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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 JUNE 30, 2009.

COMMISSION FILE NUMBER 333–89756

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.)

1750 Tysons Boulevard, Suite 1300
McLean, VA 22102
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark 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 August 7, 2009, was: Common Stock 5,264,625

ALION SCIENCE AND TECHNOLOGY CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2009

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PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements (unaudited)***

ALION SCIENCE AND TECHNOLOGY CORPORATION
Condensed Consolidated Balance Sheets (unaudited)
As of June 30, 2009 and September 30, 2008

	June 30, 2009	September 30, 2008
	(In thousands, except share and per share information)	
Current assets:		
Cash and cash equivalents	$ 2,190	$ 16,287
Accounts receivable, net	176,586	168,451
Stock subscriptions receivable	—	2,669
Prepaid expenses and other current assets	4,237	3,135
Total current assets	183,013	190,542
Property, plant and equipment, net	15,506	18,601
Intangible assets, net	31,512	41,248
Goodwill	398,871	398,871
Other assets	6,775	6,684
Total assets	$ 635,677	$ 655,946
Current liabilities:		
Interest payable	$ 15,412	$ 6,543
Current portion, senior term loan payable	2,389	2,389
Interest rate swap liability	—	4,629
Current portion of subordinated note payable	3,000	3,000
Current portion, acquisition obligations	—	50
Trade accounts payable	40,852	57,164
Accrued liabilities	44,336	39,227
Accrued payroll and related liabilities	48,343	41,557
Billings in excess of revenue earned	3,872	2,708
Total current liabilities	158,204	157,267
Senior term loan payable, excluding current portion	229,387	229,831
Senior unsecured notes	245,020	244,355
Subordinated note payable	45,294	42,656
Accrued compensation, excluding current portion	5,063	11,305
Accrued postretirement benefit obligations	656	627
Non-current portion of lease obligations	6,652	6,260
Redeemable common stock warrants	33,258	39,996
Redeemable common stock, $0.01 par value, 8,000,000 shares authorized, 5,264,725 and 5,229,756 shares issued and outstanding at June 30, 2009 and September 30, 2008	180,580	200,561
Accumulated other comprehensive loss	(36)	(36)
Accumulated deficit	(268,401)	(276,876)
Total liabilities, redeemable common stock and accumulated deficit	$ 635,677	$ 655,946

See accompanying notes to condensed consolidated financial statements.

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ALION SCIENCE AND TECHNOLOGY CORPORATION
Condensed Consolidated Statements of Operations (unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except share and per share information)			
Contract revenue	$ 204,160	$ 185,876	$ 588,385	$ 558,264
Direct contract expense	157,666	142,862	452,123	426,274
Gross profit	46,494	43,014	136,262	131,990
Operating expenses:				
Indirect contract expense	9,443	10,410	27,899	31,369
Research and development	223	359	370	815
General and administrative	17,253	15,298	40,852	48,004
Rental and occupancy expense	8,169	7,979	24,375	23,392
Depreciation and amortization	5,156	5,313	14,662	15,673
Total operating expenses	40,244	39,359	108,158	119,253
Operating income	6,250	3,655	28,104	12,737
Other income (expense):				
Interest income	15	92	63	364
Interest expense	(15,766)	(12,332)	(40,098)	(39,439)
Other	90	706	(32)	(41)
Gain on sale of non-operating assets	(19)	—	(19)	—
Total other expenses	(15,680)	(11,534)	(40,086)	(39,116)
Loss before income taxes	(9,430)	(7,879)	(11,982)	(26,379)
Income tax benefit (expense)	(7)	(14)	44	(25)
Net loss	$ (9,437)	$ (7,893)	$ (11,938)	$ (26,404)
Basic and diluted loss per share	(1.79)	(1.55)	(2.28)	(5.24)
Basic and diluted weighted average common shares outstanding	5,240,778	5,104,958	5,264,762	5,043,375

See accompanying notes to condensed consolidated financial statements.

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ALION SCIENCE AND TECHNOLOGY CORPORATION
Condensed Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended June 30,	
	2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (11,938)	$ (26,404)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,662	15,673
Bad debt expense	760	(146)
Loss on sale of non-operating assets	19	—
Accretion of debt to face value	1,769	760
Amortization of debt issuance costs	2,045	1,325
Change in fair value of redeemable common stock warrants	(6,738)	436
Stock-based compensation	(5,353)	5,686
Loss on interest rate swap	18	276
Changes in assets and liabilities:		
Accounts receivable	(8,895)	(21,133)
Other assets	(1,214)	(485)
Trade accounts payable	(16,310)	6,834
Accrued liabilities	16,331	10,789
Interest payable	8,869	902
Other liabilities	5,454	3,038
Net cash used in operating activities	(521)	(2,449)
Cash flows from investing activities:		
Cash paid for acquisitions-related obligations	(166)	(7,946)
Capital expenditures	(1,789)	(4,091)
Net cash used in investing activities	(1,955)	(12,037)
Cash flows from financing activities:		
Cash (paid for) received from interest rate swap	(4,647)	969
Payment of senior term loan principal	(1,825)	(1,855)
Payment of subordinated note principal	(3,000)	—
Revolver borrowings	349,925	361,755
Revolver payments	(349,925)	(360,155)
Loan to ESOP Trust	(5,936)	(3,369)
ESOP loan repayment	5,936	3,369
Redeemable common stock purchased from ESOP Trust	(7,264)	(1,250)
Redeemable common stock sold to ESOP Trust	5,115	3,377
Net cash (used in) provided by financing activities	(11,621)	2,841
Net decrease in cash and cash equivalents	(14,097)	(11,645)
Cash and cash equivalents at beginning of period	16,287	11,684
Cash and cash equivalents at end of period	$ 2,190	$ 39
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 30,284	$ 33,477
Cash paid (received) for taxes	$ (104)	$ 67
Non-cash financing activities:		
Common stock issued to ESOP Trust in satisfaction of employer contribution liability	$ 5,043	$ 5,043

See accompanying notes to condensed consolidated financial statements.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

(1) Description and Formation of the Business

Alion Science and Technology Corporation and its subsidiaries (collectively, the Company or Alion) provide 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. Alion provides services to departments and agencies of the federal government and, to a lesser extent, to commercial and international customers.

Alion is a for-profit S-Corporation formed in October 2001 to purchase substantially all of the assets and certain liabilities of IIT Research Institute (IITRI), a not-for-profit corporation controlled by Illinois Institute of Technology (IIT). In December 2002, Alion acquired substantially all of IITRI's assets and liabilities except for its Life Sciences Operation, for $127.3 million. Prior to that, 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 Alion's Annual Report on Form 10-K for the year ended September 30, 2008.

The statements are prepared on the accrual basis of accounting and include the accounts of Alion and its wholly-owned subsidiaries from their date of acquisition or formation. All inter-company accounts have been eliminated in consolidation. There were no changes to Alion's subsidiaries in the current fiscal year.

Fiscal, Quarter and Interim Periods

Alion's fiscal year ends on September 30. The Company operates based on a three-month quarter, four-quarter fiscal year with quarters ending December 31, March 31, June 30, and September 30.

Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported for assets and liabilities, disclosures of contingent assets and liabilities as of financial statement dates and amounts reported for operating results for each period presented. Actual results are likely to differ from those estimates, but the Company's management does not believe such differences will materially affect Alion'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

Alion derives its revenue from delivering technology services under a variety of contracts. Some contracts provide for reimbursement of costs plus fees; others 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 services or products has occurred and collectibility of the contract price is considered reasonably assured.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Alion 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. Alion uses various performance measures under the percentage of completion method to recognize revenue for fixed-price contract revenue. Estimating contract costs at completion and recognizing revenue appropriately involve significant management estimates. Actual costs may differ from estimated costs and affect estimated profitability and timing of revenue recognition. From time to time, facts develop that require the Company to revise its estimated total costs or expected revenues. The Company records the cumulative effect of revised estimates in the period in which the facts requiring revised estimates become known. Alion recognizes the full amount of anticipated losses on any type of contract in the period in which the loss becomes known. The cumulative effects of revised estimates were immaterial to the Company's financial performance for each of the fiscal 2008 periods presented. The Company recognized approximately $1.3 million for anticipated and actual losses in the current fiscal year for cost overruns on fixed price contracts and revised contract estimates. The Company did not change its loss provisions in the third quarter.

Contracts with federal departments and agencies are subject to periodic funding. A customer may fully fund a contract at inception or fund it periodically as services are provided. If contract funding is not probable, the Company defers revenue recognition until realization is probable.

Federal government contract costs are subject to government audit and to adjustment through negotiations between Alion and government representatives. The federal government considers Alion a major contractor and maintains an office on site to perform various audits. The government has audited the Company's government contract indirect costs through fiscal year 2004. The Company has negotiated and settled its indirect rates through fiscal year 2004 with no material adverse effect on its results of operations or cash flows. Alion has submitted its incurred cost proposals to the government for all subsequent fiscal years. The Company has recorded federal government contract revenue in amounts it expects to realize.

Alion recognizes revenue on unpriced change orders as it incurs expenses and only to the extent it is probable it 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. Alion recognizes revenue on claims as expenses are incurred only to the extent it is probable it will recover such costs and can reliably estimate the amount it will recover.

Alion 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 recognizes revenue using the percentage of completion method, as prescribed by AICPA SOP 81-1, *Accounting for Performance on Construction-Type and Certain Production-Type Contracts.*

Income Taxes

Alion is an S-corporation under the provisions of the Internal Revenue Code of 1986, as amended (the IRC). For federal and certain state income tax purposes, the Company is not subject to tax on its income. Alion's income is allocated to its sole shareholder, the Alion Science and Technology Corporation Employee Ownership, Savings and Investment Trust (the ESOP Trust). Alion may be subject to state income taxes in those states that do not recognize S corporations. The Company is subject to franchise and business taxes. All of Alion's wholly-owned operating subsidiaries are qualified subchapter S or disregarded entities which are included in the Company's consolidated federal income tax returns. Alion's Canadian subsidiary is subject to income taxation in Canada at the federal and provincial level.

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 which it can liquidate without prior notice or penalty, to be cash and cash equivalents.

Accounts Receivable and Billings in Excess of Revenue Earned

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

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

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 the 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 any gain or loss is recognized in the consolidated statements of operations.

Goodwill and Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Alion is required to review goodwill at least annually for impairment or, more frequently if events and circumstances indicate goodwill might be impaired. The Company performs its annual review at the end of each fiscal year. Alion is required to recognize an impairment loss to the extent that its goodwill carrying amount exceeds fair value. Evaluating any impairment to goodwill involves significant management estimates. To date, these annual reviews have resulted in no adjustments.

The Company operates in one segment and tests goodwill at the reporting unit level. Management has identified three reporting units for the purpose of testing goodwill for impairment. The reporting units are based on administrative organizational structure and the availability of discrete financial information consistent with the requirements of paragraphs 30- 36 of SFAS 142. Each reporting unit provides a similar range of scientific, engineering and analytical services to departments and agencies of the U.S. government and commercial customers. The Company employs a reasonable, supportable and consistent method to assign goodwill to reporting units expected to benefit from the synergies arising from acquisitions. Alion determines reporting unit goodwill in a manner similar to the way it determines goodwill in a purchase allocation by using fair value to determine reporting unit "purchase price", assets, liabilities and goodwill, in accordance with SFAS No. 141R, *Business Combinations*. Reporting unit residual fair value after this allocation is the implied fair value of reporting unit goodwill. The Company's reporting units remained consistent in structure for all periods presented. From September 2007 to September 2008, goodwill increased by approximately $2.9 million for contingent consideration recognized for earlier acquisitions. There were no changes to goodwill in the nine months ended June 30, 2009. The Company allocated changes in goodwill carrying value to reporting units based on acquisitions attributable to each unit's current structure.

The Company performs its own independent analysis to determine whether goodwill is potentially impaired. The Company performs discounted cash flow and market-multiple-based analyses to estimate the enterprise fair value of Alion and its reporting units and the fair value of reporting unit goodwill in order to test goodwill for potential impairment. Management independently determines the rates and assumptions it uses to perform its goodwill impairment analysis. Management compares forecast revenue to contract backlog and proposal backlog to assess the probability of future contracts and revenue and to evaluate the recoverability of goodwill. September 2008 contract backlog was more than six times trailing twelve month revenue.

Alion's cash flow analysis depends on several significant management inputs and assumptions. Management uses observable inputs, rates and assumptions generally consistent with those used by the independent third party to prepare the valuation report for the ESOP Trustee. Management's cash flow analysis includes the following significant inputs and assumptions: estimated future revenue and revenue growth; estimated future operating margins and EBITDA; observable market multiples for comparable companies; and a discount rate consistent with a market-based weighted average cost of capital. Management includes EBITDA in its analysis in order to use publicly available valuation data.

In the Company's most recent impairment testing, market multiples for trailing twelve month EBITDA for comparable companies (publicly traded professional services government contractors) ranged from a low of 9.4 to a high of 16.7, with a median value of 12.4. Market multiples for trailing twelve month revenue ranged from a low of 0.72 to a high of 1.75, with a median value of 1.02. Management used median market multiples and a weighted average cost of capital rate of 12% derived from market-based inputs, the tax-effected interest cost of Alion's outstanding debt and a hypothetical market participant capital structure. Management estimates future years' EBITDA based on Alion's historical adjusted EBITDA as a percentage of revenue. Consistent with industry norms, Management estimated future revenue would grow 7%-10% annually. Prior year market multiples for trailing twelve month EBITDA for comparable professional services government contractors ranged from a low of 8.1 to a high of 12.4, with a median value of 9.7. Prior year market multiples for trailing twelve month revenue ranged from a low of 0.88 to a high of 1.59, with a median value of 1.09. The prior year weighted average cost of capital rate was 12.5% derived from market-based inputs, the tax-effected interest cost of Alion's outstanding debt and a hypothetical market participant capital structure. There were no changes to the methods used to evaluate goodwill in prior periods. Changes in one or more inputs could materially alter the calculation of Alion's enterprise fair value and thus the Company's determination of whether its goodwill is potentially impaired. A hypothetical 10% increase or decrease in the weighted average cost of capital rate at September 30, 2008 would have produced a corresponding approximate 3% decrease or increase in estimated enterprise value. Discounted cash flow enterprise value at September 30, 2008, exceeded market-multiple based enterprise value by approximately 6%.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Management reviews the Company's internally computed enterprise fair value to confirm the reasonableness of the Company's analysis and compares the results of its independent analysis with the results of the independent third party valuation report prepared for the ESOP Trustee. Management compares each reporting unit's carrying amount to its estimated fair value. If a reporting unit's carrying value exceeds its estimated fair value, the Company compares the reporting unit's goodwill carrying amount with the corresponding implied fair value of its goodwill. If the carrying amount of reporting unit goodwill exceeds its fair value, the Company recognizes an impairment loss to the extent that the carrying amount of goodwill exceeds implied fair value.

Alion completed its most recent goodwill impairment analysis in the fourth quarter of fiscal year 2008 and concluded no goodwill impairment existed as of September 30, 2008. As of September 30, 2008, the estimated fair value of each reporting unit substantially exceeded its carrying value. Given the results of the Company's impairment testing under step one; it is unlikely that a reasonably likely change in assumptions would have triggered an impairment. A hypothetical 10% decrease in fair value would not have resulted in impairment to goodwill for any reporting unit or triggered the need to perform additional step two analyses for any reporting unit.

There were no significant events in the nine months ended June 30, 2009, that indicated impairment to goodwill as of June 30, 2009. Intangible assets are amortized as economic benefits are consumed over their estimated useful lives.

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

Postretirement Benefits

Alion 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 Company to accrue the cost of providing postretirement benefits over employees' periods of active service. Costs are determined on an actuarial basis. SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize in income, the effects of any changes in funded status in the year in which the changes occur. Alion curtailed its postretirement benefits plan at the end of fiscal year 2007. See Note 4 for further discussion.

Redeemable Common Stock

There is no public market for Alion's common stock and therefore no observable price for its equity, individually or in the aggregate. The ESOP Trust holds all the Company's outstanding common stock. Under certain circumstances, ESOP beneficiaries can require the ESOP Trust to distribute the value of their beneficial interests. The ESOP Trustee can distribute cash or shares of Alion common stock. The IRC and ERISA require the Company to offer ESOP participants who receive Alion common stock a liquidity put right which requires the Company to purchase distributed shares at fair market value. Eventual redemption of shares of Alion common stock is outside the Company's control; therefore, Alion classifies its outstanding shares of redeemable common stock as a liability.

At each reporting date Alion is required to increase or decrease the reported value of its outstanding common stock to reflect its estimated redemption value. Management estimates the value of this liability in part by considering the most recent price at which the Company was able to sell shares to the ESOP Trust (current share price times total shares issued and outstanding). In its fiduciary capacity the ESOP Trustee is independent of the Company and its management. Consistent with its fiduciary responsibilities, the ESOP Trustee retains an independent third party valuation firm to assist it in determining the fair market value (share price) at which the Trustee may acquire or dispose of investments in Alion common stock. The Audit and Finance Committee of Alion's Board of Directors reviews the reasonableness of the liability Management has determined is appropriate for the Company to recognize in its financial statements for outstanding redeemable common stock. The Audit and Finance Committee considers various factors in its review, including, in part, the most recent valuation report and the share price selected by the ESOP Trustee.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Alion records changes in the reported value of its outstanding common stock through an offsetting charge or credit to accumulated deficit. The Company decreased its liability for redeemable common stock by approximately $20.4 million for the nine months ended June 30, 2009. The accumulated deficit at June 30, 2009 included $89.2 million for changes in the Company's share redemption liability. Outstanding redeemable common stock had an aggregate fair value of approximately $180.6 million as of June 30, 2009.

Concentration of Credit Risk

Alion is subject to credit risk for its cash equivalents and accounts receivable. The Company believes the high credit quality of its cash equivalent investments limits its credit risk with respect to such investments. Alion believes its concentration of credit risk with respect to accounts receivable is limited as the receivables are principally due from the federal government.

Fair Value of Financial Instruments

The carrying amount of cash, cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. Alion uses an option pricing model to estimate the fair value of its redeemable common stock warrants. The value of the warrants depends in part on the fair value price per share of Alion common stock which management estimates based on the most recent price at which the Company was able to sell shares of common stock to the ESOP Trust. It is impracticable for the Company to estimate the fair value of its subordinated debt because the only market for financial instruments with similar terms consists of principal to principal transactions. The Company carries this instrument at amortized cost.

Recently Issued Accounting Pronouncements

In December 2007, FASB issued SFAS No. 141 (revised 2007), "*Business Combinations,*" and in April 2009, issued FASB Staff Position (FSP) FAS 141-R(1) effective for fiscal years beginning after December 15, 2008 (collectively SFAS 141-R). The new standard is based on a fair value model and requires an acquirer to measure all assets acquired and liabilities assumed at their respective fair values at the date of acquisition. This includes measuring noncontrolling (minority) interests at fair value. SFAS 141R establishes principles and requirements for recognizing and measuring goodwill arising from a business combination, and any gain from a bargain purchase. SFAS 141R establishes new disclosure standards and significantly alters the accounting for in-process research and development and restructuring costs. It requires expensing of acquisition-related costs as incurred. Transactions consummated after the effective date of SFAS 141R apply the new standard prospectively. Existing guidance in SFAS 141 applies to business combinations consummated prior to the effective date of SFAS 141R.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements,*" (SFAS 160) which amends Accounting Research Bulletin No. 51 and provides accounting and reporting standards for noncontrolling (minority) interests in a subsidiary and deconsolidation of a subsidiary. SFAS 160 requires noncontrolling interests to be presented separately within equity in the consolidated statement of financial position. Consolidated net income attributable to the parent and noncontrolling interests are to be separately presented on the face of the statement of operations. A change in ownership that does not affect control of a subsidiary is to be accounted for as an equity transaction. A change in ownership that affects control results in recognition of a gain or loss and re-measurement at fair value of any remaining noncontrolling interest. Because SFAS 160 requires that a noncontrolling interest continue to be attributed its share of losses, a noncontrolling interest could have a negative carrying balance.

SFAS 160 is effective for fiscal years beginning after December 15, 2008. In the year of adoption, presentation and disclosure requirements will apply retrospectively to all periods presented. The Company does not expect adopting SFAS 160 will materially affect its consolidated financial statements or results of operations.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165") which sets out requirements for disclosing and accounting for events that occur after an entity's balance sheet date but before financial statements are issued or available to be issued. Alion adopted SFAS 165 in the third quarter of fiscal 2009 with no material effect on its consolidated financial statements. Management evaluated subsequent events through August 7, 2009, the date the Company is issuing its financial statements and included required disclosures in Note 21.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168 (SFAS 168), The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles (GAAP), a replacement of FASB Statement No. 162. SFAS 168 establishes the ASC as the sole source of authoritative GAAP in the United States, other than rules and interpretive releases issued by the SEC. The ASC is a reorganization of current GAAP into a topical format that eliminates the current GAAP hierarchy. Instead it establishes instead two levels of guidance — authoritative and non-authoritative. All non-grandfathered, non-SEC accounting literature not included in the ASC will become non-authoritative. The primary goal of the ASC is to simplify access to all authoritative GAAP, providing in one place, all authoritative literature related to a particular accounting topic. The ASC will be effective for interim and annual periods ending after September 15, 2009. The ASC is not intended to change existing GAAP. Therefore Management does not expect the ASC will affect Alion's consolidated financial position, results of operations or cash flows.

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

In December 2001, the Company adopted the Alion Science and Technology Corporation Employee Ownership, Savings and Investment Plan (the Plan) and the ESOP Trust. The Plan, a tax qualified retirement plan, includes ESOP and non-ESOP components. In August 2005, the Internal Revenue Service (IRS) issued a determination letter that the ESOP Trust and the Plan, as amended through the Plan's Ninth Amendment, qualify under Sections 401(a) and 501(a) of the Internal Revenue Code of 1986 as amended (the IRC). In January 2007, Alion amended and restated the Plan effective as of October 1, 2006, and filed a determination letter request with the IRS. In July and September 2007, the Company adopted the first and second amendments to the amended and restated Plan. In August 2008, Alion amended the Trust Agreement between the Company and the ESOP Trust. Alion believes that the Plan and the ESOP Trust have been designed and are being operated in compliance with the applicable IRC requirements.

(4) Postretirement Benefits

Alion sponsors a medical benefits plan providing medical, dental, and vision coverage to eligible former employees who met certain age and service requirements and retired by December 31, 2007. Alion is self-insured with a stop-loss limit under an insurance agreement. The plan provides benefits until age 65 and beginning January 2009 requires employees to pay 100% of expected health care premiums. A small, closed group of employees eligible for coverage after age 65 contributes a smaller fixed share of their health care premiums. Fiscal 2009 retiree contributions are estimated to be approximately $426 thousand. There were no plan assets as of June 30, 2009 or September 30, 2008. Alion uses a September 30 measurement date. At the September 30, 2008 measurement date, the Company recognized a $36 thousand charge to other comprehensive income for the excess of its accrued postretirement benefit obligation over its accrued postretirement benefit cost.

(5) Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding excluding the impact of warrants as this impact would be anti-dilutive for all periods presented. The Company had 1,630,437 warrants outstanding for all periods presented for 2009 and 1,080,437 warrants outstanding for all periods presented for 2008.

(6) Redeemable Common Stock Owned by ESOP Trust

The ESOP Trust owns all of the Company's issued and outstanding common stock, for the benefit of current and former employee participants in the Alion KSOP. Participants and 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 Plan permits distributions to be paid over a five year period commencing the year after a participant's retirement at age 65, death or disability. Alion 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 distribute cash or shares of Alion common stock. If Alion distributes common stock to a participant or beneficiary, the IRC and ERISA require that it provide a put option to permit a recipient to sell the stock to the Company at the estimated fair value price per share based on the most recent price at which the Company was able to sell shares to the ESOP Trust ($34.30 at March 31, 2009 and $38.35 at September 30, 2008). Consistent with its duty of independence from Alion Management and its fiduciary responsibilities, the ESOP Trustee retains an independent third party valuation firm to assist it in determining the fair market value (share price) at which the Trustee may acquire or dispose of investments in Alion common stock. The Audit and Finance Committee of Alion's Board of Directors reviews the reasonableness of the liability for outstanding redeemable common stock that Management has determined is appropriate for the Company to recognize in its financial statements. The Audit and Finance Committee considers various factors in its review, including in part, the valuation report and the share price selected by the ESOP Trustee. Management considers the share price selected by the ESOP Trustee along with other factors, to assist in estimating Alion's aggregate liability for outstanding redeemable common stock owned by the ESOP Trust. Certain participants who beneficially acquired shares of Alion common stock on December 20, 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 $10.00 purchase price.

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.

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(7) Accounts Receivable

Accounts receivable at June 30, 2009 and September 30, 2008 consisted of the following:

	June 30, 2009	September 30, 2008
	(In thousands)	
Billed receivables	$ 104,672	$ 99,794
Unbilled receivables:		
Amounts currently billable	26,621	37,883
Revenues recorded in excess of milestone billings on fixed price contracts	3,620	2,651
Revenues recorded in excess of estimated contract value or funding	32,093	18,925
Retainages and other amounts billable upon contract completion	13,952	13,160
Allowance for doubtful accounts	(4,372)	(3,962)
Total Accounts Receivable	$ 176,586	$ 168,451

Revenue recorded in excess of milestone billings on fixed price contracts is 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. Revenue recorded in excess of contract value or funding is billable upon receipt of contractual amendments or other modifications. Contract revenue recognized in excess of billings totaled approximately $76.3 million as of June 30, 2009 and included approximately $32.1 million for customer-requested work for which the Company had not received contracts or contract modifications. In keeping with industry practice, Alion 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 $14.0 million at June 30, 2009.

(8) Property, Plant and Equipment

	June 30, 2009	September 30, 2008
	(In thousands)	
Leasehold improvements	$ 9,934	$ 9,451
Equipment and software	32,062	31,393
Total cost	41,996	40,844
Less: accumulated depreciation and amortization	(26,489)	(22,243)
Net Property, Plant and Equipment	$ 15,506	$ 18,601

Depreciation and leasehold amortization expense for fixed assets was approximately $2.0 million and $1.6 million for the quarters ended June 30, 2009 and 2008 and $5.0 and $4.6 million for the nine months ended June 30, 2009 and 2008.

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(9) Goodwill and Intangible Assets

As of June 30, 2009, Alion recorded approximately $398.9 million in goodwill. There were no changes in the goodwill carrying amount during the nine months ended June 30, 2009.

Intangible assets consist primarily of contracts purchased from Anteon Corporation and obtained through the JJMA, BMH, WCI and MA&D acquisitions. Intangible assets as of June 30, 2009 and September 30, 2008 are as follows.

	June 30, 2009				September 30, 2008			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Amortization Period	Gross	Accumulated Amortization	Net	Weighted Average Remaining Amortization Period
Purchased contracts	$111,635	$ (80,834)	$30,801	6.1 yrs	$111,635	$ (71,410)	$40,225	6.3 yrs
Internal use software and engineering designs	2,155	(1,471)	684	2.7 yrs	2,155	(1,178)	977	2.9 yrs
Non-compete agreements	725	(698)	27	1.6 yrs	725	(679)	46	1.8 yrs
Total	$114,515	$ (83,003)	$31,512	6.0 yrs	$114,515	$ (73,267)	$41,248	6.0 yrs

Amortization expense was approximately $3.1 million and $3.7 million for the quarters ended June 30, 2009 and 2008 and $9.7 million and $11.1 million for the nine months ended June 30, 2009 and 2008. Estimated aggregate amortization expense for the next five years and thereafter is as follows.

	(In thousands)
For the remaining three months:	
2009	$ 2,831
For the year ending September 30:	
2010	10,985
2011	6,843
2012	5,767
2013	3,246
2014	879
Thereafter	961
	$ 31,512

(10) Long-Term Debt

Term B Senior Credit Facility

In December 2002, Alion entered into various debt agreements including a subordinated note and warrant agreement. In August 2004, Alion entered into a Term B senior secured credit facility (Senior Credit Facility) with a syndicate of financial institutions led by Credit Suisse which serves as arranger, administrative agent and collateral agent. Bank of America is syndication agent. The Senior Credit Facility includes a senior term loan (Senior Term Loan) and a revolving credit facility (Revolver). It has been amended several times to increase Senior Term Loan principal to approximately $237.2 million, extend Senior Term Loan maturity to February 2013 and set the Revolver limit to $40 million. The Senior Credit Facility includes a $110 million uncommitted incremental “accordion” facility that imposes a leverage-based test for future loans.

In September 2008, certain financial covenants and other terms changed. Amended covenants provide Alion greater flexibility through fiscal 2009. Interest rates increased to a minimum 3.50% Eurodollar rate plus 600 basis points, and a minimum 4.50% alternate base rate plus 500 basis points. The Senior Term Loan interest rate spread will increase if the Company refinances, replaces or extends the maturity of its existing Revolver and the new interest rate spread is more than 50 basis points higher than the then-current interest rate spread. The Senior Term Loan spread will increase by the difference in the new revolver’s higher interest rate spread less 50 basis points. Alion must use all (formerly half) of excess annual cash flow to prepay Senior Term Loan principal. Subject to certain conditions, Alion may incur additional second lien debt.

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Interest and Fees. The Senior Term Loan and Revolver can each bear interest at either of the floating rates discussed above. The Senior Term Loan is at the Eurodollar rate and the Revolver is at the alternate base rate based on Credit Suisse's prime rate. As of September 30, 2008, the minimum interest rate on both the Revolver and the Senior Term Loan rose to 9.50% for Eurodollar and alternate base rate loans, and no longer depends on the Company's leverage ratio. Through September 2008, the Senior Term Loan Eurodollar rate was 5.49% and the Revolver alternate base rate was 6.75%.

Other Fees and Expenses. Each quarter, Alion is required to pay a 50 basis point per year commitment fee on the prior quarter's daily, unused Revolver and Senior Term Loan commitment balances. As of June 30, 2009, there was no balance outstanding on the Revolver. The Company had $3.0 million allocated to outstanding letters of credit. The Senior Term Loan was fully utilized. For the quarter ended June 30, 2009, the Company paid no Term Loan commitment fee and approximately $44 thousand in fees for the Revolver.

Alion is required to pay issuance and administrative fees, and a fronting fee of up to 25 basis points for each letter of credit issued under the Revolver. Each quarter, Alion is required to pay interest in arrears at the Revolver rate for all outstanding letters of credit. The Company is also required to pay an annual agent's fee under the Senior Credit Facility.

Financial Covenants. As of June 30, 2009, the Company was in compliance with Senior Credit Facility financial covenants.

Senior Unsecured Notes

In February 2007, the Company issued and sold $250.0 million of private 10.25% senior unsecured notes due February 2015 (Senior Unsecured Notes) to Credit Suisse, which informed Alion it had resold most of the notes to qualified institutional buyers. In June 2007, Alion exchanged the private Senior Unsecured Notes for publicly tradable Senior Unsecured Notes with the same terms.

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. The Company pays interest to holders of record as of the immediately preceding January 15 and July 15. The Company must pay interest on overdue principal at 11.25% per annum and, to the extent lawful, will pay interest on overdue semi-annual interest installments at 11.25% per annum.

Interest Payable

Interest Payable consisted of the following balances:

	June 30, 2009	September 30, 2008
	(In thousands)	
Senior Unsecured Notes	$ 10,677	$ 4,271
Senior Term Loan	3,951	2,272
Subordinated Note Payable	784	—
Total	$ 15,412	$ 6,543

Subordinated Note

In December 2002, Alion issued a $39.9 million Subordinated Note to IITRI as part of the purchase price for substantially all of IITRI's assets. In July 2004, IIT acquired the Subordinated Note and related warrant agreement from IITRI. In June 2006, the Company and IIT increased the interest rate on the Subordinated Note for two years from December 2006 through December 2008. In August 2008, the Company and IIT amended the Subordinated Note to: extend the maturity date to August 2013; require Alion to pay $3.0 million in principal in November 2008, 2009 and 2010, and $2.0 million in November 2011; and require Alion to pay cash interest at 6% rather than 16%, along with 10% in non-cash interest to be added to principal. The amended Subordinated Note agreement prohibits Alion from redeeming vested phantom stock held by the Chief Executive Officer and Chief Operating Officer unless the Company timely makes its scheduled principal payment each year. The Company paid IIT a $0.5 million amendment fee.

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Up to and including December 2008, interest on the Subordinated Note was payable quarterly in arrears by issuing paid-in-kind (PIK) notes maturing at the same time as the Subordinated Note. The interest rate was 6.0% from December 2002 through December 2006; approximately 6.4% from December 2006 to December 2007; and approximately 6.7% from December 2007 to December 2008. Beginning December 2008, interest is still payable quarterly in arrears, 6% in cash and 10% in PIK notes due August 2013. Existing and future PIK notes defer related cash interest expense on the Subordinated Note. Over the term of the Subordinated Note, Alion expects to issue approximately $41.4 million in PIK notes. In addition to the principal payments required each November from 2008 through 2011, Alion is required to pay a total of $70.3 million in principal and PIK notes in August 2013.

As of June 30, 2009, the remaining fiscal year principal repayments (at face amount before debt discount) for outstanding indebtedness are as follows:

	2009	2010	2011	2012	2013	2014	2015	Total
				(In thousands)				
Senior Term Loan [1]	$ 608	$2,433	$2,433	$2,433	$229,297	$ —	$ —	$237,204
Senior Unsecured Notes [2]	—	—	—	—	—	—	250,000	250,000
Subordinated Seller Note [3]	—	3,000	3,000	2,000	70,311	—	—	78,311
Total Principal Payments	$ 608	$5,433	$5,433	$4,433	$299,608	$ —	$250,000	$565,515

1. The table does not include any Senior Credit Facility principal pre-payments. The timing and amounts of such payments are uncertain. The total on the face of the balance sheet for the Senior Term Loan includes approximately $237.2 million in principal and $5.4 million in unamortized debt issue costs as of June 30, 2009. Debt issue costs for the original loan and subsequent modifications totaled $12.5 million. The Company anticipates it will need to refinance the Senior Credit Facility before it matures.
2. The Senior Unsecured Notes on the face of the balance sheet include $250 million in principal and $5.0 million in unamortized debt issue costs as of June 30, 2009 (originally $7.1 million).
3. The Subordinated Note on the face of the balance sheet includes approximately $10.8 million of unamortized original issue discount for the fair value of the detachable warrants Alion issued in December 2002 and the warrants Alion issued for the September 2008 amendment. The first set of warrants had an initial fair value of approximately $7.1 million. The amendment to the first set of warrants had an initial fair value of $1.3 million and the additional warrants had an initial fair value of approximately $9.0 million. The Company recognized original issue discount for the fair value of the warrants in accordance with Emerging Issues Task Force Issue 00-19 *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock.*

(11) Fair Value Measurement

The Company adopted SFAS 157, as amended by FSP 157-1, FSP 157-2, and FSP 157-3 (together referred to as SFAS 157), on October 1, 2008, for all financial assets and liabilities recognized or disclosed at fair value in the financial statements on a recurring basis or on a nonrecurring basis during the reporting period. While the Company adopted the provisions of SFAS 157 for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a recurring basis, no such assets or liabilities exist at the balance sheet date. The Company, in accordance with FSP 157-2, delayed implementation of SFAS 157 for all nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company intends to adopt FSP SFAS 157-2 in fiscal year 2010. The Company does not expect adopting FSP SFAS 157-2 will materially affect its consolidated financial statements or results of operations. Nonfinancial assets and liabilities measured on a nonrecurring basis on the Company's balance sheet include items such as goodwill and long lived assets that are measured at fair value resulting from an impairment charge, if deemed necessary.

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SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy and a framework which requires categorizing assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Level 1inputs are unadjusted, quoted market prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets. Level 3 inputs include unobservable inputs that are supported by little, infrequent, or no market activity and reflect management's own assumptions about inputs used in pricing the asset or liability. The Company uses the following valuation techniques to measure fair value.

Level 1 primarily consists of financial instruments, such as overnight bank re-purchase agreements or money market mutual funds whose value is based on quoted market prices published by a financial institution, an exchange fund, exchange-traded instruments and listed equities.

Level 2 assets include U.S. Government and agency securities whose valuations are based on market prices from a variety of industry-standard data providers or pricing that considers various assumptions, including time value, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments, and broker and dealer quotes. All are observable in the market or can be derived principally from or corroborated by observable market data for which the Company can obtain independent external valuation information.

Level 3 consists of unobservable inputs. The Company's warrants are classified as a Level 3 liability. Assets and liabilities are considered Level 3 when their fair value inputs are unobservable or not available, including situations involving limited market activity, where determination of fair value requires significant judgment or estimation. At June 30, 2009, the Company measured outstanding warrants at fair value based on the underlying estimated fair value of a share of Alion common stock as of March 31, 2009 the valuation most recently performed for the ESOP Trustee and approved by the Board of Directors ($34.30 per share), a risk-free U.S. Treasury interest rate for a comparable investment period (1.53%) and 38% equity volatility factor based on the historical volatility of the common stock of publicly-traded companies considered to be comparable to Alion. Valuations techniques utilized in the fair value measurement of assets and liabilities presented on the Company's balance sheet were unchanged from previous practice during the reporting period.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis as of June, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Level 1	Level 2	Level 3
Liabilities:			
Redeemable common stock warrants	$ —	$ —	$ (33,258)

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The table below provides a summary of the changes in fair value of all financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended June 30, 2009.

	Quarter ended June 30, 2009	Nine Months ended June 30, 2009
	Redeemable Common Stock Warrants	
Balance, beginning of period	$ (33,098)	$ (39,996)
Total realized and unrealized gains and (losses)		
Included in interest expense	(160)	6,738
Included in other comprehensive income (loss)		
Issuances and settlements		
Transfers in (out)		
Balance, end of period	$ (33,258)	$ (33,258)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company's investment in VectorCommand is tested annually for impairment and is not adjusted to market value at the end of each reporting period. Fair value would only be determined on a nonrecurring basis if this investment were deemed to be other-than-temporarily impaired. The Company has not recorded any other-than-temporary impairments to its VectorCommand investment during the reporting period.

(12) Interest Rate Swap

In January 2008, Alion executed an interest rate swap with one of its lenders to convert floating rate interest payable on a portion of its Senior Term Loan to a fixed rate, and to adjust timing of some Senior Term Loan net interest payments. The swap agreement notional principal was $240 million. The swap expired in November 2008. The Company made its final semi-annual interest payment November 1, 2008. Alion received quarterly floating rate interest payments in February and May at 7.32% and in August and November 2008 at 5.49%. Alion paid interest semi-annually in May and November 2008 at 6.52%. All swap payments were net cash settled.

(13) Redeemable Common Stock Warrants

Alion uses an option pricing model to estimate the fair value of its redeemable common stock warrants. Management considers the share price selected by the ESOP Trustee along with other factors, to assist in estimating the Company's aggregate liability for outstanding redeemable common stock warrants. The Audit and Finance Committee of Alion's Board of Directors reviews the reasonableness of the liability for redeemable common stock warrants that Management has determined is appropriate for the Company to recognize in its financial statements. The Audit and Finance Committee considers various factors in its review, including risk free interest rates, volatility of the common stock of comparable publicly traded companies, and in part, the valuation report prepared for the ESOP Trustee and the share price selected by the ESOP Trustee.

In December 2002, the Company issued 1,080,437 detachable, redeemable common stock warrants at an exercise price of $10.00 per share. Alion issued the warrants to IITRI in connection with the Subordinated Note. The Company recognized approximately $7.1 million for the initial fair value of the warrants as original issue discount to the $39.9 million face value of the Subordinated Note. The Subordinated Note warrants were originally exercisable until December 2010. In June 2004, IITRI transferred the warrants to IIT.

In August 2008, Alion issued an additional 550,000 redeemable common stock warrants at an exercise price of $36.95 per share. The Company issued the second set of warrants to IIT in connection with the Subordinated Note amendment. The December 2002 and August 2008 warrants are currently exercisable at the current fair value per share of Alion common stock, less the exercise price. Both sets of warrants expire September 5, 2013. The Company recognized approximately $10.3 million in debt issue costs for the fair value of the August 2008 warrants and the amendment to the December 2002 warrants.

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Alion has classified the warrants as debt instruments and not as equity, in accordance with Emerging Issues Task Force Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company' Own Stock.* The Company recognizes interest expense for changes in the fair value of the warrants which had an aggregate estimated fair value of $33.3 million as of June 30, 2009.

(14) Leases

Future minimum lease payments under non-cancelable operating leases for buildings, equipment and automobiles at June 30, 2009 are set out below. Under these operating leases, Alion subleased some excess capacity to subtenants under non-cancelable operating leases. In connection with certain acquisitions, Alion assumed operating leases at above-market rates; recorded loss accruals of approximately $4.9 million based on the estimated fair value of the lease liabilities assumed; and is amortizing these amounts over the lease terms. The remaining unamortized loss related to these acquisitions was $446 thousand at June 30, 2009. In connection with an acquisition, Alion also acquired a related sublease pursuant to which it receives above-market rates. Based on the estimated fair value of the sublease, Alion recognized an asset of $586 thousand and fully amortized it over the lease term.

Lease Payments for Fiscal Years Ending	(In thousands)
2009 (for the remainder of fiscal year)	$ 6,593
2010	27,375
2011	25,284
2012	21,341
2013	20,114
2014	13,682
And thereafter	37,667
Gross lease payments	$ 152,056
Less: non-cancelable subtenant receipts	(3,365)
Net lease payments	$ 148,691

Composition of Total Rent Expense

	June 30,	
	2009	2008
	(In thousands)	
Minimum rentals	$ 19,494	$ 18,765
Less: Sublease rental income	(2,189)	(2,671)
Total rent expense, net	$ 17,305	$ 16,094

(15) Long Term Incentive Compensation Plan

In December 2008, Alion adopted a long-term incentive compensation plan to provide cash compensation to certain executives. Grants under the plan to individuals contain specific financial and other performance goals and vest over varying time periods. Some grants are for a fixed amount; others contain provisions that provide for a range of compensation from a minimum of 50% to a maximum of 150% of an initial grant amount. The Company periodically evaluates the probability of individuals meeting the financial and other performance goals in grant agreements. Management estimates long term incentive compensation expense based on the stated amounts of outstanding grants, estimated probability of achieving stated performance goals and estimated probable future grant value. The Company recognized long term incentive compensation expense of $924 thousand in the third quarter of fiscal 2009 and $2.8 million year to date.

(16) Stock Appreciation Rights

As of June 30, 2009, Alion had granted 1,492,950 SARs to directors and employees under the 2002 and 2004 SAR Plans. Compensation expense for the SAR plans was $374 thousand and $383 thousand for the quarters ended June 30, 2009 and 2008. For the nine months ended June 30, 2009, the Company recognized a credit to compensation expense of approximately $772 thousand. Compensation expense for the SAR plans was $1.6 million for the nine months ended June 30, 2008.

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The ESOP Trustee, consistent with its duty of independence from Alion management and its fiduciary responsibilities, retains an independent third party valuation firm to assist it in determining the fair market value (share price) at which the Trustee may acquire or dispose of investments in Alion common stock. Management considers the share price selected by the ESOP Trustee along with other factors such as risk free interest rates and volatility, to assist in estimating Alion's aggregate liability for outstanding stock appreciation rights. The Audit and Finance Committee of Alion's Board of Directors reviews the reasonableness of the liability for outstanding stock appreciation rights that Management has determined is appropriate for the Company to recognize in its financial statements. The Audit and Finance Committee considers risk free interest rates, volatility and various other factors in its review, including in part, the most recent valuation report and the related share price selected by the ESOP Trustee.

The table below sets out disclosures and assumptions used to value the Company's grants of stock appreciation rights as of June 30, 2009 and September 30, 2008 and the underlying value of a share of Alion common stock. 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, Alion uses a Black-Scholes-Merton option pricing model to recognize compensation expense pursuant to SFAS 123(R) *Share-Based Payment*. Alion 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 Alion common stock. Alion does not expect to pay any dividends on its common stock and intends to retain future earnings, if any, for use in the operation of its business.

Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Stock Appreciation Rights
As of June 30, 2009

Date of Grant	Shares Granted to Employees	Exercise Price	Outstanding at 9/30/08	Outstanding at 6/30/09	Forfeited	Exercised	Expired	Vested at 6/30/09	Exercisable at 6/30/09
November 2003	129,550	$ 14.71	68,335	1,315	540	66,480	—	1,315	—
February 2004	2,000	$ 14.71	2,000	—	—	2,000	—	—	—
February 2005	165,000	$ 19.94	89,162	82,663	2,412	4,088	—	82,663	—
March 2005	2,000	$ 19.94	2,000	2,000	—	—	—	2,000	—
April 2005	33,000	$ 29.81	20,250	20,250	—	—	—	20,250	—
June 2005	2,000	$ 29.81	2,000	2,000	—	—	—	2,000	—
December 2005	276,675	$ 35.89	203,774	189,808	8,321	5,645	—	144,743	—
February 2006	13,000	$ 35.89	7,750	7,750	—	—	—	5,813	—
February 2006	7,500	$ 35.89	3,750	2,500	625	625	—	1,875	—
May 2006	7,000	$ 37.06	6,000	6,000	—	—	—	4,500	—
July 2006	15,000	$ 37.06	10,500	10,000	—	500	—	7,500	—
October 2006	2,500	$ 41.02	2,500	2,500	—	—	—	1,250	—
December 2006	238,350	$ 41.02	201,083	182,598	13,872	4,613	—	93,073	—
February 2007	33,450	$ 41.02	24,700	22,575	1,375	750	—	11,600	—
May 2007	2,000	$ 43.37	2,000	2,000	—	—	—	1,000	—
September 2007	2,000	$ 43.37	2,000	2,000	—	—	—	500	—
December 2007	232,385	$ 40.05	210,310	199,489	10,822	—	—	51,184	—
April 2008	2,000	$ 41.00	2,000	2,000	—	—	—	500	—
September 2008	2,000	$ 41.00	2,000	2,000	—	—	—	—	—
December 2008	203,250	$ 38.35	—	197,600	5,650	—	—	—	—
Total	1,370,660		862,114	937,047	43,617	84,700	—	431,764	—
Wtd Avg Exercise Price	$ 33.91		$ 34.77	$ 36.89	$ 37.89	$ 18.33	$ —	$ 34.20	$ —

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Stock-based Compensation Disclosures per FAS 123 and 123R
Stock Appreciation Rights
As of June 30, 2009

Date of Grant	Risk Free Interest Rate	Volatility	Expected Life	Remaining Life (months)
November 2003	4.06% – 4.49%	60%	5 yrs	0.0
February 2004	4.06% – 4.49%	60%	5 yrs	0.0
February 2005	3.10% – 3.60%	45%	4 yrs	0.0
March 2005	3.10% – 3.60%	45%	4 yrs	0.0
April 2005	4.10% – 4.20%	45%	4 yrs	0.0
June 2005	4.10% – 4.20%	45%	4 yrs	2.2
December 2005	4.20% – 4.20%	40%	4 yrs	8.7
February 2006	4.20% – 4.20%	40%	4 yrs	10.4
February 2006	4.20% – 4.20%	40%	4 yrs	10.8
May 2006	4.82% – 4.83%	35%	4 yrs	13.6
July 2006	4.82% – 4.83%	35%	4 yrs	15.0
October 2006	4.82% – 4.83%	35%	4 yrs	18.8
December 2006	4.54% – 4.58%	35%	4 yrs	20.7
February 2007	4.54% – 4.58%	35%	4 yrs	22.8
May 2007	4.54% – 4.58%	35%	4 yrs	25.6
September 2007	4.54% – 4.54%	35%	4 yrs	29.1
December 2007	4.23% – 4.23%	35%	4 yrs	32.8
April 2008	4.23% – 4.23%	35%	4 yrs	36.9
September 2008	4.23% – 4.23%	35%	4 yrs	41.5
December 2008	4.23% – 4.23%	35%	4 yrs	44.8
Wtd Avg Remaining Life (months)				23.5

(17) Phantom Stock Plans

As of June 30, 2009, Alion had granted 223,685 shares of phantom stock under the Initial Phantom Stock Plan. Under the Second Phantom Stock Plan, Alion had granted 340,312 shares of retention phantom stock and 213,215 shares of performance phantom stock. Under the Director Phantom Stock Plan, Alion had granted 20,779 shares of phantom stock. The Company recognized approximately $37 thousand and $1.0 million in phantom stock plan compensation expense for the quarters ended June 30, 2009 and 2008. For the nine months ended June 30, 2009, the Company recognized a credit to compensation expense of approximately $4.6 million arising from forfeitures in the first quarter. Compensation expense for phantom stock plans was $4.1 million for the nine months ended June 30, 2008.

The ESOP Trustee, consistent with its duty of independence from Alion management and its fiduciary responsibilities, retains an independent third party valuation firm to assist it in determining the fair market value (share price) at which the Trustee may acquire or dispose of investments in Alion common stock. Management independently estimates the value of a share of common stock by considering, in part, the most recent price at which the Company was able to sell shares to the ESOP Trust. In addition to the share price selected by the ESOP Trustee, Management considers other factors such as risk free interest rates and volatility, to assist in estimating Alion's aggregate liability for outstanding phantom stock grants that remain subject to share price fluctuations. Certain vested grants have fixed values based on the share price in effect on the date on which such grants became fully vested. Only phantom stock grants to non-employee members of Alion's Board of Directors remain outstanding. No grants to executives remain outstanding.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

The Audit and Finance Committee of Alion's Board of Directors reviews the reasonableness of the liability for outstanding phantom stock grants rights that Management has determined is appropriate for the Company to recognize in its financial statements. The Audit and Finance Committee considers various factors in its review, including in part, the most recent valuation report and the related share price selected by the ESOP Trustee.

The table below sets out the disclosures required by SFAS 123(R) and the assumptions used to value the Company's phantom stock grants as of June 30, 2009 and September 30, 2008 and the underlying value of a share of Alion common stock. For grants issued prior to October 1, 2006, the Company uses the intrinsic value method to recognize stock-based compensation expense for its phantom stock plans. For grants issued on or after October 1, 2006, Alion uses a Black-Scholes-Merton option pricing model to recognize compensation expense pursuant to SFAS 123(R) *Share-Based Payment*. Alion 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 ESOP Trust is the only holder of Alion common stock. Alion does not expect to pay any dividends on its common stock and intends to retain future earnings, if any, for use in the operation of its business.

Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Phantom Stock
as of June 30, 2009

Date of Grant	Shares Granted to Employees	Shares Granted to Directors	Total Shares Granted	Grant Date Price per Share	Outstanding at 9/30/08	Outstanding at 6/30/09	Forfeited	Exercised	Expired	Vested at 6/30/09	Exercisable at 6/30/09
November 2003	52,685	—	52,685	$ 14.71	11,897	—	—	11,897	—	—	—
February 2005	213,215	—	213,215	$ 19.94	66,436	—	10,328	56,108	—	—	—
February 2005	98,399	—	98,399	$ 19.94	16,696	—	—	16,696	—	—	—
February 2005	5,015	—	5,015	$ 19.94	5,015	—	2,558	2,457	—	—	—
August 2005	2,960	—	2,960	$ 33.78	2,960	—	2,960	—	—	—	—
November 2005	66,592	—	66,592	$ 35.89	51,268	—	43,188	8,080	—	—	—
November 2005	—	7,808	7,808	$ 35.89	5,531	—	—	5,531	—	—	—
November 2005	55,726	—	55,726	$ 35.89	41,795	—	41,795	—	—	—	—
November 2006	—	5,978	5,978	$ 41.02	5,409	4,839	—	569	—	2,847	2,847
November 2006	65,456	—	65,456	$ 41.02	50,341	—	46,684	3,657	—	—	—
November 2007	—	6,993	6,993	$ 40.05	6,993	5,994	—	999	—	1,332	1,332
November 2007	42,447	—	42,447	$ 40.05	39,950	—	34,956	4,994	—	—	—
January 2008	2,497	—	2,497	$ 40.05	2,497	—	2,497	—	—	—	—
May 2008	1,220	—	1,220	$ 41.00	1,220	—	1,220	—	—	—	—
Total	606,212	20,779	626,991		308,006	10,833	186,186	110,988	—	4,179	4,179
Wtd Avg Grant Date Fair Value Price per Share	$ 26.58	$ 38.77	$ 26.98		$ 32.10	$ 40.48	$ 36.91	$ 23.22	—	$ 40.71	$ 40.71

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Stock-based Compensation Disclosures per FAS 123 and FAS 123R
Phantom Stock
as of June 30, 2009

Date of Grant	Risk Free Interest Rate	Volatility	Expected Life	Remaining Life (months)
November 2003	4.06% – 4.49%	60%	5 yrs	0.0
February 2005	3.10% – 3.60%	45%	3 yrs	0.0
February 2005	3.10% – 3.60%	45%	3 yrs	0.0
February 2005	3.10% – 3.60%	45%	4 yrs	1.0
August 2005	3.72% – 3.77%	45%	3 yrs	0.0
November 2005	4.20% – 4.20%	40%	3 yrs	0.0
November 2005	4.20% – 4.20%	40%	3 yrs	0.0
November 2005	4.20% – 4.20%	40%	5 yrs	22.3
November 2006	4.54% – 4.58%	35%	3 yrs	10.4
November 2006	4.54% – 4.58%	35%	3 yrs	10.4
November 2007	4.23% – 4.23%	35%	3 yrs	22.4
November 2007	4.23% – 4.23%	35%	3 yrs	22.4
January 2008	4.23% – 4.23%	35%	3 yrs	24.4
May 2008	4.23% – 4.23%	35%	3 yrs	28.4
Wtd Avg Remaining Life (months)				17.0

(18) Segment Information and Customer Concentration

The Company operates in one segment, delivering a broad array of 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. Alion provides services to departments and agencies of the federal government and, to a lesser extent, to commercial and international customers. The Company's federal government customers typically exercise independent contracting authority. 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 $176.0 million, or 97.3%, and $201.3 million, or 95.2%, of accounts receivable for the quarters ended June 30, 2009 and 2008. Contract revenue from departments and agencies of the federal government represented approximately 96.2% and 92.5%, of total contract revenue for the nine months ended June 30, 2009 and 2008.

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

Alion's Senior Unsecured Notes are unsecured general obligations of the Company. Certain of Alion's 100% owned domestic subsidiaries have jointly, severally, fully and unconditionally guaranteed the Senior Unsecured Notes. The following information presents condensed consolidating balance sheets as of June 30, 2009 and September 30, 2008, condensed consolidating statements of operations for the quarters and nine months ended June 30, 2009 and 2008; and condensed consolidating statements of cash flows for the nine months ended June 30, 2009 and 2008 of the parent company issuer, the guarantor subsidiaries and the non-guarantor subsidiaries. Investments include investments in subsidiaries held by the parent company issuer presented using the equity method of accounting.

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Balance Sheet Information at June 30, 2009
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 2,219	$ (36)	$ 7	$ —	$ 2,190
Accounts receivable	169,629	4,076	2,881	—	176,586
Prepaid expenses and other current assets	4,135	84	18	—	4,237
Total current assets	175,983	4,124	2,906	—	183,013
Property, plant and equipment, net	15,385	61	60	—	15,506
Intangible assets, net	31,512	—	—	—	31,512
Goodwill	398,871	—	—	—	398,871
Investment in subsidiaries	15,151	—	—	(15,151)	—
Intercompany receivables	—	10,392	1,697	(12,089)	—
Other assets	6,759	13	3	—	6,775
Total assets	$ 643,661	$ 14,590	$ 4,666	$ (27,240)	$ 635,677
Current liabilities:					
Interest payable	15,412	—	—	—	15,412
Current portion, Senior Term Loan payable	2,389	—	—	—	2,389
Current portion, subordinated note payable	3,000	—	—	—	3,000
Trade accounts payable	39,777	301	774	—	40,852
Accrued liabilities	42,888	1,048	400	—	44,336
Accrued payroll and related liabilities	46,833	832	678	—	48,343
Billings in excess of costs revenue earned	3,872	—	—	—	3,872
Total current liabilities	154,171	2,181	1,852	—	158,204
Intercompany payables	12,089	—	—	(12,089)	—
Senior Term Loan payable, excluding current portion	229,387	—	—	—	229,387
Senior Unsecured Notes	245,020	—	—	—	245,020
Subordinated note payable	45,294	—	—	—	45,294
Accrued compensation, excluding current portion	5,063	—	—	—	5,063
Accrued postretirement benefit obligations	656	—	—	—	656
Non-current portion of lease obligations	6,580	53	19	—	6,652
Redeemable common stock warrants	33,258	—	—	—	33,258
Common stock of subsidiaries	—	2,799	1	(2,800)	—
Redeemable common stock	180,580	—	—	—	180,580
Accumulated other comprehensive loss	(36)	—	—	—	(36)
Accumulated surplus (deficit)	(268,401)	9,557	2,794	(12,351)	(268,401)
Total liabilities, redeemable common stock and accumulated deficit	$ 643,661	$ 14,590	$ 4,666	$ (27,240)	$ 635,677

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Balance Sheet Information at September 30, 2008
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 16,392	$ (62)	$ (43)	$ —	$ 16,287
Accounts receivable	161,519	3,872	3,060	—	168,451
Stock subscriptions receivable	2,669	—	—	—	2,669
Prepaid expenses and other current assets	3,024	47	64	—	3,135
Total current assets	183,604	3,857	3,081	—	190,542
Property, plant and equipment, net	18,419	97	85	—	18,601
Intangible assets, net	41,248	—	—	—	41,248
Goodwill	398,871	—	—	—	398,871
Investment in subsidiaries	10,831	—	—	(10,831)	—
Intercompany receivables	—	8,038	72	(8,110)	—
Other assets	6,668	16	—	—	6,684
Total assets	$ 659,641	$ 12,008	$ 3,238	$ (18,941)	$ 655,946
Current liabilities:					
Interest payable	$ 6,543	$ —	$ —	$ —	$ 6,543
Interest rate swap liability	4,629	—	—	—	4,629
Current portion, Senior Term Loan payable	2,389	—	—	—	2,389
Current portion, subordinated note payable	3,000	—	—	—	3,000
Current portion, acquisition obligations	50	—	—	—	50
Trade accounts payable	55,933	467	765	—	57,164
Accrued liabilities	37,678	1,007	542	—	39,227
Accrued payroll and related liabilities	40,569	696	292	—	41,557
Billings in excess of revenue earned	2,708	—	—	—	2,708
Total current liabilities	153,498	2,170	1,599	—	157,267
Intercompany payables	7,543	—	567	(8,110)	—
Senior Term Loan payable, excluding current portion	229,831	—	—	—	229,831
Senior Unsecured Notes	244,355	—	—	—	244,355
Subordinated note payable	42,656	—	—	—	42,656
Accrued compensation, excluding current portion	11,305	—	—	—	11,305
Accrued postretirement benefit obligations	627	—	—	—	627
Non-current portion of lease obligations	6,181	62	17	—	6,260
Redeemable common stock warrants	39,996	—	—	—	39,996
Common stock of subsidiaries	—	2,799	1	(2,800)	—
Redeemable common stock	200,561	—	—	—	200,561
Accumulated other comprehensive loss	(36)	—	—	—	(36)
Accumulated surplus (deficit)	(276,876)	6,977	1,054	(8,031)	(276,876)
Total liabilities, redeemable common stock and accumulated deficit	$ 659,641	$ 12,008	$ 3,238	$ (18,941)	$ 655,946

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2009
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Contract revenue	$ 195,465	$ 5,167	$ 3,528	$ —	$ 204,160
Direct contract expense	151,834	3,205	2,627	—	157,666
Gross profit	43,631	1,962	901	—	46,494
Operating expenses:					
Indirect contract expense	8,463	755	225	—	9,443
Research and development	223	—	—	—	223
General and administrative	17,005	259	(11)	—	17,253
Rental and occupancy expense	8,000	80	89	—	8,169
Depreciation and amortization	5,143	6	7	—	5,156
Total operating expenses	38,834	1,100	310	—	40,244
Operating income	4,797	862	591	—	6,250
Other income (expense):					
Interest income	12	—	3	—	15
Interest expense	(15,766)	—	—	—	(15,766)
Other	(96)	189	(3)	—	90
Gain on sale of non-operating assets	(19)	—	—	—	(19)
Equity in net income (loss) of subsidiaries	1,642	—	—	(1,642)	—
Total other income (expense)	(14,227)	189	—	(1,642)	(15,680)
Income (loss) before income taxes	(9,430)	1,051	591	(1,642)	(9,430)
Income tax expense	(7)	—	—	—	(7)
Net income (loss)	$ (9,437)	$ 1,051	$ 591	$ (1,642)	$ (9,437)

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2008
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Contract revenue	$ 177,667	$ 5,400	$ 2,809	$ —	$ 185,876
Direct contract expense	136,932	3,791	2,139	—	142,862
Gross profit	40,735	1,609	670	—	43,014
Operating expenses:					
Indirect contract expense	9,049	1,148	213	—	10,410
Research and development	359	—	—	—	359
General and administrative	15,095	196	7	—	15,298
Rental and occupancy expense	7,977	—	2	—	7,979
Depreciation and amortization	5,290	18	5	—	5,313
Total operating expenses	37,770	1,362	227	—	39,359
Operating income	2,965	247	443	—	3,655
Other income (expense):					
Interest income	81	11	—	—	92
Interest expense	(12,332)	—	—	—	(12,332)
Other	594	114	(2)	—	706
Equity in net income of subsidiaries	813	—	—	(813)	—
Total other income (expense)	(10,844)	125	(2)	(813)	(11,534)
Income (loss) before income taxes	(7,879)	372	441	(813)	(7,879)
Income tax expense	(14)	—	—	—	(14)
Net income (loss)	$ (7,893)	$ 372	$ 441	$ (813)	$ (7,893)

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Operations for the Nine Months Ended June 30, 2009
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Contract revenue	$ 561,582	$ 16,595	$ 10,208	$ —	$ 588,385
Direct contract expense	433,204	11,239	7,680	—	452,123
Gross profit	128,378	5,356	2,528	—	136,262
Operating expenses:					
Indirect contract expense	25,097	2,276	526	—	27,899
Research and development	370	—	—	—	370
General and administrative	40,229	613	10	—	40,852
Rental and occupancy expense	23,924	225	226	—	24,375
Depreciation and amortization	14,624	17	21	—	14,662
Total operating expenses	104,244	3,131	783	—	108,158
Operating income	24,134	2,225	1,745	—	28,104
Other income (expense):					
Interest income	44	16	3	—	63
Interest expense	(40,098)	—	—	—	(40,098)
Other	(363)	339	(8)	—	(32)
Gain on sale of non-operating assets	(19)	—	—	—	(19)
Equity in net income (loss) of subsidiaries	4,320	—	—	(4,320)	—
Total other income (expense)	(36,116)	355	(5)	(4,320)	(40,086)
Income (loss) before income taxes	(11,982)	2,580	1,740	(4,320)	(11,982)
Income tax benefit	44	—	—	—	44
Net income (loss)	$ (11,938)	$ 2,580	$ 1,740	$ (4,320)	$ (11,938)

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Operations for the Nine Months Ended June 30, 2008
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Contract revenue	$ 533,155	$ 18,171	$ 6,938	$ —	$ 558,264
Direct contract expense	408,245	12,884	5,145	—	426,274
Gross profit	124,910	5,287	1,793	—	131,990
Operating expenses:					
Indirect contract expense	27,235	3,427	707	—	31,369
Research and development	811	—	4	—	815
General and administrative	47,346	650	8	—	48,004
Rental and occupancy expense	23,383	—	9	—	23,392
Depreciation and amortization	15,571	91	11	—	15,673
Total operating expenses	114,346	4,168	739	—	119,253
Operating income	10,564	1,119	1,054	—	12,737
Other income (expense):					
Interest income	353	11	—	—	364
Interest expense	(39,439)	—	—	—	(39,439)
Other	(297)	259	(3)	—	(41)
Equity in net income (loss) of subsidiaries	2,440	—	—	(2,440)	—
Total other income (expenses)	(36,943)	270	(3)	(2,440)	(39,116)
Income (loss) before income taxes	(26,379)	1,389	1,051	(2,440)	(26,379)
Income tax expense	(25)	—	—	—	(25)
Net income (loss)	$ (26,404)	$ 1,389	$ 1,051	$ (2,440)	$ (26,404)

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2009
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
Net cash (used in) provided by operating activities	$ (627)	26	50	$ (521)
Cash flows from investing activities:				
Cash paid for acquisitions	(166)	—	—	(166)
Capital expenditures	(1,789)	—	—	(1,789)
Net cash (used in) provided by investing activities	(1,955)	—	—	(1,955)
Cash flows from financing activities:				
Change in book overdraft				—
Cash (paid for) received from interest rate swap	(4,647)	—	—	(4,647)
Repayment of senior term loan payable	(1,825)	—	—	(1,825)
Repayment of subordinated note payable	(3,000)	—	—	(3,000)
Revolver borrowings	349,925	—	—	349,925
Revolver payments	(349,925)	—	—	(349,925)
Loan to ESOP Trust	(5,936)	—	—	(5,936)
ESOP Trust loan repayment	5,936	—	—	5,936
Purchase of common stock from ESOP Trust	(7,264)	—	—	(7,264)
Cash received from sale of common stock to ESOP Trust	5,115	—	—	5,115
Net cash used in financing activities	(11,621)	—	—	(11,621)
Net increase (decrease) in cash and cash equivalents	(14,173)	26	50	(14,097)
Cash and cash equivalents at beginning of period	16,392	(62)	(43)	16,287
Cash and cash equivalents at end of period	$ 2,219	$ (36)	$ 7	$ 2,190

ALION SCIENCE AND TECHNOLOGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIALS STATEMENTS

Condensed Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2008
(In thousands)

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
Net cash (used in) operating activities	$ (2,369)	$ (53)	$ (27)	$ (2,449)
Cash flows from investing activities:				
Cash paid for acquisitions, net of cash acquired	(7,946)	—	—	(7,946)
Capital expenditures	(3,991)	—	(100)	(4,091)
Net cash used in investing activities	(11,937)	—	(100)	(12,037)
Cash flows from financing activities:				
Cash received from interest rate swap	969	—	—	969
Repayment of Term B Credit Facility note payable	(1,855)			(1,855)
Revolver borrowings	(361,755)	—	—	361,755
Revolver payments	(360,155)	—	—	(360,155)
Loan to ESOP Trust	(3,369)	—	—	(3,369)
ESOP Trust loan repayment	3,369	—	—	3,369
Purchase of shares of common stock from ESOP Trust	(1,250)	—	—	(1,250)
Cash received from issuance of common stock to Trust	3,377	—	—	3,377
Net cash provided by financing activities	2,841	—	—	2,841
Net decrease in cash and cash equivalents	(11,465)	(53)	(127)	(11,645)
Cash and cash equivalents at beginning of year	11,718	(33)	(1)	11,684
Cash and cash equivalents at end of year	$ 253	$ (86)	$ (128)	$ 39

(20) Commitments and Contingencies

Earn-Out Commitments

Alion's LogConGroup earn-out obligation continues through September 2013. The maximum possible earn-out is $900 thousand based on revenue from potential logistics contracts. In the three months ended June 30, 2009, Alion recognized no LogConGroup earn-out. Management believes realization of this earn-out will not have a material effect on Alion's financial position, results of operations, or liquidity. No other acquisition related earn-out obligations remain. The Company paid no earn-outs in the quarter ended June 30, 2009.

Legal Proceedings

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

Federal government cost reimbursement contract revenue and expenses reflected in the consolidated financial statements are subject to audit and possible adjustment by the Defense Contract Audit Agency (DCAA). DCAA considers Alion a major contractor and maintains an office on site to perform its various audits throughout the year. DCAA has audited Alion's government contract costs through 2004. The Company has negotiated indirect rates through fiscal year 2004. Alion has recorded federal government contract revenue in amounts it expects to realize upon final settlement.

(21) Subsequent Events

On July 29, 2009, the Company and its lenders agreed to reduce the Revolver commitment from $50 million to $40 million and to extend the Revolver until September 25, 2009.

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. This updates the information contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2008, 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

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, principally to federal departments and agencies and, to a lesser extent, to commercial and international customers.

The following table summarizes revenue attributable to each contract type for the periods indicated.

	For the Nine Months Ended June 30,			
Revenue by Contract Type	**2009**		**2008**	
	(In thousands)			
Cost-reimbursement	$ 419,432	71.3%	$ 388,516	69.6%
Fixed-price	60,626	10.3%	57,159	10.2%
Time-and-material	108,327	18.4%	112,589	20.2%
Total	$ 588,385	100.0%	$ 558,264	100.0%

Management expects most of Alion's revenue will continue to come from government contracts, mostly from contracts with the U.S. Department of Defense (DoD) and Other Federal Agencies and the balance continuing to come from a variety of commercial, state, local and foreign government customers.

	For the Nine Months Ended June 30,			
Revenue by Customer Type	**2009**		**2008**	
	(In thousands)			
U.S. Department of Defense (DoD)	$ 542,229	92.2%	$ 481,489	86.3%
Other Federal Civilian Agencies	24,039	4.1%	34,851	6.2%
Commercial / State / Local and International	22,117	3.8%	41,924	7.5%
Total	$ 588,385	100.0%	$ 558,264	100.0%

Earlier this year, Secretary of Defense Robert Gates proposed changes to some major programs beginning with the government's fiscal 2010 budget cycle. Alion has already begun to benefit from the decision to build nine more DDG-51 ships. This is generating long-term engineering and project management work for Alion at Bath Iron Works in Maine and at Northrop Grumman Ship Systems on the Mississippi Gulf Coast. Alion support to the Naval Sea Systems Command (NAVSEA) DDG-1000 destroyer program has led the Company to continue expanding its program-related production oversight services. Alion is also a major support contractor for NAVSEA's Littoral Combat Ship program. The decision to increase the number of littoral combat ships that NAVSEA will ultimately acquire led to increased Alion staffing for this program and additional related program management work at several shipyards.

Delaying final decisions about CG(X) cruiser capabilities may adversely affect some of Alion's planned engineering design work for this program. However, other engineering alternative analyses for CG(X) systems have led to some of the Company's significant revenue increases and so far, have more than offset any potential workload reductions.

Despite the President's stated goal of reducing government's use of cost-reimbursable contracts, Alion's cost-reimbursable revenue increased significantly in the current quarter and year to date. Because the Company delivers scientific and engineering research services that are not generally considered to be inherently governmental functions, Management believes any changes aimed at reducing reliance on government contractors in general will not materially adversely affect operations. If the government ultimately shifts contracting activity away from the cost-reimbursement arena to time-and-material or fixed-price contracting, Management believes Alion would likely benefit. All other factors being equal, the Company's time-and-material and fixed price type contracts traditionally generate higher profit margins than cost-reimbursable contracts. Current quarter and year to date revenue growth support Management's belief that Alion, is benefitting from and is positioned to continue to benefit from the President's announced intention to increase federal spending on sponsored science and technology to 5% of GDP.

In 2009, Alion updated its core business area descriptions from those used in the Company's fiscal 2008 annual report on Form 10-K. Information for fiscal 2009 and 2008 is presented using the updated core business area descriptions.

	For the Nine Months Ended June 30,			
Core Business Area	**2009**		**2008**	
	(In thousands)			
Naval Architecture and Marine Engineering	$ 271,193	46.1%	$ 235,867	42.4%
Defense Operations Support	101,580	17.3%	119,686	21.4%
Industrial Technology Solutions	92,267	15.7%	86,445	15.5%
Modeling and Simulation	63,065	10.7%	50,238	9.0%
Nuclear and Environmental Sciences	39,737	6.8%	40,918	7.3%
Information Technology	20,543	3.5%	25,111	4.4%
Total	$ 588,385	100%	$ 558,264	100%

Backlog. Contract backlog represents an estimate, as of a specific date, of the future revenue Alion expects from existing contracts. At June 30, 2009, backlog on existing contracts and executed delivery orders totaled $2,601.6 million, of which $366.4 million was funded. The Company estimates it has an additional $3,695.2 million of unfunded contract ceiling value for an aggregate total backlog of $6,296.8 million.

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Results of Operations

Quarter Ended June 30, 2009 Compared to Quarter Ended June 30, 2008

Selected Financial Information	Consolidated Operations of Alion Quarter Ended June 30, 2009 (Dollars in thousands)	% revenue	2008	% revenue
Total contract revenue	$ 204,160		$ 185,876	
Total direct contract costs	157,666	77.2%	142,862	76.9%
Direct labor costs	68,700	33.7%	63,346	34.1%
Material and subcontract costs	81,229	39.8%	73,861	39.8%
Other direct costs	7,737	3.8%	5,654	3.1%
Gross profit	46,494	22.8%	43,014	23.1%
Total operating expense	40,244	19.7%	39,359	21.2%
Major components of operating expense				
Indirect expenses including facilities costs	17,711	8.7%	18,389	9.9%
General and administrative (excluding stock-based compensation)	16,842	8.2%	13,936	7.5%
Stock-based compensation	411	0.2%	1,362	0.8%
Depreciation and amortization	5,156	2.5%	5,313	2.9%
Income from operations	$ 6,250	3.1%	$ 3,655	2.0%

Revenue. Fiscal 2009 third quarter revenue of $204.2 million was $18.3 million more than the comparable period last year. This 9.8% increase was attributable to a $19.5 million (15.1%) increase in cost reimbursable contract revenue; a $2.8 million increase (15.9%) in fixed price contract revenue; and a $4.0 million (10.3%) decline in time and material contract revenue. A $27.2 million (16.8%) increase in DoD revenue offset a $4.0 million (33.3%) decline in commercial revenue and a $4.9 million (41.0%) decline in civilian agency activity. The continued decline in commercial revenue is directly related to the recent poor performance of the U.S. economy as a whole. It is unclear at this time when the commercial market will improve. The Company began offering commercial business capabilities to government customers which has helped to offset lost commercial business.

Naval architecture and marine engineering increased $17.3 million (21.8%)compared to third quarter 2008 performance and modeling and simulation analysis increased by $3.1 million (16.5%) as well. These increases offset by a $3.9 million (10.7%) decline in support for defense operations. Revenue from other core business areas increased by $1.8 million (3.6%) compared to third quarter 2008.

The Company's naval architecture and marine engineering business grew to 47.4% of total third quarter 2009 revenue, up from 42.8% of sales for the same period last year. Naval architecture and marine engineering revenue increased because of recent contract wins and increased spending on Navy programs that Alion supports. This quarter, Alion's CGX and DDG-51 contract revenue increased $7.3 million (55.0%) over the same period last year. Revenue in other core business areas from two of Alion's information analysis center contracts increased $5.6 million (29.6%) this quarter. Despite the general decline in revenue from defense operations, revenue from Alion's contract with the Secretary of the Air Force in this core business area, increased $3.4 million (19.5%) this quarter compared to last year due to increased demand for services and higher funding levels.

Direct Contract Expense and Gross Profit. Direct contract expenses increased by $14.8 million to 77.2% of quarterly revenue compared to 76.9% of revenue for the comparable period last year. All major direct contract cost categories increased this quarter; material and subcontract costs were up $7.4 million (10.0%); direct labor was up $5.4 million (8.5%) and other direct costs were up $2.1 million (36.8%). Increased employee head count and expanded contract activity accounted for growth in direct labor and subcontractor effort. Current quarter gross profit of $46.5 million was $3.5 million greater than the third quarter of 2008, although slightly lower as a percentage of overall revenue. Financial performance is consistent with a higher percentage of cost-reimbursable contract revenue and lower fixed price contract activity.

Operating Expenses. Third quarter operating expenses declined to 19.7% of revenue compared to 21.2% of revenue for the same period last year even though operating expenses increased by almost $900 thousand. Expense declines were attributable to reductions in facility and indirect costs, and depreciation and amortization expense. However, general and administrative expenses increased more than 20% (up $2.9 million) to 8.2% of revenue and $16.8 million compared to the similar period last year. Changes from equity-based to cash-based compensation accounted for approximately $1.4 million of increased general and administrative expense. Environmental initiatives, planned departmental re-structuring and relocation efforts, and increased corporate staffing accounted for the remaining general and administrative expense increases. Stock-based compensation declined 70% (slightly less than $1.0 million) compared to third quarter 2008 because the Company terminated its executive phantom stock plan. Other equity-based compensation expense declined as well because of lower interest rates and Alion's lower share price.

Income from Operations. Operating profit increased by more than 70% to $6.3 million for the quarter ended June 30, 2009. Increased gross profit, combined with reduced indirect and stock-based compensation expenses offset increased general and administrative costs. Operating income climbed to 3.1% of revenue for the current quarter compared to 2.0% of revenue in the third quarter of 2008.

Other Expense. Interest income, interest expense and other expense in the aggregate for the quarter ended June 30, 2009 increased by more than $4.1 million compared to last year. Interest income declined due to lower market rates and lower average investment balances. Despite the lower outstanding principal balance on the Senior Term Loan compared to the third quarter of 2008, cash pay interest increased by more than $1.9 million for the third quarter of this year because the September 2008 amendment to the Senior Credit Facility increased Alion's minimum interest rate to 9.50% for both the Senior Term Loan and the Revolver. Despite the higher rate on the Revolver, lower outstanding Revolver balances this quarter as compared to the similar period last year, kept Revolver interest expense stable. Cash pay interest for the Subordinated Note was $784 thousand for the current quarter; there was no comparable expense last year.

Fiscal 2009 debt issue cost amortization for the current quarter increased $572 thousand compared to last year as a result of fees paid and warrants issued to amend Alion's senior secured and subordinated debt at the end of last fiscal year. The higher interest rate on the Subordinated Note increased expense by $162 thousand compared to last year. There was no material change in redeemable-warrant related interest expense in the current quarter.

	Quarter Ended June 30,	
	2009	2008
	(In thousands)	
Cash Pay Interest		
Revolver	$ 289	$ 319
Senior Term Loan	5,711	3,763
Senior Unsecured Notes	6,406	6,406
Subordinated Note	784	—
Other cash pay interest and fees	88	113
Sub-total cash pay interest	13,278	10,601
Deferred and Non- cash Interest		
Debt issue costs and other non-cash items	1,270	698
Subordinated Note interest	1,057	895
Redeemable warrants	161	138
Sub-total non-cash interest	2,488	1,731
Total interest expense	$ 15,766	$ 12,332

Income Tax Expense. Income tax expense was immaterial for the current quarter ($7 thousand) and the similar period last year ($14 thousand) because Alion and its subsidiaries are a consolidated S corporation whose income is attributable to the ESOP Trust, a tax exempt entity. Some states do not recognize Alion's S corporation status. Alion's Canadian subsidiary accrues a Canadian tax liability, as required and has filed claims for research and development tax credits for prior years.

Net Income (Loss). Despite higher revenue, gross profit and operating profit, Alion's $9.4 million net loss this quarter was $1.5 million greater than the $7.4 million the Company lost in the third quarter of 2008. This was due to significantly higher interest expense compared to the same period last year.

Nine Months Ended June 30, 2009 Compared to Nine Months Ended June 30, 2008

	Consolidated Operations of Alion Nine Months Ended June 30,			
	2009		2008	
Selected Financial Information	(Dollars in thousands)			
		% revenue		% revenue
Total contract revenue	$ 588,385		$ 558,264	
Total direct contract costs	452,123	76.8%	426,274	76.4%
Direct labor costs	203,287	34.5%	182,268	32.7%
Material and subcontract costs	229,078	38.9%	227,417	40.7%
Other direct costs	19,757	3.4%	16,589	3.0%
Gross profit	136,262	23.2%	131,990	23.6%
Total operating expense	108,158	18.4%	119,253	21.4%
Major components of operating expense				
Indirect expenses including facilities costs	52,274	8.9%	54,761	9.8%
General and administrative (excluding stock-based compensation)	46,205	7.9%	42,318	7.6%
Stock-based compensation	(5,353)	(0.9)%	5,686	1.0%
Depreciation and amortization	14,662	2.5%	15,673	2.8%
Income from operations	$ 28,104	4.8%	$ 12,737	2.3%

Revenue. Year to date revenue was up 5.4% to $588.4 million through June 30, 2009, net increase of $30.1 million over the comparable period last year. Department of Defense revenue increased $60.7 million (12.6%) offsetting a $10.8 million (31.0%) decline in civilian agency work and a $19.8 million (47.2%) fall off in commercial work. Overall revenue from U.S. government contracts was up $49.9 million (9.7%) from the comparable period last year. Cost reimbursable contract revenue increased $30.9 million (8.0%) and fixed price revenue was up $3.5 million (6.1%) offsetting a $4.3 million (3.8%) decline in time and material contract revenue. Revenue from Alion's prime contracts increased by $33.8 million (7.7%) while revenue from other contracts declined $3.7 million (3.0%).

Naval architecture and marine engineering increased $35.3 million (15.0%) and modeling and simulation revenue grew $12.8 million (25.5%) offsetting an $18.1 million (15.1%) decline in support for defense operations. Naval architecture and marine engineering work expanded as Alion's efforts increased on contracts supporting NAVSEA's littoral combat ship program and the DDG and CGX programs. Modeling and simulation revenue grew through increased funding for the Modeling and Simulation and Weapons System Technology information analysis centers Alion operates. Reduced activity on the Company's Night Vision contract which is coming to the end of its life cycle, accounted for the decline in defense operations support revenue.

Direct Contract Expense and Gross Profit. Direct contract expenses increased by $25.8 million (6.1%) to 76.8% of year to date revenue compared to 76.4% of revenue for the comparable period last year. Direct labor costs increased $21.0 million (11.5%) while other contract cost and purchased materials and services increased $4.8 million (2.0%). Increased direct labor resulted from higher head count and higher labor productivity. Year to date gross profit at $136.3 million increased $4.3 million (3.2%) compared to $132.0 million for the first nine months of 2008. Alion's increasing percentage of cost reimbursable work continues to moderate gross profit growth. For the nine months ended June 30, 2009, year to date gross profit as a percentage of revenue declined to 23.2% of revenue from 23.6% of revenue for the similar period in 2008.

Operating Expenses. Year to date operating expenses through June 30, 2009 declined by $11.1 million (9.3%) overall compared to the same period last year, significantly improving operating profit. Current year credits to stock-based compensation for declines in Alion's share price (SAR plan expense) and forfeitures of previously awarded phantom stock grants accounted for all but $54 thousand of the drop in operating expenses. Decreases in overhead ($2.5 million, 4.5%) and depreciation and amortization ($1.0 million, 6.5%) offset $3.9 million (9.2%) in increased G&A expense. Depreciation and amortization declined principally due to scheduled declines in amortization charges for acquired contracts. G&A expense exclusive of stock-based compensation, long-term incentive compensation and corporate bonus accruals declined by $235 thousand. The Company recognized approximately $4.2 million in year to date costs for Alion's annual bonus and long term incentive compensation plans.

Income from Operations. Operating income for the nine months ended June 30, 2009 increased by $15.4 million to $28.1 million compared with $12.7 million for the nine months ended June 30, 2008. This 121% improvement was the result of an $11.0 million difference in stock- based compensation expense (current year credit compared to prior year expense), $2.5 million in reduced indirect expenses and $1.0 million in reduced depreciation and amortization expense.

Other Expense. Interest income, interest expense and other expense in the aggregate for the nine months ended June 30, 2009 increased by $659 thousand compared to last year. Interest income declined $272 thousand due to lower market rates and lower average investment balances. However, a $6.7 million decline in the fair value of outstanding redeemable common stock warrants offset an almost $4.9 million increase in cash pay interest expense on Alion's senior debt. Despite lower outstanding principal balances on the Senior Term Loan during the nine months ended June 30, 2009 compared to the similar period last year, cash pay interest increased by nearly $4.2 million this year because the September 2008 amendment to the Senior Credit Facility increased Alion's minimum interest rate to 9.50% for both the Senior Term Loan and the Revolver. Cash pay interest on the Subordinated Note was more than $1.6 million; there was no similar expense last year. Despite the higher rate on the Revolver, lower outstanding balances helped reduce Revolver interest expense by $914 thousand for the nine moths ended June 30, 2009 compared to last year.

Fiscal 2009 debt issue cost amortization for the nine months ended June 30, 2009, increased more than $1.7 million compared to the similar period last year as a result of fees paid and warrants issued to amend Alion's senior secured and subordinated debt at the end of last fiscal year. The higher interest rate on the Subordinated Note increased expense by more than $1.2 million compared to last year. Alion also recognized a $6.8 million year to date benefit as of the third quarter from a reduction in warrant value due to declines in the risk free interest rate and the underlying share price of Alion common stock used to estimate the fair value of the outstanding warrants.

	Nine Months Ended June 30,	
	2009	2008
	(In thousands)	
Cash Pay Interest		
Revolver	$ 811	$ 1,725
Senior Term Loan	17,166	13,001
Senior Unsecured Notes	19,219	19,219
Subordinated Note	1,655	—
Other cash pay interest and fees	302	332
Sub-total cash pay interest	39,153	34,277
Deferred and Non- cash Interest		
Debt issue costs and other non-cash items	3,814	2,085
Subordinated Note interest	3,869	2,641
Redeemable warrants	(6,738)	436
Sub-total non-cash interest	945	5,162
Total interest expense	$ 40,098	$ 39,439

Income Tax Expense. Income tax expense was immaterial for the current quarter and the similar period last year because Alion and its subsidiaries are a consolidated S corporation whose income is attributable to the ESOP Trust, a tax exempt entity. Some states do not recognize Alion's S corporation status. Alion received a $58 thousand tax state refund in the second quarter. Alion's Canadian subsidiary accrues a Canadian tax liability, as required and has filed claims for research and development tax credits for prior years.

Net Loss. Alion cut its net loss to $9.4 million by $2.5 million for the nine months ended June 30, 2009 compared to $11.9 million for the nine months ended June 30, 2008.

Liquidity and Capital Resources

Alion requires liquidity primarily for working capital and debt service. The Company uses its revolving line of credit to fund accounts receivable, which can increase as revenue increases or when contract funding is delayed. Alion is funding its current business with cash from operating activities and by accessing a revolving credit facility. The Company intends to fund future operations in a similar fashion.

Cash Flows

The following narrative discusses Alion's cash flows for the nine months ended June 30, 2009 and 2008.

The Company significantly reduced its net loss and its operating use of cash for the nine months ended June 30, 2009 compared to the same period last year. Total cash used in operations declined to $559 thousand year to date compared to $2.4 million used through June 2008. Although the change appears to be a modest $1.9 million improvement, the Company significantly improved collections and relied less on vendor funding. In the nine months ended June 30, 2009, Alion funded $8.9 million in accounts receivable compared to $21.1 million for the similar period in 2008, a $12.2 million net improvement in the Company's receivable funding. In 2009, growth in current liabilities (excluding interest payable) provided $5.4 million of operating cash compared to $20.6 million in 2008. Non-cash operating charges provided a total of $7.2 million year to date compared to more than $24.2 million for the similar period in 2008. Non-cash stock-based compensation expense and fair value warrant-related interest expense accounted for an $18.2 million favorable variance in non-cash charges between 2009 and 2008. Debt issue costs and accretion accounted for a $1.7 million unfavorable change in non-cash charges between 2009 and 2008.

The Company measures days' sales outstanding (DSO) based on trailing twelve month revenue and net accounts receivable. DSO equals net accounts receivable divided by revenue per day (trailing twelve month revenue divided by 365). From September 2008 to June 2009, DSO increased by 0.6 days to 83.7 days from 83.1 days outstanding, and improved by 5.6 days from March 31, 2008. Company cash funded approximately 7.9 additional days' sales in receivables which were offset by a 1.9 day DSO reduction attributable to the effect of increasing sales in the nine months ended June 30, 2009. In the first nine months of 2009, there was no material change in the Company's allowance for doubtful accounts. Alion collected $213.2 million of accounts receivable in the third quarter of 2009 and $588.9 million year to date.

Billed accounts receivable increased a net $4.9 million in the nine months ended June 30, 2009. The Company invoiced $11.3 million of previously identified currently billable receivables, some of which it has yet to collect. Despite increased billings, unbilled receivables rose approximately $3.7 million with unfunded work increasing $13.2 million year to date. The Company received a number of pending contract funding actions in the past quarter and expects to receive most contract funding paper work by the end of the current fiscal year. Nevertheless, Alion also expects it will continue to perform services for customers in advance of receiving contract documents that would enable the Company to submit invoices for goods and services as they are regularly delivered to customers.

In fiscal 2009 Alion invested $1.8 million in new capital equipment compared to $4.1 million in 2008. Prior years' capital expenditures, particularly for upgrading equipment for employees hired through acquisitions, has moderated current capital investment demands on the Company's cash flow. Earlier in 2009, Alion spent approximately $116 thousand to acquire several additional Navy-related contracts and $50 thousand for a LogConGroup earn out obligation. In the nine months ended June 30, 2008, Alion spent $7.9 million for earn out obligations and contingent consideration for earlier years' acquisitions. The Company does not foresee any material future acquisition obligations for contingent consideration arising from existing agreements.

In November 2008, Alion paid off $3.0 million of Subordinated Note principal and $4.6 million in interest rate swap obligations which the Company funded in part by accessing its Revolver for $4.7 million. The Company sold $2.4 million of common stock to the ESOP Trust in March 2009. This was offset by $5.9 million in re-purchases to fund Plan-required investment diversifications and $1.3 million for required participant and beneficiary redemptions. Comparable transactions in 2008 included $3.0 million in common stock sales and $4.2 million in share repurchases. Through June 2009, transactions with the ESOP Trust accounted for $7.3 million of the $11.6 million the Company used in its financing activities. Last year through June 2008, only $1.6 million remained unpaid on Alion's Revolver. That helped generate net cash inflows from investing. Lower levels of diversification demands in 2008 created a lesser demand on the Company's cash flows. In 2009 net stock purchases from the ESOP Trust were $2.1 million compared to $2.1 million in net stock sales to the ESOP Trust last year.

In March 2009, a greater number of plan participants were eligible for investment diversification options than were eligible in March 2008. This, in turn, increased re-purchase demands on the Company's cash flow. While the Company cannot predict with any degree of accuracy the extent to which re-purchase and diversification demands will increase in future years, as more employees meet statutory and Plan-specific age and length of service requirements, potential diversification demands are likely to increase. These demands can increase further with any increase in the price of a share of Alion common stock. While a decline in the price of a share of Alion common stock could reduce the value of each individual Plan participant's beneficial interest, such a potential price decline could be offset by increased diversification demands and thus might not reduce the aggregate value of future demands on the Company's cash. The Company attempts to monitor future potential impacts through reliance in part on internal and external financial models that incorporate Plan census data along with financial inputs intended to simulate changes in Alion's share price.

Cash flow effects and risks associated with equity-related obligations

Changes in the price of a share of Alion common stock affect stock-based compensation expense, operating income and warrant-related interest expense. Management is unable to forecast the share price the ESOP Trustee will determine in future valuations. Because future share prices may differ from the current share price, the Company is unable to forecast the future expense it is likely to recognize for already-issued Phantom Stock and SAR plan grants. Alion expects to recognize non-cash interest expense related to outstanding Warrants as the current share price, interest rates, assumed volatility, and time to time expiration change. The carrying value of the warrants exceeds their current net cash value by approximately $8.5 million which represents the time value of the underlying options, $7.3 million of which is associated with the warrants issued in August 2008.

Although current financial information included the effects of the most recent ESOP Trust transactions, future expenses for stock-based compensation and warrant-related interest are likely to differ from estimates as the price of a share of Alion common stock changes. The next regularly scheduled valuation period will end in September 2009. Interest rates, market-based factors and volatility, as well as the Company's financial results will affect the future value of a share of Alion common stock.

Certain grantees of SARs and Phantom Stock are permitted to make qualifying elections to further defer stock-based compensation payments by having funds deposited into a rabbi trust owned by the Company. These elections will not have a material effect on either Alion's planned payments or its overall anticipated cash outflows.

After each semi-annual valuation period, the ESOP Plan permits former employees and beneficiaries to request distribution of their vested ESOP account balances. Consistent with the terms of the Plan, the Company intends to pay distribution requests in five annual installments and to defer initial payments as permitted. The Plan allows the Company to defer initial installment payments for five years for former employees who are not disabled, deceased or retired. Through June 30, 2009, Alion paid approximately $1.3 million in distributions and approximately $5.9 million in diversification requests this year.

Discussion of Debt Structure

The discussion below describes the Senior Credit Facility, the Subordinated Note as amended and the Company's Senior Unsecured Notes. Capitalized terms not defined in this section have the meanings ascribed to them in the relevant debt documents which can be found as exhibits to the Company's prior filings.

Senior Credit Facility

As of June 30, 2009, the Senior Credit Facility consisted of:

- the Senior Term Loan with principal of approximately $237.2 million;
- the $50 million Revolver (now $40.0 million), approximately $3.1 million of which was allocated to letters of credit and deemed borrowed, but none of which was actually drawn as of June 30, 2009; and
- a $110.0 million uncommitted incremental term loan "accordion" facility that the Company may be able to access in the future if it satisfies a leverage-based incurrence test.

In September 2008, the fifth amendment to the Senior Credit Facility revised certain financial covenants and changed other terms. Amended covenants provide Alion greater flexibility through fiscal 2009. Interest rates increased to a minimum 3.50% Eurodollar rate plus 600 basis points, and a minimum 4.50% alternate base rate plus 500 basis points. The Senior Term Loan interest rate spread will increase if the Company refinances, replaces or extends the maturity of its existing Revolver and the new interest rate spread is more than 50 basis points higher than the then-current interest rate spread. The Senior Term Loan spread will increase by the difference in the new revolver's higher interest rate spread less 50 basis points. Alion must use all (formerly half) of excess annual cash flow to prepay Senior Term Loan principal. Subject to certain conditions, Alion may incur additional second lien debt.

In July 2009, the sixth amendment to the Senior Credit Facility extended the Revolver maturity date to September 25, 2009 and reduced the aggregate amount of the Revolver commitments from $50 million to $40 million.

The Senior Credit Facility requires the Company to repay one percent of the Senior Term Loan principal during each of the next five fiscal years in equal quarterly installments of approximately $0.6 million through December 31, 2012 and to repay the remaining outstanding balance of approximately $229.3 million on February 6, 2013. The Revolver permits Alion to request up to $40.0 million in letters of credit and up to $5.0 million in swing line loans for short-term borrowing needs. The Company must pay the Revolver balance in full no later than September 25, 2009. Alion is negotiating with existing and potential lenders to refinance or replace its existing Revolver prior to September 25, 2009. Given the current state of the credit markets and the effects of the global financial crisis, the Company is unable to determine the price at which it will be able to obtain a new Revolver. As discussed below, an increase in the Revolver interest rate above 10.0% (50 basis points above the current rate) would increase the interest rate on the Senior Term Loan and thus increase the Company's overall cost of borrowing.

Interest, Fees, Prepayments and Use of Proceeds. The Senior Term Loan and Revolver can each bear interest at either of the floating rates discussed above. The Senior Term Loan is at the Eurodollar rate and the Revolver is at the alternate base rate based on Credit Suisse's prime rate. As of September 30, 2008, the minimum interest rate on both the Revolver and the Senior Term Loan is 9.50% (4.50% plus 500 basis point spread) for Eurodollar and alternate base rate loans, and no longer depends on the Company's leverage ratio. Through September 2008, the Senior Term Loan Eurodollar rate was 5.49% (2.99% plus 250 basis point spread) and the Revolver alternate base rate was 6.75% (5.00% plus 175 basis point spread).

Alion may prepay all or any portion of its Senior Term Loan in minimum increments of $1 million, generally without penalty or premium, except for customary breakage costs associated with pre-payment of Eurodollar-based loans. If the Company issues certain permitted debt, or sells, transfers or disposes of certain assets, it must use all net proceeds to repay outstanding Senior Term Loan principal. Alion must use all annual excess cash flow to prepay Senior Term Loan principal. The Senior Credit Facility defines Excess Cash Flow for any fiscal year as Consolidated EBITDA without duplication plus the decrease, if any, in current assets less current liabilities for that fiscal year over the sum, without duplication, of (i) taxes payable in cash for the Company and its Subsidiaries, (ii) Consolidated Interest Expense, (iii) capital expenditures made in cash other than proceeds from indebtedness, equity raises, casualty losses, condemnation and other proceeds not part of Consolidated EBITDA, (iv) permanent repayments of Indebtedness not including repayments of the Company's revolving credit facility, (v) the increase, if any, in current assets less current liabilities for that fiscal year, (vi) cash purchase price paid for a permitted acquisition as defined in the Senior Credit Facility, (vii) cash contributions to the ESOP, and (viii) extraordinary losses, non-recurring expenses and adjustments all to the extent included in Consolidated EBITDA. The Company had no excess cash flow in either of the fiscal years ended September 30, 2008 and 2007. Management does not expect the Company will have material excess cash flow this fiscal year or that this covenant will materially affect the Company's cash flow this year.

If the Company enters into an additional term loan, or incremental term loan, and certain terms in that loan are more favorable to the new lenders than existing Senior Credit Facility terms, the Senior Term Loan interest rate spread can increase. Thus additional term loans could increase interest expense under Alion's existing Term Loans.

The Senior Credit Facility permits Alion to use the Revolver for working capital, other general corporate purposes, and to finance permitted acquisitions. The Senior Credit Facility permits the Company to use proceeds from the uncommitted incremental term loan facility to finance permitted acquisitions or for any other purpose permitted by a future incremental term loan.

Security. The Senior Credit Facility is secured by a security interest in all of the Company's current and future tangible and intangible property, and all the current and future tangible and intangible property of the Company's subsidiary guarantors, HFA, CATI, METI, JJMA, BMH, WCI, WCGS and MA&D.

During fiscal year 2008, the Senior Term Loan was at a Eurodollar rate and the Revolver was at an alternate base rate loan. From October 1, 2007 through September 29, 2008, Senior Credit Facility interest rates depended on Alion's leverage ratio as set out below.

Leverage Ratio	Eurodollar Spread	Federal Funds ABR Spread	Prime Rate ABR Spread
		(in basis points)	
Category 1	275	225	175
Greater than or equal to 3.00 to 1.00			
Category 2	250	200	150
Greater than or equal to 2.50 to 1.00 but less than 3.00 to 1.00			
Category 3	225	175	125
Greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00			
Category 4	200	150	100
Less than 2.00 to 1.00			

As of September 30, 2008, the minimum interest rate on both the Revolver and the Senior Term Loan is 9.50% and no longer depends on the Company's leverage ratio. The Eurodollar rate interest rate is 600 basis points plus a 3.5% minimum interest rate. The alternate base rate is 500 basis points plus a 4.5% minimum interest rate.

Interest Rate Swap. In January 2008, Alion executed an interest rate swap with one of its lenders to convert floating rate interest payable on a portion of its Senior Term Loan to a fixed rate, and to adjust timing of some Senior Term Loan net interest payments. The swap agreement notional principal was $240 million. The swap expired in November 2008. The Company made its final semi-annual interest payment November 1, 2008. Alion received quarterly floating rate interest payments in February and May at 7.32% and in August and November 2008 at 5.49%. Alion paid interest semi-annually in May and November 2008 at 6.52%. All swap payments were net cash settled.

Other Fees and Expenses. Each quarter, Alion is required to pay a 50 basis point per year commitment fee on the prior quarter's daily, unused Revolver and Senior Term Loan commitment balances. As of June 30, 2009, only $3.1 million allocated to letters of credit was outstanding on the Revolver; the Senior Term Loan was fully utilized. For the quarter ended June 30, 2009, the Company paid no Senior Term Loan commitment fee and approximately $44 thousand in commitment fees for the Revolver.

Alion is required to pay issuance and administrative fees, and a fronting fee of up to 25 basis points for each letter of credit issued under the Revolver. Each quarter Alion is required to pay interest in arrears at the Revolver rate for all outstanding letters of credit. The Company is also required to pay an annual agent's fee under the Senior Credit Facility.

Financial Covenants. As of June 30, 2009, the Company was in compliance with the financial covenants set forth in the Company's Senior Credit Facility. The Company is required to meet two financial covenant tests under its Senior Credit Facility, a maximum senior secured leverage test and a minimum interest coverage test, each of which is based in part on EBITDA (earnings before interest, taxes, depreciation and amortization). Management believes EBITDA is useful in assessing operating performance and in comparing Alion's performance to other companies in the same industry. EBITDA is a common financial metric in the government contracting industry, in part because it excludes from performance the effects of a company's capital structure, in particular taxes and interest. EBITDA is not a measure under U.S. GAAP. It does not measure operating income or liquidity in accordance with U.S. GAAP and is subject to important limitations on its usefulness as an analytical tool. Consolidated EBITDA as defined in the Senior Credit Facility excludes from debt-service metrics, certain non-cash expenses and non-recurring items in order to evaluate the ability of Alion's continuing operations to meet the Company's obligations.

The maximum senior secured leverage test compares at any given time the Company's secured debt (except its letters of credit) to the Company's Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

Consolidated EBITDA is defined as: (a) net income (or loss), as defined therein; plus (b) the following items, without duplication, to the extent deducted from net income or included in the net loss, the sum of: (i) interest expense; (ii) provision for income taxes; (iii) depreciation and amortization, including amortization of other intangible assets; (iv) cash contributions to the ESOP in respect of the repurchase liability of the Company under the ESOP Plan; (v) any non-cash charges or expenses including (A) non-cash expenses associated with the recognition of the difference between the fair market value of the Warrants and the exercise price of the Warrants, (B) non-cash expenses with respect to the stock appreciation rights and phantom stock plans, and the Warrants and accretion of the Warrants and (C) non-cash contributions to the ESOP; (vi) any extraordinary losses and (vii) any nonrecurring charges and adjustments by third-party valuation firm that prepares valuation reports in connection with the ESOP; minus (c) without duplication, (i) all cash payments made on account of reserves, restructuring charges and other non-cash charges added to net income (or included in net loss) pursuant to clause (b)(v) above in a previous period and (ii) to the extent included in net income (or net loss), any extraordinary gains and all non-cash items of income, in accordance with GAAP.

The Senior Credit Facility requires that the Company's ratio of total secured senior indebtedness to Consolidated EBITDA not exceed the following ratios for the time periods indicated:

Period	Ratio
July 1, 2008 through December 31, 2008	4.10 to 1.00
January 1, 2009 through September 30, 2009	4.25 to 1.00
Thereafter	3.00 to 1.00

The interest coverage test compares for any given period the Company's Consolidated EBITDA less capital expenditures to the Company's Consolidated Interest Expense payable in cash for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

Consolidated Interest Expense is defined in the Senior Credit Facility for any period as: (a) interest expense other than imputed interest expense for capital leases and synthetic leases plus (b) accrued interest which was required to be capitalized all in accordance with GAAP, and is determined after taking into account net payments made or received from interest rate hedging agreements.

The Senior Credit Facility requires that the Company's Interest Coverage Ratio for any period of four consecutive fiscal quarters be greater than the following ratios for the time periods indicated:

Period	Ratio
July 1, 2008 through September 30, 2008	1.20 to 1.00
October 1, 2008 through December 31, 2008	1.10 to 1.00
January 1, 2009 through September 30, 2009	1.05 to 1.00
Thereafter	1.35 to 1.00

The Company's Senior Secured Leverage and Interest Coverage Ratios for the twelve-month periods ended June 30, 2009 and 2008 are included below.

	Twelve Months Ended June 30,	
	2009	2008
Senior Secured Leverage Ratio	3.76	3.73
Interest Coverage Ratio	1.21	1.81

The Company is subject to a covenant under its Senior Credit Facility that restricts the Company's ability to incur additional indebtedness. The Company and its Subsidiaries are prohibited from incurring, creating, assuming and permitting to exist any Indebtedness as defined under the Senior Credit Facility except Permitted Indebtedness which includes:

- Indebtedness pre-existing the Senior Credit Facility
- Indebtedness incurred under the Senior Credit Facility
- Permitted inter-company Indebtedness
- Permitted refinancing Indebtedness
- No more than $20 million outstanding at any time when combined with permitted capital and synthetic leases incurred to acquire, construct, or improve any fixed or capital asset plus extensions and renewals of that Indebtedness

- Capital and synthetic leases not more than $20 million outstanding at any time in the aggregate when combined with Permitted Indebtedness incurred for fixed and capital assets
- Indebtedness under hedging agreements
- Indebtedness of acquired subsidiaries up to $7.5 million at any time outstanding
- Ordinary course warranties
- Unsecured subordinated Indebtedness up to $150 million at any time outstanding to refinance the Company's subordinated notes and warrants and to make acquisitions otherwise permitted by the Senior Credit Facility
- Performance bonds and workers' compensation claims in the ordinary course of business
- Ordinary course insufficient funds coverage
- Indebtedness incurred in connection with the redemption of employee interests in the ESOP subsequent to their termination of employment with the Company
- Subordinated notes specifically authorized by the lenders
- Indebtedness of non-US subsidiaries up to $2.5 million at any time outstanding
- Deferred compensation
- The Company's 10.25% Senior Unsecured Notes due 2015
- Permitted Indebtedness used to pre-pay Term Loans in amounts not less than $50 million
- Other unsecured Indebtedness up to $30 million at any time outstanding.

However, the Company cannot incur, create, assume or permit to exist any of the foregoing permitted Indebtedness if at any time the Company's Leverage Ratio exceeds the ratio set forth in the table below for the corresponding time period:

Period	Ratio
October 1, 2007 through September 30, 2008	6.50 to 1.00
October 1, 2008 through September 30, 2009	6.25 to 1.00
October 1, 2009 through September 30, 2010	6.00 to 1.00
Thereafter	5.75 to 1.00

The Senior Credit Facility defines the Company's Leverage Ratio to mean for any date the ratio of the Company's total senior debt, except its letters of credit, to Consolidated EBITDA for the trailing four fiscal quarters ended closest to the measuring date.

The Senior Credit Facility contains a covenant that restricts the Company's ability to pay or agree to pay or declare any dividend or other distribution whether in cash, securities or other property with regard to any equity interest in the Company, and any subsidiary of the Company, including payments to repurchase, redeem, retire, acquire, cancel or terminate any equity interest of the Company, and any subsidiary of the Company, or any option, warrant or other right to acquire any equity interest of the Company, and any subsidiary of the Company, except that:

- Any subsidiary may declare and pay dividends ratably to its equity holders
- The Company may repurchase equity interests from the Company's and the subsidiaries' directors, officers and employees in connection with warrants, options, SARs, phantom stock and similar incentives up to $20 million in the aggregate although additional restrictions apply to repurchases from the Company's CEO and another senior officer
- The Company may make distributions to employees on account of their interests in the ESOP upon separation from employment with the Company, other distributions and contributions to the ESOP as required by applicable law and the Plan Documents including non-statutory diversification elections under the ESOP Plan Documents
- The Company may redeem its junior subordinated warrants as long as it has $10 million of headroom under its Revolver and it is in compliance with the Senior Secured Leverage Ratio and the Interest Coverage Ratio and it is in further compliance as of the applicable date with a more demanding senior secured leverage ratio test which had been set forth in the Senior Credit Facility after taking into account the fourth amendment to the Senior Credit Facility but without taking into account the fifth amendment to the Senior Credit Facility
- The Company may make other restricted payments up to a variable amount based on the Company's Excess Cash Flow and net cash proceeds from certain equity offerings as long as the Company's Senior Secured Leverage Ratio is less than 2.5 to 1.0 and the Company has at least $10.0 million of headroom under its Revolver

The Senior Credit Facility restricts the Company's ability to engage in other transactions including incurring liens, entering into sale lease-back transactions, making certain investments, loans and advances, merging or selling all or substantially all of the Company's assets, engaging in transactions with affiliates, restricting the ability of subsidiaries to make distributions and pay dividends to parents, amending material indebtedness to increase the Company's obligations, amending the ESOP Plan Documents in a way materially adverse to the Company's senior lenders, paying or making distributions whether in cash, securities or property to holders of the Company's subordinated debt at an unscheduled time, entering into certain prohibited transactions under ERISA and entering into and paying certain earn-outs.

Subordinated Note — Redeemable Common Stock Warrants

In December 2002, Alion issued a $39.9 million Subordinated Note to IITRI as part of the purchase price for substantially all of IITRI's assets. In July 2004, IIT acquired the Subordinated Note and related warrant agreement from IITRI. In June 2006, the Company and IIT increased the interest rate on the Subordinated Note for two years from December 2006 through December 2008. In August 2008, the Company and IIT amended the Subordinated Note to: extend the maturity date to August 2013; require Alion to pay $3.0 million in principal in November 2008, 2009 and 2010, and $2.0 million in November 2011; and require Alion to pay cash interest at 6% rather than 16%, along with 10% in non-cash interest to be added to principal. The amended Subordinated Note agreement prohibits Alion from redeeming vested phantom stock held by the Chief Executive Officer and Chief Operating Officer unless the Company timely makes its scheduled principal payment each year. The Company paid IIT a $0.5 million amendment fee.

Up to and including December 2008, interest on the Subordinated Note was payable quarterly in arrears by issuing paid-in-kind (PIK) notes maturing at the same time as the Subordinated Note. The interest rate was 6.0% from December 2002 through December 2006; approximately 6.4% from December 2006 to December 2007; and approximately 6.7% from December 2007 to December 2008. Beginning December 2008, interest is still payable quarterly in arrears, 6% in cash and 10% in PIK notes due August 2013. Existing and future PIK notes defer related cash interest expense on the Subordinated Note. Over the term of the Subordinated Note, Alion expects to issue approximately $41.4 million in PIK notes. In addition to the principal payments required each November from 2008 through 2011, Alion is required to pay a total of $70.3 million in principal and PIK notes in August 2013.

In December 2002, the Company issued 1,080,437 detachable, redeemable common stock warrants at an exercise price of $10.00 per share. Alion issued the warrants to IITRI in connection with the Subordinated Note. The Company recognized approximately $7.1 million for the initial fair value of the warrants as original issue discount to the $39.9 million face value of the Subordinated Note. The Subordinated Note warrants were originally exercisable until December 2010. In June 2004, IITRI transferred the warrants to IIT.

In August 2008, Alion amended and restated the original warrants and issued an additional 550,000 redeemable common stock warrants at an exercise price of $36.95 per share. The Company issued the second set of warrants to IIT in connection with the Subordinated Note amendment. The new warrants are exercisable from April 2009 to September 2013 at the then-current fair value per share of Alion common stock, less the exercise price. The original warrants are exercisable currently and through September 2013. The Company recognized approximately $10.3 million in debt issue costs for the fair value of the August 2008 warrants and the amendment to the December 2002 warrants.

Alion has classified the warrants as debt instruments and not equity, in accordance with EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.* The Company recognizes interest expense for changes in the fair value of the warrants which had an aggregate estimated fair value of $33.3 million as of June 30, 2009.

Senior Unsecured Notes

On February 8, 2007, Alion issued and sold $250.0 million of its private 10.25% Senior Unsecured Notes due February 1, 2015 to Credit Suisse, which informed the Company it had resold most of the notes to qualified institutional buyers. On June 20, 2007, Alion exchanged its private Senior Unsecured Notes for publicly tradable Senior Unsecured Notes with the same terms.

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. Alion pays interest to holders of record as of the immediately preceding January 15 and July 15. The Company must pay interest on overdue principal or interest at 11.25% per annum to the extent lawful.

Covenants. As of June 30, 2009, the Company was in compliance with the covenants set forth in the Company's Indenture with respect to the Company's 10.25% Senior Unsecured Notes. The Company's Indenture does not contain any financial covenants.

The Company is subject to a covenant under its Indenture that restricts the Company's ability to incur additional indebtedness. The Company and its Restricted Subsidiaries are prohibited from issuing, incurring, assuming, guaranteeing, and otherwise becoming liable for any Indebtedness as defined under the Indenture unless the Company's ratio of Adjusted EBITDA to Consolidated Interest Expense (each as defined in the Indenture) exceeds 2.0 to 1.0. Even if the Company's Adjusted EBITDA to Consolidated Interest Expense does not exceed 2.0 to 1.0, the Company may incur other permitted indebtedness which includes:

- Indebtedness incurred pursuant to the Senior Credit Facility and certain other contracts up to $360 million less principal repayments made under that indebtedness
- Permitted inter-company indebtedness
- The Company's 10.25% notes
- Indebtedness pre-existing the issuance of the Company's 10.25% notes
- Permitted Indebtedness of acquired subsidiaries
- Permitted refinancing Indebtedness
- Indebtedness under hedging agreements
- Performance, bid, appeal and surety bonds and completion guarantees
- Ordinary course insufficient funds coverage
- Guarantees in connection with permitted refinancing indebtedness
- Indebtedness of non-U.S. subsidiaries incurred for working capital purposes
- Indebtedness incurred for capital expenditure purposes and indebtedness for capital and synthetic leases not exceeding in the aggregate $25 million and 2.5% of the Company's Total Assets as defined in the Indenture
- Permitted subordinated indebtedness of the Company or any Restricted Subsidiary incurred to finance a permitted acquisition, certain permitted transactions involving the ESOP and refinancing indebtedness of acquired non-U.S. subsidiaries in an amount not exceeding in the aggregate $35 million
- Reimbursement obligations with regard to letters of credit
- Certain agreements in connection with the acquisition of a business as long as the liabilities incurred in connection therewith are not reflected on the Company's balance sheet
- Certain deferred compensation agreements
- Certain other indebtedness not exceeding $35 million.

The Company is subject to a covenant under its Indenture that restricts the Company's ability to declare and pay any cash dividend or other distribution with regard to any equity interest in the Company, make any repurchase or redemption of any equity interest of the Company, make any repurchase or redemption of subordinated indebtedness, and make certain investments, except that the Company may make such payments in limited amounts if the Company's ratio of Adjusted EBITDA to Consolidated Interest Expense exceeds 2.0 to 1.0 subject to certain limitations. Even if the Company's Adjusted EBITDA to Consolidated Interest Expense does not exceed 2.0 to 1.0, the Company may make or pay:

- Restricted Payments out of substantially concurrent contributions of equity to the Company and substantially concurrent incurrences of permitted indebtedness
- Certain limited and permitted dividends
- Certain repurchases of the Company's equity securities deemed to occur upon exercise of stock options or warrants
- Cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for the Company's equity securities
- The required premium payable on the Senior Unsecured Notes in connection with a change of control of the Company
- Certain permitted inter-company subordinated obligations
- Certain repurchases and redemptions of subordination obligations of the Company or a Subsidiary Guarantor from Net Available Cash (as defined in the Indenture)
- Repurchases of subordinated obligations in connection with an asset sale to the extent required by the Indenture
- The redemption or repurchase for value of any Company equity securities for former Company employees who were also former Joint Spectrum Center employees after voluntary or involuntary termination of employment with the Company
- Certain permitted transactions with the ESOP not exceeding $25 million in the aggregate

- Certain other payments not exceeding $30 million in the aggregate.

The Indenture restricts the Company's ability to engage in other transactions including restricting the ability of subsidiaries to make distributions and pay dividends to parents, merging or selling all or substantially all of the Company's assets, making certain issuances of Subsidiary equity securities, engaging in certain transactions with affiliates, incurring liens, entering into sale lease-back transactions and engaging in business unrelated to the Company's business at the time the Company issued the Senior Unsecured Notes.

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 a change in control, each Senior Unsecured Note holder has the right to require Alion to repurchase its notes at 101% of principal plus accrued and unpaid interest. Any of the following events constitutes a change in control:

- 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 Alion;
- individuals who constituted Alion's board of directors on the date the Senior Unsecured Notes were issued, cease for any reason to constitute a majority of the Company's board of directors;
- adoption of a plan relating to Alion's liquidation or dissolution; and
- subject to certain exceptions, merger or consolidation of the Company with or into another person or merger of another person with or into the Company, or sale of all or substantially all of Alion's assets.

Optional Redemption. Prior to February 1, 2011, the Company may redeem all, but not less than all, the Senior Unsecured Notes at 100% of principal plus accrued and unpaid interest to the redemption date plus an applicable make-whole premium as of the redemption date.

In addition, prior to February 1, 2010, subject to certain conditions, the Company may use proceeds of a qualified equity offering to redeem up to $87.5 million of Senior Unsecured Notes at 110.25% of aggregate principal of notes actually redeemed, plus unpaid interest accrued to the redemption date.

On or after February 1, 2011, the Company may redeem some or all of its Senior Unsecured Notes at a percentage of principal set out below, plus unpaid interest accrued to the redemption date, during each of the 12-month periods beginning February 1 of the years set out below:

Year	Percentage of Principal
2011	105.125%
2012	102.563%
2013 and thereafter	100.000%

During the remainder of fiscal year 2009 and the next six fiscal years the Company expects that at a minimum, it will have to make the following estimated interest and principal payments.

	7-Fiscal Year Period ($ In thousands)						
	2009*	2010	2011	2012	2013	2014	2015
Bank revolver							
- Interest[1]	$ 285	$ 933	$ 659	$ 432	$ 431	$ 203	$ 203
Senior Term Loan							
- Interest[2]	5,759	22,759	22,525	22,352	7,820	—	—
- Principal[3]	608	2,433	2,433	2,433	229,297	—	—
Senior Unsecured Notes							
- Interest	6,406	25,625	25,625	25,625	25,625	25,625	12,813
- Principal	—	—	—	—	—	—	250,000
Subordinated Note							
- Interest	793	3,187	3,332	3,537	4,254	—	—
- Principal	—	3,000	3,000	2,000	70,311	—	—
Total cash — pay interest	13,243	52,504	52,141	51,946	38,130	25,828	13,016
Total cash — pay principal	608	5,433	5,433	4,433	299,608	—	250,000
Total	$ 13,851	$ 57,937	$ 57,574	$ 56,379	$337,738	$ 25,828	$263,016

* Estimated interest and principal payments for the remainder of fiscal year 2009.

(1) Alion anticipates regularly accessing a $40.0 million revolving credit facility to finance working capital. Alion's existing Revolver expires in September 2009. The Company expects to replace it or renew it annually with a similar facility continuing through 2015. Alion estimates the average revolver balance will be $10.0 million for fiscal year 2009; $8.0 million for fiscal year 2010, $5.0 million for 2011, $2.5 million for 2012 and 2013 and minimal thereafter. Interest expense includes estimated fees for the unused balance of a $40.0 million revolving credit facility. The Company estimates the effective average cash-pay interest rate, excluding fees for the unused balance on the Revolver, will be 9.5% for all periods presented.

(2) Alion estimates its average annual Senior Term Loan balance will be: $238.1 million, $235.7 million, $233.3 million, $230.8 million, and $81.0 million for fiscal years 2009 through 2013. The Senior Term Loan matures February 2013. The Company expects it will need to refinance the Senior Term Loan prior to maturity and forecasts interest expense to continue at existing levels based on Alion's current minimum interest rate of 9.5%.

(3) The Senior Credit Facility requires Alion to repay approximately 1.0% of the Senior Term Loan principal annually. On a cumulative basis, Alion is required to pay approximately 4.3% of principal through the first quarter of fiscal year 2013. The remaining balance is due on February 6, 2013, the Senior Term Loan maturity date. The table reflects the balance drawn of $237.2 million as of June 30, 2009, payments of approximately $2.4 million each fiscal year from 2009 through 2012, an approximate $0.6 million payment in the first quarter of fiscal 2013, and approximately $228.7 million in remaining principal due February 6, 2013. If Alion generates excess cash flow in a given fiscal year, issues or incurs certain debt or sells certain assets, the Senior Credit Facility requires the Company to prepay a portion of the principal. As of June 30, 2009, no mandatory prepayments are due.

Contingent Obligations

Earn-outs

Alion's LogConGroup earn-out obligation continues through September 2013. The maximum earn-out is $900 thousand based on revenue from potential logistics contracts. In the nine months ended June 30, 2009, Alion recognized no LogConGroup earn out. Management believes realization of this earn-out will not have a material effect on Alion's financial position, results of operations, or liquidity. No other acquisition related earn-out obligations remain.

Other Contingent obligations which will impact the Company's cash flow

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

- IIT's Subordinated Note warrant put rights;
- Stock-based and long-term incentive compensation plan obligations; and
- ESOP share repurchase and diversification obligations.

As of June 30, 2009, Alion had spent a cumulative total of $69.7 million to repurchase shares of its common stock to satisfy ESOP distribution and diversification requests from former employees and Plan beneficiaries. In 2008, the Company changed its prior practice of immediately paying out all distribution requests in full. In March 2008, Alion began paying ESOP beneficiaries over the five-year distribution period permitted by ERISA and the terms of the Plan. Alion intends to continue this practice for the foreseeable future in part to offset the cash flow effects of annual employee diversification requests that began in fiscal 2008 and which are expected to continue for the foreseeable future.

Date	Number of Shares Repurchased Fiscal 2009	Share Price	Total Value Purchased Fiscal 2009
			(In thousands)
December 2008	233	$ 38.35	$ 9
March 2009	189,038	$ 38.35	7,250
April 2009	122	$ 34.30	4
May 2009	38	$ 34.30	1
Total	189,271		$ 7,264

Alion believes cash flow from operations and cash available under current and anticipated revolving credit facilities will provide sufficient capital to fulfill current business plans and fund working capital needs for at least the next 24 months. The Company intends to focus on organic growth and improving processes and margins.

Although Alion expects to have positive annual operating cash flow, it will need to generate significant additional revenue beyond current levels and earn net income in order to pay Senior Credit Facility principal and interest, the Senior Unsecured Notes, the Subordinated Note and Warrants, and satisfy ESOP repurchase and diversification obligations. Alion is negotiating with existing and potential lenders to refinance or replace its existing revolving credit facility prior to September 25, 2009. The Company does not yet know the terms under which it will be able to replace or continue its existing revolver. Despite the current state of the credit markets, Management does not expect that the interest rate on renewal or replacement of the Revolver will have an effective coupon rate materially greater than the current rate. Therefore, Management does not believe that renewal or extension of the Revolver will materially affect the Company's cash flows or results of operations.

The Senior Credit Facility and Indenture allow Alion to make certain permitted acquisitions, and the Company intends to use its available financing to do so. Alion plans to refinance the Senior Term Loan and the Subordinated Note before they mature. The Company is uncertain whether, when and under what terms it will be able to refinance these obligations.

If plans or assumptions change, if assumptions prove inaccurate, if Alion consummates additional or larger investments in or acquisitions of other companies than are currently planned, if the Company experiences unexpected costs or competitive pressures, or if existing cash and projected cash flows from operations prove insufficient, the Company may need to obtain greater amounts of additional financing and sooner than expected. While Alion intends only to enter into new financing or refinancing it considers advantageous, given the current state of the credit markets, the Company cannot be certain sources of financing will be available in the future, or, if available, that financing terms would be favorable.

Recently Issued Accounting Pronouncements

In December 2007, FASB issued SFAS No. 141 (revised 2007), "*Business Combinations,*" and in April 2009, issued FASB Staff Position (FSP) FAS 141-R(1) effective for fiscal years beginning after December 15, 2008 (collectively SFAS 141-R). The new standard is based on a fair value model and requires an acquirer to measure all assets acquired and liabilities assumed at their respective fair values at the date of acquisition. This includes measuring noncontrolling (minority) interests at fair value. SFAS 141R establishes principles and requirements for recognizing and measuring goodwill arising from a business combination, and any gain from a bargain purchase. SFAS 141R establishes new disclosure standards and significantly alters the accounting for in-process research and development and restructuring costs. It requires expensing of acquisition-related costs as incurred. Transactions consummated after the effective date of SFAS 141R apply the new standard prospectively. Existing guidance in SFAS 141 applies to business combinations consummated prior to the effective date of SFAS 141R.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements,*" (SFAS 160) which amends Accounting Research Bulletin No. 51 and provides accounting and reporting standards for noncontrolling (minority) interests in a subsidiary and deconsolidation of a subsidiary. SFAS 160 requires noncontrolling interests to be presented separately within equity in the consolidated statement of financial position. Consolidated net income attributable to the parent and noncontrolling interests are to be separately presented on the face of the statement of operations. A change in ownership that does not affect control of a subsidiary is to be accounted for as an equity transaction. A change in ownership that affects control results in recognition of a gain or loss and re-measurement at fair value of any remaining noncontrolling interest. Because SFAS 160 requires that a noncontrolling interest continue to be attributed its share of losses, a noncontrolling interest could have a negative carrying balance.

SFAS 160 is effective for fiscal years beginning after December 15, 2008. In the year of adoption, presentation and disclosure requirements will apply retrospectively to all periods presented. The Company does not expect adopting SFAS 160 will materially affect its consolidated financial statements or results of operations.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165") which sets out requirements for disclosing and accounting for events that occur after an entity's balance sheet date but before financial statements are issued or available to be issued. Alion adopted SFAS 165 in the third quarter of fiscal 2009 with no material effect on its consolidated financial statements. Management evaluated subsequent events through August 7, 2009, the date the Company is issuing its financial statements and included required disclosures in Note 21.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168 (SFAS 168), The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles (GAAP), a replacement of FASB Statement No. 162. SFAS 168 establishes the ASC as the sole source of authoritative GAAP in the United States, other than rules and interpretive releases issued by the SEC. The ASC is a reorganization of current GAAP into a topical format that eliminates the current GAAP hierarchy. Instead it establishes instead two levels of guidance — authoritative and non-authoritative. All non-grandfathered, non-SEC accounting literature not included in the ASC will become non-authoritative. The primary goal of the ASC is to simplify access to all authoritative GAAP, providing in one place, all authoritative literature related to a particular accounting topic. The ASC will be effective for interim and annual periods ending after September 15, 2009. The ASC is not intended to change existing GAAP. Therefore Management does not expect the ASC will affect Alion's consolidated financial position, results of operations or cash flows.

Forward Looking Statements

Information included and incorporated by reference in this Form 10-Q may contain forward-looking statements that involve risks and uncertainties. These statements relate to the Company's 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.

Factors that could cause actual results to differ materially from anticipated results include, but are not limited to:

- changes to the ERISA laws related to the KSOP;
- changes to Alion's subchapter S status, or any change in Alion's effective tax rate;
- additional costs to comply with the Sarbanes-Oxley Act of 2002, including any changes in SEC rules, and other corporate governance requirements;
- failure of government customers to exercise contract options;
- U.S. government project funding decisions;
- government contract bid protest and termination risks;
- competitive factors such as pricing pressures and/or competition to hire and retain employees;
- results of current and/or future legal proceedings and government agency proceedings which may arise out of Alion's operations and attendant risks of fines, liabilities, penalties, suspension and/or debarment;
- undertaking acquisitions that increase costs or liabilities or are disruptive;
- taking on additional debt to fund acquisitions;
- failing to adequately integrate acquired businesses;
- material changes in laws or regulations affecting Alion's businesses;
- other risk factors discussed in the Company's annual report on Form 10-K for the year ended September 30, 2008 filed with the SEC on December 23, 2008.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's view only as of August 7, 2009. 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 continuing operations.

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

Interest rate risk

The Company is exposed to interest rate risk principally for debt incurred to finance its acquisitions, its periodic borrowings and related debt amendments, and re-financings. The balance on the $40.0 million Revolver bears interest at variable rates currently based on Credit Suisse's (CS) prime rate (with a minimum of 4.5%) plus a maximum spread of 500 basis points. The Senior Term Loan bears interest at variable rates currently tied to the Eurodollar rate (with a minimum of 3.5%) plus 600 basis points. Such variable rates increase the risk that interest charges will increase materially if market interest rates increase. The current interest rate spreads exceed the spreads that were in effect in fiscal year 2008. The approximate impact of a 1% increase in the interest rate, as applied to principal balances drawn under the Senior Credit Facility would be $0.6 million, $2.4 million, $2.3 million, $2.3 million, and $1.1 million for the balance of fiscal year 2009 and fiscal years ending 2010 through 2013.

The Company does not use derivatives for trading purposes. It invests its excess cash in short-term, investment grade, and interest-bearing securities.

Foreign currency risk

Expenses and revenues from international contracts are generally denominated in U.S. dollars. Alion does not believe operations are subject to material risks from currency fluctuations.

Risk associated with value of Alion common stock

Changes in the fair market value of Alion's common stock affect the economic basis for the Company's estimated warrant liability. The value of Alion's warrant liability would increase by approximately $4.9 million if the price of the Company's stock were to increase by 10% and would decrease by approximately $4.8 million if the price of the Company's stock were to decrease by 10%. Such changes would be reflected in interest expense in Alion's consolidated statements of operations.

Changes in the fair market value of Alion's stock also affect the Company's estimated ESOP share repurchase obligations and stock-based compensation obligations under existing phantom stock and stock appreciation rights plans. Several factors affect the timing and amount of these obligations, including: the number of employees who seek to redeem shares of Alion stock following termination of employment, and the number of individuals who 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 Chief Financial Officer, 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 Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosures. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and timely.

Limitations on the Effectiveness of Controls. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures.

Changes in 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 quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

See disclosure under Item 4.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings***

See Note 20 to the Condensed Consolidated Financial Statements. Other than the actions discussed in the Company's most recent Annual Report on Form 10-K, the Company is not involved in any legal proceeding other than routine legal proceedings occurring in the ordinary course of business. Alion believes that these routine legal proceedings, in the aggregate, are not material to its financial condition and results of operations.

As a government contractor, Alion may be subject from time to time to federal government inquiries relating to its operations and to DCAA audits. The federal government can suspend or debar, for a period of time, a contractor that is indicted or found to have violated the False Claims Act or other federal laws. Such an event could also result in fines or penalties.

Item 1A. ***Risk Factors***

There have been no material changes to the risk factors Alion disclosed in its Annual Report on Form 10-K for the year ended September 30, 2008.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Item 5. ***Other Information***

None.

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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 Chief 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 Chief 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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALION SCIENCE AND TECHNOLOGY CORPORATION

By: /s/ Michael J. Alber
Name: Michael J. Alber
Title: Principal Financial Officer and Duly Authorized Officer

Date: August 7, 2009

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EXHIBIT INDEX

Exhibit No.	Description
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32.2	Certification of Chief 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.

<DOCUMENT>
<TYPE> EX-31.1
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<DESCRIPTION> Exhibit 31.1
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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 for the quarter ended June 30, 2009, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f))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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    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: August 7, 2009

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

<DOCUMENT>
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EXHIBIT 31.2

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

I, Michael J. Alber, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2009, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    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: August 7, 2009

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

<DOCUMENT>
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<DESCRIPTION> Exhibit 32.1
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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 quarter ending June 30, 2009 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 results of operations of the Corporation.

Date: August 7, 2009

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

<DOCUMENT>
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EXHIBIT 32.2

CERTIFICATION OF CHIEF 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 quarter ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Alber, Chief 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 results of operations of the Corporation.

Date: August 7, 2009

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