



NEWS RELEASE

FOR IMMEDIATE RELEASE

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PEMCO AVIATION GROUP REPORTS FIRST QUARTER 2007 PROFIT

BIRMINGHAM, AL (May 22, 2007) – Pemco Aviation Group, Inc. (NASDAQ: PAGI), a leading provider of aircraft maintenance and modification services, today announced the operating results of its first quarter of 2007. Total revenue from continuing and discontinued operations was \$52.40 million, an increase of 39.2% from the first quarter of 2006. Revenue from continuing operations for the first quarter of 2007 was \$19.58 million versus revenue of \$22.03 million in the first quarter of 2006, a decrease of 11.1%. Net income for the first quarter of 2007 was \$1.05 million versus \$79,000 in the first quarter of 2006. The loss from continuing operations for the first quarter of 2007 was \$0.97 million compared to a loss from continuing operations in the first quarter of 2006 of \$0.43 million.

According to Ronald Aramini, Pemco’s President and CEO, “Pemco continued its return to improved profitability in the first quarter of 2007 and made progress on achieving strategic initiatives of the Company. Our Government Services Segment (“GSS”) continues to deliver KC-135 aircraft with significantly improved flow days and high quality. We remain optimistic about winning the new KC-135 contract which is expected to be awarded in the third quarter of 2007. Our Commercial Services Segment (“CSS”) revenue in the first quarter of 2007 increased 159.7% from the first quarter of 2006. We are experiencing tremendous growth from both our cargo conversions and maintenance services especially with our core customers. The continued growth in revenue and profitability at CSS has attracted the interest of several parties. We believe that selling CSS will achieve our strategy of eliminating all the debt of the Company and provide working capital necessary to grow the GSS.”

First Quarter 2007 vs. 2006 Results

Summary of comparative results for the first quarter ended March 31:
 (Dollars in Millions)

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Revenue	\$ 19.58	\$ 22.03	(11.1%)
Gross profit	2.68	2.92	(8.1%)
Operating loss	(0.75)	(0.26)	194.3%
Loss from continuing operations before taxes	(1.46)	(0.72)	103.6%
Loss from continuing operations	(0.97)	(0.43)	125.6%
Net income	1.05	0.08	1212.5%
EBITDA from continuing operations*	(0.33)	0.15	(322.0%)

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* A description of the Company's use of non-GAAP information is provided below under "Use of Non-GAAP Financial Measures." A reconciliation of net income to EBITDA is provided at the end of this press release.

Continuing Operations

GSS revenue decreased \$2.4 million, primarily due to decreases in KC-135 and U.S. Coast Guard ("USCG") C-130 deliveries offset by increased revenue from U.S. Navy P-3 aircraft and U.S. Air Force ("USAF") C-130 aircraft. The KC-135 Program Depot Maintenance ("PDM") program, which accounted for 75.9% of revenue in 2007 and 83.8% of revenue in 2006, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. Revenue from the KC-135 program decreased \$3.5 million during the first quarter of 2007 versus the first quarter of 2006. During the first quarter of 2007, the Company delivered four PDM aircraft and no drop-ins, compared to four PDM aircraft and one drop-in during first quarter of 2006. The amount of non-routine work performed per aircraft varies as a result of differences in aircraft condition and model mix. Revenue from non-routine KC-135 work decreased \$2.8 million during the first quarter of 2007 versus the first quarter of 2006 due to fewer aircraft in work. The Company delivered two USCG C-130 aircraft during the first quarter of 2006 for which there was no comparable revenue in the first quarter of 2007, resulting in a decrease in revenue of \$2.6 million. The Company delivered no P-3 aircraft in the first quarters of 2007 or 2006. Revenue from non-routine work performed on P-3 aircraft increased \$2.2 million during the first quarter of 2007 compared to the first quarter of 2006 due to more aircraft in work. Revenue increased \$1.5 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

Gross profit at GSS decreased from \$2.9 million to \$2.7 million during the first quarter of 2007 compared to the first quarter of 2006. The decrease is primarily attributable to a decline in man-hours caused by fewer inductions of KC-135 aircraft. Selling, general and administrative ("SG&A") expenses of GSS remained unchanged at \$1.9 million during the first quarters of 2007 and 2006.

Discontinued Operations

CSS revenue increased \$19.2 million, primarily due to increases in cargo conversion revenues of \$11.1 million, increases in maintenance, repair and overhaul ("MRO") revenue from Southwest Airlines of \$6.8 million, and increases in MRO revenue from Northwest Airlines of \$5.4 million, offset by decreases in revenue from various customers of \$3.3 million and settlement of the H-3 Request for Equitable Adjustment of \$0.8 million in the first quarter of 2006. CSS delivered three cargo conversions during the first quarter of 2007 compared to none during the first quarter of 2006. One of the three cargo conversions was performed in mainland China. Both Southwest Airlines and Northwest Airlines increased the number of aircraft inducted during the first quarter of 2007 versus the first quarter of 2006. CSS has several customers that provide drop-in aircraft on an as-needed basis. These drop-in aircraft accounted for a larger percentage of revenue in the first quarter of 2006.

Gross profit at CSS increased from \$2.8 million during the first quarter of 2006 to \$5.3 million during the first quarter of 2007. Gross profit during the first quarter of 2006 was adversely

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impacted by the lockout of all union employees at the Dothan, Alabama facility, from August 11, 2005 to October 9, 2005, and the bankruptcy of CSS's largest customer in the third quarter of 2005 as CSS capacity utilization increased back to normal levels. Additional cargo conversions increased gross profit by \$0.8 million in the first quarter of 2007. Gross profit at CSS in 2006 was also positively impacted by the settlement of the H-3 Request for Equitable Adjustment which resulted in an increase in revenue of \$0.8 million. CSS SG&A expenses remained unchanged at \$1.7 million during the first quarters of 2007 and 2006. As a result of the CSS business unit being reported as discontinued operations, there was no allocation of corporate SG&A during the first quarter of 2007. To conform with this presentation, first quarter 2006 has been reclassified with no allocation of corporate SG&A.

Consolidated Unallocated Corporate SG&A Expenses, Interest Expense and Income Taxes

During the first quarter of 2007, the Company incurred \$0.4 million of legal and accounting expenses related to the planned sale of Space Vector Corporation and the planned sale of CSS. The Company did not allocate these expenses to its subsidiaries or to discontinued operations. There were no comparable unallocated corporate expenses in the first quarter of 2006.

Total interest expense, including discontinued operations, increased to \$1.0 million in the first quarter of 2007 from \$0.7 million in the first quarter of 2006. Interest expense increased primarily as a result of higher rates on variable interest rate loans resulting from amending existing credit agreements. Approximately \$0.3 million and \$0.2 million of total interest expense is included in the income (loss) from discontinued operations in 2007 and 2006, respectively.

During the first quarter of 2007, the Company recorded income tax benefits at an effective rate of 33.3% for continuing operations and income tax expense at an effective rate of 39.3% for discontinued operations. During the first quarter of 2006, the Company recorded income tax benefits at an effective rate of 39.7%. The effective income tax rate is impacted by the allocation of taxable gains or losses between operations in Alabama and California. Net operating loss carryforwards for discontinued operations in California are subject to a deferred tax valuation allowance. Net operating loss carryforwards for Alabama are expected to be utilized in the current and/or future years.

**Use of Non-GAAP Financial Measures*

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Pemco presents EBITDA because its management uses the measure to evaluate the Company's performance and to allocate resources. In addition, Pemco believes EBITDA is a measure of performance used by some commercial banks, investment banks, investors, analysts and others to make informed investment decisions. EBITDA is an indicator of cash generated to service debt and fund capital expenditures. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered as a substitute for or superior to other measures of financial performance reported in accordance with GAAP. EBITDA as presented herein may not be comparable to similarly titled measures reported by other companies. See the reconciliation of net income to EBITDA at the end of this release.

About Pemco

Pemco Aviation Group, Inc., with executive offices in Birmingham, Alabama, and facilities in Alabama and California, performs maintenance and modification of aircraft for the U.S. Government and for foreign and domestic commercial customers. The Company also provides aircraft parts and support and engineering services, in addition to developing and manufacturing aircraft cargo systems, rocket vehicles and control systems, and precision components. For more information: www.pemcoaviationgroup.com

This press release contains forward-looking statements made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by their use of words, such as "believe," "expect," "intend" and other words and terms of similar meaning, in connection with any discussion of the Company's prospects, financial statements, business, financial condition, revenues, results of operations or liquidity. Factors that could affect the Company's forward-looking statements include, among other things: changes in global or domestic economic conditions; the loss of one or more of the Company's major customers; the Company's ability to obtain additional contracts and perform under existing contracts, including, without limitation, the KC-135 contract; the outcome of pending and future litigation and the costs of defending such litigation; financial difficulties experienced by the Company's customers; potential environmental and other liabilities; the inability of the Company to obtain additional financing; the ability of the Company to sell Space Vector and the CSS; material weaknesses in the Company's internal control over financial reporting; regulatory changes that adversely affect the Company's business; loss of key personnel; and other risks detailed from time to time in the Company's SEC reports, including its most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date on which they are made. The Company does not undertake any obligation to update or revise any forward-looking statements and is not responsible for changes made to this release by wire services or Internet services.

PEMCO AVIATION GROUP, INC.
(In thousands except per share information)

	First Quarter Ended March 31,	
	2007	2006
Net Sales	19,583	22,030
Cost of Sales	16,904	19,112
Gross Profit	2,679	2,918
Selling, General and Administrative Expenses	3,430	3,173
Operating Loss	(751)	(255)
Other Income (Expense):		
Interest expense	(706)	(461)
Loss From Continuing Operations Before Income Taxes	(1,457)	(716)
Income Tax Benefit	(485)	(284)
Loss from Continuing Operations	(972)	(432)
Income from Discontinued Operations, Net of Tax	2,018	511
Net Income	<u>\$ 1,046</u>	<u>\$ 79</u>
Weighted Average Common Shares Outstanding:		
Basic	4,126	4,119
Diluted	<u>4,131</u>	<u>4,237</u>
Net Income Per Common Share:		
Basic net (loss) income from continuing operations	\$ (0.24)	\$ (0.10)
Basic net income (loss) from discontinued operations	\$ 0.49	\$ 0.12
Basic net income per share	\$ 0.25	\$ 0.02
Diluted net (loss) income from continuing operations	\$ (0.24)	\$ (0.10)
Diluted net income (loss) from discontinued operations	\$ 0.49	\$ 0.12
Diluted net income per share	\$ 0.25	\$ 0.02
<u>EBITDA Reconciliation*</u>		
(Loss) Income from Continuing Operations	\$ (972)	\$ (432)
Interest Expense	706	461
Income Tax Expense (Benefit)	(485)	(284)
Depreciation and Amortization	417	398
EBITDA from Continuing Operations	<u>(\$334)</u>	<u>\$ 143</u>

*See note above on Use of Non-GAAP Financial Measures.