2007 increased approximately $1.0 million, or 1.3%, over the three months ended December 31, 2006. M&S revenue increased to 43.4% of total revenue from 43.3% of total revenue for the three months ended December 31, 2007 and 2006, respectively.

Direct Contract Expenses. Direct contract expenses for the three months ended December 31, 2007 were materially consistent with the expenses for the three months ended December 31, 2006. Direct contract expenses were 76.7% and 77.4% of total revenue for the three months ended December 31, 2007 and 2006, respectively. Since we generally earn higher profits on our own labor services, we expect the ratio of direct contract expenses to revenue to decline when our labor service mix increases relative to subcontractor labor or third party material. Conversely, as subcontract labor or third-party material purchases for customers increase relative to our own labor services, we expect the ratio of direct contract expenses to revenue to increase. As we continue to bid and win larger

contracts, our own labor services component could decrease. This is because the larger contracts typically are broader in scope and require more diverse capabilities resulting in more subcontracted effort. While this could lead to a higher ratio of direct contract expenses to revenue, the economies of these larger jobs are nonetheless generally favorable because they increase income, and increase and broaden our revenue base. The changes in the major components of direct contract expense were:

- Direct labor expense for the three months ended December 31, 2007 decreased $2.6 million, or 4.2%, from the three months ended December 31, 2006. Direct labor expense declined to 32.0% from 33.8% of total revenue for the three months ended December 31, 2007 and 2006, respectively.

- M&S expense for the three months ended December 31, 2007 increased $2.6 million, or 3.5%, over the three months ended December 31, 2006. M&S expense increased to 41.8% from 40.9% of total revenue for the three months ended December 31, 2007 and 2006, respectively, primarily as a result of increased use of subcontractors in support of our contracts. This was evidenced by the growth of the SAFTAS contract, which had a high content of M&S direct contract expenses.

Gross Profit. Gross profit was $42.8 million and $41.0 million for the three months ended December 31, 2007 and December 31, 2006, respectively. Gross profit was 23.4% and 22.6% of total revenue for the three months ended December 31, 2007 and 2006, respectively.

Operating Expenses. Operating expenses for the three months ended December 31, 2007 decreased $2.5 million, or 6.1%, from the three months ended December 31, 2006. The changes in the major components of operating expenses were:

- Operating expenses for indirect personnel and rental and occupancy expenses for the three months ended December 31, 2007 were relatively consistent with the expenses for the three months ended December 31, 2006. Operating expenses for indirect personnel and facilities were 9.6% and 9.8% of total revenue for the three months ended December 31, 2007 and 2006, respectively.

- General and administrative (G&A) expense, excluding stock-based compensation, for the three months ended December 31, 2007 increased approximately $0.4 million, or 3.1%, over the three months ended December 31, 2006.

- Stock-based compensation expense (a separate element of G&A expense) relates to the SAR and phantom stock plans. This expense for the three months ended December 31, 2007 decreased approximately $1.6 million, or 44.4%, from the three months ended December 31, 2006. The change in stock-based compensation expense results from the relative change in price of a share in Alion common stock and, to a lesser extent, the change in balance of awards that remain outstanding.

- Depreciation and amortization expense for the three months ended December 31, 2007 decreased approximately $0.6 million, or 10.7%, over the three months ended December 31, 2006. Depreciation and amortization expenses are affected by the level of our annual capital expenditures and the amount of identified intangibles related to acquisitions. We do not presently forsee significant changes in our capital expenditure requirements, which have been approximately 1.0% to 2.0% of revenue over the last three fiscal years. As we continue to make selected strategic acquisitions, the amortization of identified intangible assets may increase as a percentage of our revenue.

Income from Operations. Operating income for the three months ended December 31, 2007 increased approximately $4.3 million over the three months ended December 31, 2006 due to the decrease in stock based compensation, mix on our contracts, how we manage our costs, and the decrease in amortization charges resulting from acquisitions.

Other Expense. Other expense for the three months ended December 31, 2007 decreased approximately $1.2 million, or 8.4%, from the three months ended December 31, 2006.

As a component of other expense, interest expense for the three months ended December 31, 2007 decreased approximately $1.1 million, or 7.5%, from the three months ended December 31, 2006, which was attributable to the following:

	Three Months Ended December 31,	
	2007	2006
	(In millions)	
Term B — Revolving facility	$ 0.7	$ 0.7
Term B — Senior term loan	4.7	5.3
- amortization of debt issuance costs	0.2	0.4
Bridge loan	—	4.6
Senior unsecured note	6.4	—
- amortization of debt issuance costs	0.2	—
Subordinated note — PIK interest	0.6	0.6
-long-term deferred interest	0.2	0.2
-amortization of debt issuance costs	0.2	0.2
Accretion (reduction) of warrants(a)	(0.1)	2.0
Other	0.2	0.4
Total	$13.3	$14.4

(a) Reflects change in value assigned to the detachable warrants associated with the Subordinated Note based on the change in the value of Alion common stock and the number of warrants outstanding.

Income Tax Expense. We have filed qualified subchapter S elections for all of its wholly-owned domestic subsidiaries to treat them as disregarded entities for federal income tax purposes. Some states do not recognize the effect of these elections or Alion's S corporation status. For our Canadian subsidiary, Alion Science and Technology (Canada) Corporation, it accrues a tax liability, as required. We recorded $11,000 income tax expense for the three months ended December 31, 2007 and $13,000 income tax benefit for the three months ended December 31, 2006.

Net Loss. The net loss for the three months ended December 31, 2007 decreased from the three months ended December 31, 2006, because of the factors discussed above.

Liquidity and Capital Resources

Our primary liquidity requirements are for debt service, working capital, capital expenditures, and acquisitions. The principal working capital need is to fund accounts receivable, which increases with the growth of the business. We are funding our present operations, and we intend to fund future operations, primarily through cash provided by operating activities and through use of our revolving credit facility.

Cash Flows.

The following discussion relates to our cash flow for the three months ended December 31, 2007 and 2006.

Net cash used in operating activities was approximately $32.0 million and $25.2 million for the three months ended December 31, 2007 and 2006, respectively. The $6.8 million increase in use of cash was primarily attributable to the growth in accounts receivable, primarily from funding delays on customer contracts and seasonality in the customer payment cycle. Our cash flows from operations are subject to seasonality, such as, at the transition between government fiscal years and during the months of December and August each year.

Net cash used in investing activities (principally for strategic acquisitions) was approximately $1.2 million and $8.1 million for the three months ended December 31, 2007 and 2006, respectively. During the three months ended December 31, 2007, we did not have any payments in acquisition related obligations compared to $6.6 million in earn-out payments for JJMA, WCI and MA&D for the three months ended December 31, 2006. During the three

months ended December 31, 2007 and 2006, we spent approximately $1.2 million and $1.5 million for capital expenditures unrelated to acquisitions.

Net cash provided by financing activities was approximately $22.1 million for the three months ended December 31, 2007, compared to net cash provided by financing activities of approximately $30.9 million for the three months ended December 31, 2006. The most significant components of our financing activities are: 1) net proceeds from (or repayment of) short term borrowings and 2) net proceeds from (or repayment of) long term debt securities. During the three months ended December 31, 2007, we borrowed $17.3 million under the revolving credit facility for working capital needs and received $3.4 million from the issuance of common stock under the ESOP. During the three months ended December 31, 2006, we borrowed approximately $20.3 million under the revolving credit facility for working capital needs and received $9.0 million from the issuance of common stock under the ESOP.

Discussion of Debt Structure

The discussion below describes the Term B Senior Credit Facility, as modified and supplemented by Amendments One, Two, Three, Increment Four, Amendment Four and Increment Five; the Subordinated Note used to finance the Transaction; the previously effective Bridge Loan Agreement and the Senior Unsecured Notes issued and sold by the Company.

Term B Senior Credit Facility

As of December 31, 2007, the Term B Senior Credit Facility consisted of:

- a senior term loan in the approximate amount of $244.9 million;
- a $50.0 million senior revolving credit facility under which approximately $26.6 million was outstanding as of December 31, 2007, and approximately $3.7 million of which was allocated for letters of credit and as such is not available to be borrowed; and
- a $110.0 million uncommitted incremental term loan "accordion" facility.

On August 2, 2004, the Company entered into the Term B Senior Credit Facility with a syndicate of financial institutions for which Credit Suisse serves as arranger, administrative agent and collateral agent, and for which LaSalle Bank National Association serves as syndication agent.

- In April 2005, the first amendment to the Term B Senior Credit Facility (Amendment One) made certain changes to the Term B Senior Credit Facility and added $72.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.
- In March 2006, the second amendment to the Term B Senior Credit Facility (Amendment Two) made certain changes to the Term B Senior Credit Facility and increased the senior term loan commitment by $68.0 million, and increased the revolving credit commitment from $30.0 million to $50.0 million.
- On June 30, 2006, the third amendment to the Term B Senior Credit Facility (Amendment Three) made certain changes to the Term B Senior Credit Facility and added $50.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.
- On January 4, 2007, the fourth increment to the Term B Senior Credit Facility (Increment Four) added $15.0 million in senior term loans to the Company's total Term B Senior Credit Facility debt.
- On February 6, 2007, the fourth amendment to the Term B Senior Credit Facility (Amendment Four) made certain changes to the Term B Senior Credit Facility, including (i) extending the maturity date of the senior term loans to February 6, 2013, (ii) adjusting the principal repayment schedule to require one balloon principal repayment at maturity, and (iii) adding an incurrence test as an additional condition to the Company's ability to incur permitted indebtedness.
- On July 17, 2007, the Company entered into a fifth incremental term loan facility (Increment Five), which added $25.0 million in senior term loans to the Term B Senior Credit Facility.

The Term B Senior Credit Facility requires the Company to repay one percent of the principal balance of the senior term loan during each of the first eight years (fiscal years 2005 through 2012) and the first quarter of fiscal year 2013 in equal quarterly principal installments and the remaining principal balance outstanding during the ninth and final year (2013) in one principal installment. As of February 6, 2007, through the quarter ending December 31, 2012, the Company is currently obligated to pay quarterly principal installments of approximately $0.6 million. On February 6, 2013, the senior term loan maturity date, the Company is obligated to pay a principal installment of approximately $232.5 million.

Interest and Fees. Under the Term B Senior Credit Facility, the senior term loan and the senior revolving credit facility can each bear interest at either of two floating rates.

*** Senior Term Loan.** The Company was entitled to elect that interest be payable on the Company's senior term loan at an annual rate equal to either: 1) the applicable alternate base interest rate charged by Credit Suisse plus a 175 basis point spread or 2) the Eurodollar rate plus a 275 basis point spread. As of February 6, 2007, the spread associated with the alternate base interest rate charged by Credit Suisse from time to time was lowered to 150 basis points, and the spread associated with the Eurodollar rate in effect from time to time was lowered to 250 basis points.

* **Senior Revolving Credit Facility.** The Company was also entitled to elect that interest be payable on the senior revolving credit facility at an annual rate dependent on the Company's leverage ratio and whether the borrowing is a Eurodollar or an alternate base rate (ABR) borrowing. As of February 6, 2007, under the Term B Senior Credit Facility, if the Company were to elect a Eurodollar borrowing under its senior revolving credit facility, interest would be payable at an annual rate equal to the Eurodollar rate plus additional basis points as reflected in the table below under the column "Eurodollar Spread" corresponding to the Company's leverage ratio at the time. Under the Term B Senior Credit Facility, if the Company were to elect an ABR borrowing under its senior revolving credit facility, the Company would pay interest at an alternate base interest rate based on the greater of Credit Suisse's prime rate or a federal funds effective rate, plus additional basis points reflected in the table below under the columns "Prime Rate ABR Spread" or "Federal Funds ABR Spread" corresponding to the Company's leverage ratio at the time.

Leverage Ratio	Eurodollar Spread (in basis points)	Federal Funds ABR Spread (in basis points)	Prime Rate ABR Spread (in basis points)
Category 1 . . . . . Greater than or equal to 3.00 to 1.00	250	225	150
Category 2 . . . . . Greater than or equal to 2.50 to 1.00 but less than 3.00 to 1.00	250	200	150
Category 3 . . . . . Greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00	225	175	125
Category 4 . . . . . Less than 2.00 to 1.00	200	150	100

On April 1, 2005, the Company elected to have the senior term loan bear interest at the Eurodollar rate and the senior revolving credit facility bear interest at the ABR rate. As of December 31, 2007, the Eurodollar rate on the senior term loan was 7.73 percent (4.83 percent plus 2.50 percent Eurodollar spread) and the ABR rate was 9.00 percent (7.50 percent plus 1.50 percent spread).

Interest Rate Swap. On January 30, 2008, the Company entered into an interest rate swap with a notional amount of $240 million, to convert a portion of the Term B senior term loan from a floating rate to a fixed rate and to help rebalance the timing of the interest payments on the Term B senior term loan. The swap was effective as of November 1, 2007. The variable rates reset every six months, at which time payment or receipt of interest is settled. The first variable rate is from November 1, 2007 to May 1, 2008 and the second variable rate is from May 1, 2008 to November 1, 2008. The swap matures in November 2008. The Company receives quarterly variable interest rate

payments based on the London Interbank Offering Rate (LIBOR) plus a 250 basis point spread in exchange for making semi-annual fixed interest rate payments based on a 6.52% interest rate. The swap is secured pari passu with the existing Term B Credit Facility.

Other Fees and Expenses. Each quarter the Company is required to pay a commitment fee equal to 50 basis points per year on the prior quarter's daily unused balance of the revolving credit facility and the senior term loan. As of December 31, 2007, there was approximately $26.6 million outstanding on the revolving credit facility and approximately $3.7 million was allocated for letters of credit; and the senior term loan was fully utilized. For the three months ended December 31, 2007, the Company paid a commitment fee of approximately $25,000 for the revolving credit facility and no commitment fee for the senior term loan.

In addition to issuance and administrative fees, the Company is required to pay a fronting fee not to exceed 25 basis points for each letter of credit issued under the revolving credit facility. Each quarter the Company is required to pay interest in arrears at the revolving credit facility rate for all outstanding letters of credit. In addition to other fees and expenses under the Term B Senior Credit Facility, the Company is required to pay an annual agent's fee.

Financial Covenants. The Term B Senior Credit Facility requires the Company to meet certain financial performance covenants over the life of the facility. For the three months ended December 31, 2007 and 2006, the Company was in compliance with the financial covenants set forth in the Term B Senior Credit Facility.

The Term B Senior Credit Facility includes other covenants which, among other things, restrict the Company's ability to do the following without the prior consent of syndicate bank members that have extended more than 50 percent or more of the aggregate amount of all loans then outstanding under the Term B Senior Credit Facility:

- incur additional indebtedness other than permitted additional indebtedness after satisfying a senior secured leverage based incurrence test;
- consolidate, merge or sell all or substantially all of the Company's assets;
- make certain loans and investments including acquisitions of businesses, other than permitted acquisitions;
- pay dividends or distributions other than distributions needed for the ESOP to satisfy its repurchase obligations and for certain payments required under the Company's equity based incentive plans;
- enter into certain transactions with the Company's shareholders and affiliates;
- enter into certain transactions not permitted under ERISA;
- grant certain liens and security interests;
- enter into sale and leaseback transactions;
- change lines of business;
- repay subordinated indebtedness before it is due and redeem or repurchase certain equity;
- pay certain earn-outs in connection with permitted acquisitions; or
- use the proceeds of the Company's borrowings other than as permitted by the Term B Senior Credit Facility.

Events of Default. The Term B Senior Credit Facility contains customary events of default including, without limitation:

- payment default;
- breach of representations and warranties;
- uncured covenant breaches;
- default under certain other debt exceeding an agreed amount;
- bankruptcy and insolvency events;

- notice of debarment, suspension or termination under a material government contract;
- certain ERISA violations;
- unstayed judgments in excess of an agreed amount;
- failure of the subordinated note to be subordinated to the Term B Senior Credit Facility;
- failure of any guarantee of the Term B Senior Credit Facility to be in effect;
- failure of the security interests to be valid, perfected first priority security interests in the collateral;
- failure of the Company to remain an S-corporation;
- imposition on the ESOP Trust of certain taxes in excess of an agreed amount;
- final determination that the ESOP is not a qualified plan;
- incurrence of a civil or criminal liability in excess of $5 million of the Company or any subsidiary arising from a government investigation;
- the actual termination of a material contract due to alleged fraud, willful misconduct, negligence, default or any other wrongdoing; or
- change of control (as defined below).

For purposes of the Term B Senior Credit Facility, a change of control generally occurs when, before the Company lists its common stock to trade on a national securities exchange and the Company obtains net proceeds from an underwritten public offering of at least $30.0 million, the ESOP Trust fails to own at least 51 percent of the Company's outstanding equity or voting interests, or, after the Company has such a qualified public offering, any person or group other than IIT or the ESOP Trust owns more than 37.5 percent of the Company's outstanding equity or voting interests. A change of control may also occur if a majority of the seats (other than vacant seats) on the Company's Board of Directors shall at any time be occupied by persons who were neither nominated by the Company's board nor were appointed by directors so nominated. A change of control may also occur if a change of control occurs under any of the Company's material indebtedness including the Company's subordinated note and the warrants issued with the Company's subordinated note.

Subordinated Note — Redeemable Common Stock Warrants

On December 20, 2002, the Company issued a $39.9 million note to IITRI (Subordinated Note) as part of the consideration for Alion's acquisition of substantially all of IITRI's assets. On July 1, 2004, IIT acquired all of IITRI's rights and interests in the Subordinated Note and the related warrant agreement. On June 30, 2006, the Company and IIT entered into an agreement that increased the interest rate on the Subordinated Note for two years from December 21, 2006 through December 20, 2008.

The Subordinated Note bears interest at (i) 6% through December 20, 2006, (ii) approximately 6.4% from December 21, 2006 through December 20, 2007, and (iii) approximately 6.7% from December 21, 2007 through December 20, 2008. Interest is payable quarterly by the issuance of paid-in-kind or PIK notes maturing at the same time as the Subordinated Note. The PIK notes have the effect of deferring the underlying cash interest expense on the Subordinated Note. Beginning in December 2008, the Subordinated Note will bear interest at 16% per year payable quarterly in cash until the note has been repaid in full. Principal on the Subordinated Note is payable in equal installments of $19.95 million in December 2009 and December 2010. The PIK notes are due in equal installments of approximately $7.4 million on these same dates.

The Company issued 1,080,437 detachable redeemable common stock warrants (the Warrants) to IITRI in connection with the Subordinated Note. IITRI subsequently transferred all of its rights, title and interest in the Warrants to IIT. The Warrants have an exercise price of $10 per share and are exercisable until December 20, 2010. The Warrants permit the holders to sell warrants to the Company, at predetermined times, at the then current fair value of the common stock less the exercise price. The Warrants are classified as debt instruments in accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and*

Potentially Settled in, a Company's Own Stock. The Company recorded the initial $7.1 million estimated fair value of the Warrants as a discount to the face value of the Subordinated Note and as a liability. The outstanding Warrants had an estimated fair value of $33.6 million as of December 31, 2007. The Company recognizes interest expense for changes in the estimated fair value of the Warrants.

Senior Unsecured Notes

On February 8, 2007, the Company issued and sold $250.0 million of its 10.25% senior unsecured notes due February 1, 2015 (Private Senior Unsecured Notes) to Credit Suisse, which informed the Company that it resold most of the Private Senior Unsecured Notes to qualified institutional buyers.

Interest and Fees. The Senior Unsecured Notes bear interest at 10.25% per year, payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2007. The Company will make each interest payment to the holders of record on the immediately preceding January 15 and July 15. The Company will pay interest on overdue principal at 11.25% per annum and will pay interest on overdue installments of interest at 11.25% per annum to the extent lawful.

Covenants. The Indenture governing the Senior Unsecured Notes contains covenants that, among other things, limit the Company's ability and the ability of certain of its subsidiaries to:

- incur or guarantee additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness, except in certain circumstances for the junior subordinated notes and junior warrants;
- repurchase or redeem shares of Company stock in connection with distributions and diversifications from the ESOP component of the KSOP;
- transfer or sell assets including shares of stock of certain subsidiaries of the Company outside the ordinary course of business;
- make investments other than certain permitted investments;
- engage in business unrelated to the Company's existing business;
- incur certain liens and enter into sale/leaseback transactions;
- enter into certain transactions with affiliates;
- pay dividends and make their distributions and loans to the Company; and
- merge or consolidate with other companies.

Events of Default. The Indenture contains customary events of default, including:

- payment default;
- uncured covenant breaches;
- default under an acceleration of certain other debt exceeding $30 million;
- certain bankruptcy and insolvency events;
- a judgment for payment in excess of $30 million entered against the Company or any material subsidiary that remains outstanding for a period of 60 days and is not discharged, waived or stayed; and
- failure of any guarantee of the Senior Unsecured Notes to be in effect or the denial or disaffirmation by any subsidiary guarantor of its guaranty obligations.

Change of Control. Upon the occurrence of any of the following events, each holder of Senior Unsecured Notes has the right to require that the Company repurchase such holder's notes at a purchase price in cash equal to 101% of the principal amount of such holder's notes plus accrued and unpaid interest:

- subject to certain exceptions, a person, other than the ESOP Trust, is or becomes the beneficial owner, directly or indirectly, of more than 35% of the total voting power or voting stock of the Company;
- individuals who on the date of issuance of the Senior Unsecured Notes constituted the board of directors of the Company, cease for any reason to constitute a majority of the board of directors of the Company;
- the adoption of a plan relating to the liquidation or dissolution of the Company; and
- subject to certain exceptions, the merger or consolidation of the Company with or into another person or the merger of another person with or into the Company, or the sale of all or substantially all the assets of the Company to another person.

During the remainder of fiscal year 2008 and the next six fiscal years, at a minimum, we expect that we will have to make the estimated interest and principal payments set forth below.

	6-Fiscal Year Period						
	2008*	2009	2010	2011	2012	2013	Thereafter
	($ in thousands)						
Bank revolving credit facility							
- Interest(1)	$ 1,766	$ 1,529	$ 1,059	$ 250	$ 250	$ 250	$ 500
Senior Term Loan							
- Interest(2)	9,389	13,402	14,723	15,797	17,067	6,528	—
- Principal(3)	1,855	2,474	2,474	2,474	2,474	233,134	
Interest Rate Swap(4)	(968)	1,202	—	—	—	—	—
Senior Unsecured Notes							
- Interest	25,625	25,625	25,625	25,625	25,625	25,625	38,438
- Principal	—	—	—	—	—	—	250,000
Subordinated Note							
- Interest	—	6,384	3,192	—	—	—	—
- Principal	—	27,352	27,352	—	—	—	—
Total cash — Pay interest	35,812	48,142	44,599	41,672	42,942	32,403	38,938
Total cash — Pay principal	1,855	29,826	29,826	2,474	2,474	233,134	250,000
Total	$37,667	$77,968	$74,425	$44,146	$45,416	$265,537	288,938

* Estimated interest and principal payments for the remainder of fiscal year 2008.

(1) The Company anticipates accessing, from time to time, its $50.0 million revolving credit facility to finance the Company's ongoing working capital needs. The remaining term of the revolving credit facility is approximately two years; however, the Company expects to access a revolving credit facility as an on-going requirement to fund working capital at least through 2013. For the remainder of fiscal year 2008, the average balance drawn on the Company's revolving credit facility is projected to be approximately $25.0 million. For fiscal years 2009 and 2010, the average balance is estimated to be $15.5 million and $5.3 million. For the fiscal years 2011 through 2012, the Company anticipates the balance drawn on its then revolving credit facility will be minimal. For the years 2008 through 2013, the projected effective Credit Suisse prime interest rate is estimated to be approximately 7.25%. Interest expense value includes an estimate for the unused balance fee on the $50.0 million revolving credit facility.

(2) The projected average annual senior term loan balance the Company estimates will be drawn under the Term B Senior Credit Facility is as follows: $244.3 million, $241.8 million, $239.3 million, $236.8 million, and $234.4 million for the remainder of fiscal year 2008 and for fiscal years ending September 30, 2009 through 2012, respectively. The Company expects it will need to refinance the Term B Senior term loan before the end

of fiscal year 2012 and expects interest expense to continue at levels similar to prior years. Based on an estimated LIBOR rate plus the Credit Suisse Eurodollar spread, the effective annual interest rate for the remainder of fiscal year 2008, and for fiscal years ending September 30, 2009 through 2012 is estimated to be approximately 5.1%, 5.5%, 6.2%, 6.7%, and 7.3%, respectively. The senior term loan matures February 6, 2013. Estimated interest expense includes an estimate for the commitment fee on the senior term loan.

(3) The Term B Senior Credit Facility requires the Company to repay approximately 1.0 percent of the principal balance outstanding under the senior term loan annually. Approximately 6.0% of the principal will be paid during fiscal years 2008 through 2012 and the first quarter of fiscal year 2013 and the remaining principal balance will be repaid on February 6, 2013, the senior term loan maturity date. The table reflects the balance drawn of $244.9 million as of December 31, 2007, resulting in expected aggregate annual principal payments of approximately $1.9 million for the remainder of fiscal year 2008, approximately $2.5 million in each of fiscal years 2009 through 2012, approximately $0.6 million for the first quarter of fiscal year 2013, and the remaining principal balance of approximately $232.5 million on February 6, 2013. The Term B Senior Credit Facility also requires the Company to make mandatory prepayments of principal if the Company generates certain excess cash flow in a given fiscal year, issues or incurs certain debt or sells certain assets. As of December 31, 2007, no mandatory prepayments are due.

(4) The interest rate swap has net settlements on May 1, 2008 and November 1, 2008. The $1.0 net receipt on May 1, 2008 is based on the existing floating rate (LIBOR plus basis point spread) of 7.32%. The $1.2 net payment on November 1, 2008 is based on the estimated floating rate of 5.54%.

Contingent Obligations

Earn- out and Hold-back Commitments

The Company has earn-out and hold-back commitments related to the following acquisitions:

Acquisition Date	Business Unit	Hold-back	Maximum Earn-out	Expiration Date	Basis of Earn-outs	Amount paid in FY2007	Estimated Amount to be paid in FY2008 *
2/10/06	BMH.	1.50M	6.00M	12/31/07	Revenue of business unit	$3.00M (earn-out) $1.50M (hold-back)	$3.00M (earn-out)
7/20/07	LogConGroup. . . .	—	0.90M	09/30/13	Revenue of business unit	—	—

* Amounts accrued as of December 31, 2007.

Other Contingent obligations which will impact the Company's cash

Other contingent obligations which will impact the Company's cash flow include:

- obligations related to the holder's put rights associated with the Subordinated Note warrants;
- obligations relating to the Company's stock based compensation plans; and
- repurchase obligations under the KSOP.

As of December 31, 2007, the Company has spent a cumulative total of $58.4 million to repurchase shares of its common stock in order to satisfy redemption obligations under the KSOP to former employees.

Date	Number of Shares Repurchased	Share Price	Total Value Purchased (In thousands)
June 2003	5,248	$11.13	$ 58
July 2003	2,696	$11.13	30
December 2003	50,031	$14.71	736
May 2004	117	$16.56	$ 2
June 2004	727	$16.56	12
June 2004	743	$16.56	12
July 2004	48,309	$16.56	800
December 2004	46,816	$19.94	934
March 2005	5,691	$19.94	113
June 2005	45,846	$29.81	1,367
August 2005	1,090	$33.78	37
September 2005	170,657	$33.78	5,765
December 2005	211,537	$35.89	7,592
June 2006	273,800	$37.06	10,147
July 2006	32,420	$37.06	1,201
August 2006	1,747	$37.06	64
December 2006	2,243	$41.02	92
January 2007	14	$41.02	1
February 2007	160,020	$41.02	6,564
March 2007	73	$41.02	3
May 2007	238	$43.37	10
June 2007	(2,549)	$40.88*	(104)
July 2007	276,877	$43.37	12,008
August 2007	251,248	$43.37	10,897
September 2007	15	$43.37	1
October 2007	83	$43.37	4
December 2007	210	$40.05	8
Total			$58,354

* This is an average share price that represent a combination of transactions.

The Company believes that cash flow from operations and cash available under its revolving credit facility will provide it with sufficient capital to fulfill its current business plan and to fund its working capital needs for at least the next 24 months. The Company expects to be able to improve its cash flow from operations based on its ability to submit invoices electronically and more frequently. Although the Company expects to have positive cash flow from operations, it will need to generate significant additional revenues beyond its current revenue base and to earn net income in order to repay principal and interest on the indebtedness it assumed under the Term B Senior Credit Facility, Senior Unsecured Notes and the remaining outstanding indebtedness it incurred to fund the Transaction, and in order to satisfy the Company's repurchase obligations.

The Company's business plan calls for it to continue to acquire companies with complementary technologies. The Term B Senior Credit Facility and the Indenture governing the Senior Unsecured Notes allow the Company to make certain permitted acquisitions, and the Company intends to use a portion of the financing available to it under the Term B Senior Credit Facility to make permitted acquisitions. The Company expects it will need to refinance the Term B senior term loan before the end of fiscal year 2012 and refinance the Subordinated and PIK Notes before

the end of fiscal year 2008. Without executing the aforementioned refinancing, the Company's cash from operations will be insufficient to satisfy all of its obligations and it cannot be certain that it will be able to refinance on terms that will be favorable to the Company, if at all. Moreover, if the Company's plans or assumptions change, if its assumptions prove inaccurate, if it consummates additional or larger investments in or acquisitions of other companies than are currently planned, if it experiences unexpected costs or competitive pressures, or if its existing cash and projected cash flow from operations prove insufficient, it may need to obtain greater amounts of additional financing and sooner than expected. While it is the Company's intention only to enter into new financing or refinancing that it considers advantageous, it cannot be certain that such sources of financing will be available to the Company in the future, or, if available, that financing could be obtained on terms favorable to the Company.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted this statement and determined that it will not have a significant impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP). This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently analyzing the expected impact from adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on the financial position or results of operations of the Company.

In September 2006, the Securities Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), *Financial Statements — Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 requires companies to quantify the impact of all correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. This pronouncement was effective for the Company in fiscal 2007. SAB 108 did not have a material effect on the Company's financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently analyzing the impact of adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* which changes the requirements for an acquirer's recognition and measurement of the assets acquired and liabilities assumed in a business combination. This statement is effective for the Company with respect to all business combinations for which the acquisition date is after October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that

deconsolidate a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This Statement improves comparability by eliminating that diversity. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently analyzing the impact of adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on its financial position or results of operations.

Forward Looking Statements

This discussion contains forward-looking statements that involve risks and uncertainties. These statements relate to our future plans, objectives, expectations and intentions and are for illustrative purposes only. These statements may be identified by the use of words such as "believe," "expect," "intend," "plan," "anticipate," "likely," "will," "pro forma," "forecast," "projections," "could," "estimate," "may," "potential," "should," "would," and similar expressions.

The factors that could cause actual results to differ materially from those anticipated include, but are not limited to, the following:

- changes to the ERISA laws related to the Alion Science and Technology Corporation Employee Ownership, Savings and Investment Plan;
- changes to the tax laws relating to the treatment and deductibility of goodwill, the Company's subchapter S status, or any change in the Company's effective tax rate;
- additional costs associated with compliance with provisions of the Sarbanes-Oxley Act of 2002, including any changes in the SEC's rules, and other corporate governance requirements;
- failure of government customers to exercise options under contracts;
- funding decisions relating to U.S. Government projects;
- government contract procurement (such as bid protest) and termination risks;
- competitive factors such as pricing pressures and/or competition to hire and retain employees;
- the results of current and/or future legal proceedings and government agency proceedings which may arise out of our operations (including our contracts with government agencies) and the attendant risks of fines, liabilities, penalties, suspension and/or debarment;
- undertaking acquisitions that could increase our costs or liabilities or be disruptive;
- taking on additional debt to fund acquisitions;
- failure to adequately integrate acquired businesses;
- material changes in laws or regulations applicable to the Company's businesses;
- as well as other risk factors discussed in the Company's annual report on Form 10-K for the year ended September 30, 2007 filed with the SEC on December 28, 2007.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's view only as of February 14, 2008. The Company undertakes no obligation to update any of the forward-looking statements made herein, whether as a result of new information, future events, changes in expectations or otherwise. This discussion addresses only our continuing operations.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest risk

Our exposure to interest rate risk is primarily due to the debt we incurred to finance the Transaction, the subsequent refinancing of a portion of that debt in August 2004 and additional financing undertaken by the Company in October 2004, April 2005, March 2006, June 2006, January 2007, February 2007 and July 2007. The balance drawn under the $50.0 million senior revolving credit facility bears interest at variable rates based on Credit Suisse's prime rate plus a maximum spread of 225 basis points. The balance on the Senior Secured Term B Loan bears interest at variable rates currently tied to the Eurodollar rate. Such variable rates increase the risk that interest charges will increase materially if market interest rates increase.

The approximate impact of a 1% increase in the interest rate, as applied to principal balances drawn under the Senior Term B Credit Facility would be $1.9 million, $2.5 million, $2.4 million, $2.4 million, and $2.4 million for the remainder of fiscal year 2008 and for the fiscal years ending September 30, 2009 through 2012, respectively.

We have only limited involvement with derivative instruments and do not use derivatives for trading purposes. We invest our excess cash in short-term, investment grade, and interest-bearing securities. On January 30, 2008, we entered into an interest rate swap agreement with a notional amount of $240 million, to convert a portion of the Term B senior term loan from a floating rate to a fixed rate and to help rebalance the timing of the interest payments on the Term B senior term loan. See further discussion in the subsequent events footnote to our condensed consolidated financial statements. Any change in fair value would not affect our consolidated statement of operations unless the agreement and the debt it hedges were prematurely settled.

Foreign currency risk

Our expenses and revenues from our international contracts are generally denominated in U.S. dollars. We do not believe that our operations are subject to material risks associated with currency fluctuations.

Risk associated with the value of Alion common stock

We have exposure to change in the fair market value of our common stock as the economic basis for the estimate of contingent obligations relating to the holder's put rights associated with the Subordinated Note warrants.

The value of this obligation would increase by approximately $4.3 million if the price of our stock were to increase by 10% and would decrease by approximately $4.3 million if the price of our stock were to decrease by 10%. Such changes would be reflected as a component of interest expense in our consolidated statements of operations.

We also have exposure to change in the fair market value of Alion's stock as the economic basis for the estimate of contingent obligations relating to our repurchase obligations under the KSOP and obligations relating to stock appreciation rights and phantom stock programs.

The amount of such exposure will depend upon a number of factors. These factors include, but are not limited to, the number of employees who might seek to redeem shares of our stock for cash following termination of employment, and the number of employees who might exercise their rights under the stock appreciation and phantom stock programs during any particular time period.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 15d — 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it is required to file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms. Disclosure

controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive and Principal Financial Officers, as appropriate to allow timely decisions regarding required disclosures. Based on such evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and timely.

The Company's delayed filing of this Form 10-Q was attributable to the reclassification of the shares of common stock held by the ESOP Trust as temporary equity pursuant to Section 210.5-02 (28) of Regulation S-X on the basis that the Company is unable to control all possible events of redemption. The Company reflected this change in its restated consolidated financial statements for the year ended September 30, 2007, as presented in the Form 10-K/A, which was filed with the SEC on March 12, 2008. The reclassification had no impact on the Company's results of operations or compliance with covenants related to any credit facilities for the fiscal year ended September 30, 2007.

Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 15d — 15(f) under the Exchange Act) during the fiscal fourth quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Institution of internal controls in compliance with Section 404 of Sarbanes-Oxley. The Company is currently in the process of instituting an internal controls program that will meet the requirements of Section 404 and the applicable regulations. The Chief Executive Officer and Principal Financial Officer currently believe that the internal controls program will be implemented by the SEC's extended compliance deadline, which will require the Company to meet the requirements of Section 404 by the end of its 2008 fiscal year. The Company believes, however, that any deficiencies that may be identified by its efforts to comply with Section 404 will not affect the accuracy of our financial statements included in this report.

Item 4T. ***Controls and Procedures***

Not applicable.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

See Footnote 17 to the Condensed Consolidated Financial Statements. Other than the actions discussed in Footnote 17, the Company is not involved in any legal proceeding other than routine legal proceedings occurring in the ordinary course of business. The Company believes that these routine legal proceedings, in the aggregate, are not material to its financial condition and results of operations.

As a government contractor, the Company may be subject from time to time to federal government inquiries relating to its operations and audits by the Defense Contract Audit Agency. Contractors found to have violated the False Claims Act, or which are indicted or convicted of violations of other federal laws, may be suspended or debarred from federal government contracting for some period. Such an event could also result in fines or penalties.

Item 1A. *Risk Factors*

None.

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

None, other than sales of securities already reported by the Company in current reports on Form 8-K.

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*

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of Alion Science and Technology Corporation pursuant to Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer of Alion Science and Technology Corporation pursuant to 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer of Alion Science and Technology Corporation, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer of Alion Science and Technology Corporation, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

ALION SCIENCE AND TECHNOLOGY CORPORATION

/s/ MICHAEL J. ALBER

Name: Michael J. Alber
Title: Principal Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

Date: March 12, 2008

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF EXECUTIVE OFFICER

I, Bahman Atefi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alion Science and Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Reserved]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2008

/s/ Bahman Atefi
Name: Bahman Atefi
Title: Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE PRINCIPAL FINANCIAL OFFICER

I, Michael J. Alber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alion Science and Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Reserved]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2008

/s/ Michael J. Alber
Name: Michael J. Alber
Title: Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alion Science and Technology Corporation (the "Corporation") on Form 10-Q for the three months ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bahman Atefi, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

Date: March 12, 2008

/s/ Bahman Atefi

Name: Bahman Atefi
Title: Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Alion Science and Technology Corporation (the "Corporation") on Form 10-Q for the three months ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Alber, Principal Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

Date: March 12, 2008

/s/ Michael J. Alber
Name: Michael J. Alber
Title: Principal Financial Officer