INTERVIEW

Bahman Atefi

Chairman and CEO
Alion Science & Technology Corp.

You could call Dr. Bahman Atefi the quiet giant in the defense technology M&A services world.

Atefi has been chairman and CEO of Virginia-based Alion Science and Technology Corp. since December 2002, when he shepherded the company's conversion from a Federally Funded Research and Development Center (FFRDC) known as the Illinois Institute of Technology Research Institute (IITRI). That transaction ended a history of non-profit operations that extended back to 1936—and launched the new company's 1,600 employees as owners of a 100% ESOP company with a new culture, focused on profitability and top-line expansion.

Leveraging the IITRI heritage of technology excellence, Alion grew to $370 million in FY 2005, with substantial growth projected for this year. Almost 90% of its revenue is derived from DoD clients. The term "Alion" speaks to the operational identity of the firm – combining 'alliance' and 'align.'

Acquisition has played a key role in Alion's growth. In just over three years, the firm has acquired eight companies (see chart), most notably $100 million John J. McMullen Associates, Inc. (JJMA) in April 2005.

*Paul Serotkin, President of investment bank Minuteman Ventures LLC, writing for **DM&A**, spoke recently with Dr. Atefi on Alion's strategy and growth plans.*

DM&A: Alion lists many "products" on its web site, yet goes to market as a 'services' firm. How does that reconcile?

BA: We have an extremely technology-centric culture, which translates to great innovation. Indeed, we primarily sell our capabilities as a service, yet place tremendous focus on true R&D, a major differentiator for our firm and a prime reason for our rapid growth.

By example, each of our seven core competency areas *[Ed.: see chart on facing page]* maintains its own laboratory facilities, over 175,000 square feet of R&D space in total.

Our model typically entails investing several hundred thousand dollars of our capital into something cutting edge, then exposing our customers to this proof of concept or prototype.

From that operating style has emerged 25-30 software and hardware products. We use these products as door openers to get development work, then procurement dollars from our customers.

DM&A: What is an example of that strategy in practice?

BA: We won a contract from the Night Vision Electronic Sensors Directorate based on at-risk investment in a remote underground scouting system.

Combining our skills in wireless communications and robotics, Alion developed a system, which we call Cave Dog, that enables soldiers encountering dangerous tunnels in Afghanistan to gain look-ahead knowledge of embedded enemy combatants lurking in those tunnels. By developing this system, we showed the Night Vision lab our capabilities in R&D and systems integration. This helped us competitively win a five year contract and unseat the incumbent. Over time this work has been worth more than $75 million to Alion.

DM&A: The Alion acquisitions have involved companies of widely varying sizes, technologies and markets. What criterion is used to define your targets?

BA: We characterize our M&A pursuits in three ways:

- Smaller companies with less than $10 million in revenue with distinct intellectual property that give us more technical depth in our areas of core competency
- $20-$50 million firms in our areas of core competency that give us more muscle in existing domains
- Significantly larger companies transformational in nature for Alion, allowing us to enter new

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Bahman Atefi

Continued from page 6

areas. JJMA, for instance, got us into naval architecture and marine engineering.

DM&A: How does M&A factor in the company's growth?

BA: Without further acquisitions this year, our revenue should be $435 million, up from $370 million in FY 2005. Including acquisitions, we hope to reach $460 million.

We plan to grow organically 10-15% a year, with another 10% coming from acquired firms. However, should I feel that M&A is masking slower organic growth I would slow down the pace of acquisition activity!

DM&A: How has the effect of employee ownership on company performance compared with expectation when the company transformed from IITRI?

BA: It is working very well. In three years since we formed the Alion ESOP our shares have grown 3 1/2 times in value.

Alion employees who have been with the company for six months begin to fully appreciate the value of employee ownership at that time.

DM&A: What success factors are key in creating a successful M&A model?

BA: We strive to spend one-third of our effort in any M&A transaction on finding the target, pricing and diligence, and two-thirds on integration. In fact, integration planning has become a core competency for us. This includes training we offer for managers throughout the company on related matters.

DM&A: Though a private company, Alion is a SEC registrant, without a public float and having not raised equity capital. Why?

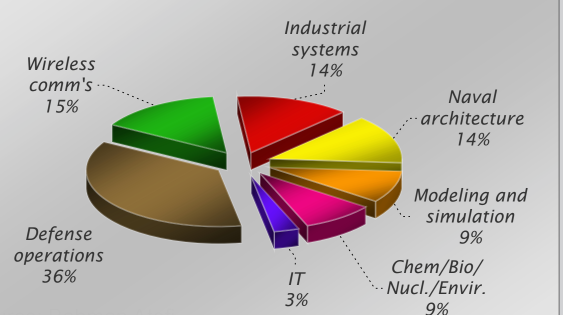
BA: When we formed Alion we were in essence soliciting investment from our 1600 employees, thus causing us to file with the SEC.

While it adds costs to comply with SEC regulation, it adds a rigor to our management and financial process that will hold us in good stead no matter what activities we undertake. We are even becoming compliant with Section 404 of the Sarbanes Oxley Act, a requirement now only of public companies.

DM&A: What is your view on the defense and federal services IPO market?

BA: I think it will remain hot for the near future at least. Companies that have been primed to go public will be able to do so this in this market. Wall Street now really understands the strong return on investment that government contractors can obtain. ❖

Alion's Seven Core Competencies



Alion's Acquisitions Since October 2003

Acquired	Date
Innovative Technology Solutions Corp.	Oct. 2003
Identix Public Sector, Inc.	Feb. 2004
(Assets of) Countermeasures, Inc.	Oct. 2004
Mantech Environmental Technology Inc.	Feb. 2005
Carmel Applied Technology, Inc.	Feb. 2005
John J. McMullen Associates, Inc.	Apr. 2005
BMH Associates	Feb. 2006
Washington Consulting, Inc.	Feb. 2006