



NEWS RELEASE

FOR IMMEDIATE RELEASE

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ALABAMA AIRCRAFT INDUSTRIES, INC. REPORTS FIRST QUARTER 2008 FINANCIAL RESULTS

BIRMINGHAM, AL (May 13, 2008) – Alabama Aircraft Industries, Inc. (NASDAQ: AAIL), a leading provider of aircraft maintenance and modification services to military customers, today announced the operating results of its first quarter ended March 31, 2008. Net income for the first quarter of 2008 was \$0.8 million (\$0.20 per share) compared to net income for the first quarter of 2007 of \$0.9 million (\$0.22 per share). Revenue from continuing operations for the first quarter of 2008 was \$21.1 million versus revenue of \$22.4 million in the first quarter of 2007, a decrease of 5.8%. Income from continuing operations for the first quarter of 2008 was \$0.8 million compared to a loss from continuing operations of \$0.3 million for the first quarter of 2007.

Ronald Aramini, Alabama Aircraft's President and Chief Executive Officer, stated "We are pleased to report net income for the first quarter of 2008. Our efforts to increase productivity and control expenses have been a significant factor in achieving a profit in the first quarter of 2008 and in increasing our cash reserves. We are continuing to focus on obtaining new U.S. Government contracts to grow and diversify our business and have submitted proposals on multiple opportunities to work on C-130 and P-3 aircraft. The majority of these opportunities will be awarded in mid-2008 with work beginning in the fall of 2008. We also believe that qualifying as a small business will allow us to compete for contracts for which we were previously unable to compete. We believe our small business qualification will provide significant opportunities in the future."

Mr. Aramini further stated "Our efforts to overturn the KC-135 contract award to The Boeing Company are continuing. On December 27, 2007 the GAO upheld, in part, our protest on the basis that the U.S. Air Force ("USAF") failed to conduct a proper analysis of Boeing's cost/price proposal for realism or potential risk. On March 3, 2008, the USAF advised that, in response to the recommendation by the GAO, it had conducted an additional review and a new award decision was made and that our proposal was not selected. We filed a protest on the new award decision on March 11, 2008 as to the USAF's lack of proper evaluation to meet GAO recommendations and post-award change of work scope under the contract re-compete. On May 2, 2008, the GAO dismissed the change-of-work protest grounds on the basis that the USAF has not made a determination regarding potential changes to the contract requirements. We expect the GAO to rule on the remaining grounds of our protest of the new contract award by mid-June 2008. We have continued to induct additional KC-135 aircraft while the GAO protest is ongoing.

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The KC-135 contract has generated approximately 80% of the Company's revenue from continuing operations over the past five years."

First Quarter 2008 vs. 2007 Results

Summary of comparative results for the first quarter ended March 31, 2008:
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenue from continuing operations	\$ 21.13	\$ 22.39	(5.6%)
Gross profit	4.09	3.11	31.6%
Operating income (loss) from continuing operations	1.21	(0.35)	445.7%
Income (loss) from continuing operations before taxes	1.01	(0.54)	287.0%
Income (loss) from continuing operations	0.83	(0.30)	376.7%
Net income	0.83	0.90	(7.8%)
EBITDA* from continuing operations	1.65	0.12	1275.0%

* A description of the Company's use of non-GAAP information is provided below under "Use of Non-GAAP Financial Measures." A reconciliation of the income (loss) from continuing operations to EBITDA from continuing operations is provided at the end of this press release. The Company defines "operating income (loss) from continuing operations", as shown in the above table, as revenue from continuing operations less cost of revenue, less selling, general and administrative ("SG&A) expenses.

GSS

GSS revenue in the first quarter of 2008 was consistent with revenue in the first quarter of 2007. Revenue from the KC-135 Program Depot Maintenance ("PDM") program increased \$1.4 million during the first quarter of 2008 versus the first quarter of 2007. The KC-135 program, which accounted for 77% of revenue in the first quarter of 2008 and 67% of revenue in the first quarter of 2007, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. During each of the first quarter of 2008 and first quarter of 2007, the Company delivered four PDM aircraft and no drop-ins. Revenue increased on the KC-135 program in the first quarter of 2008 versus the first quarter of 2007 due to an increase in the contractual price for each aircraft delivered. The Company delivered one P-3 aircraft in the first quarter of 2008 versus two P-3 aircraft in the first quarter of 2007, resulting in a decrease in P-3 revenue of \$1.2 million. The delivery of the P-3 aircraft in the first quarter of 2008 represented the final delivery of P-3 aircraft under the current contract. The Company is continuing to pursue additional contracts to perform maintenance services on P-3 aircraft. Revenue decreased \$0.2 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

Gross profit at GSS increased from \$2.6 million during the first quarter of 2007 to \$4.2 million during the first quarter of 2008. Gross profit on KC-135 revenue increased \$1.2 million due to increased revenue and increased efficiencies on the KC-135 maintenance line. Gross profit increased \$0.5 million as a result of losses on the P-3 program in the first quarter of 2007 for which there were no comparable losses in the first quarter of 2008. SG&A expenses of GSS increased \$0.1 million during the first quarter of 2008 compared to the first quarter of 2007 because of increased allocation of corporate SG&A expenses as a result of the sale of Pemco World Air Services, Inc., formerly a wholly-owned subsidiary of the Company ("PWAS").

MCS

MCS revenue decreased \$1.2 million in the first quarter of 2008 versus the first quarter of 2007 due to decreases on a large software contract of \$0.5 million, a large GPS receiver contract of \$0.5 million and a launch vehicle structures contract of \$0.3 million. Revenue in 2008 was adversely affected because SVC was in the completion stage of several large contracts and no follow-on contracts had yet fully begun.

Gross profit at MCS decreased \$0.5 million in the first quarter of 2008 versus the first quarter of 2007. The Company's subsidiary, Space Vector Corporation ("SVC"), which comprises substantially all of the MCS, recorded a reserve for contract loss of \$0.4 million in cost of revenue during the first quarter of 2008 due to contract overruns on a large battery contract. Gross profit also decreased \$0.1 million as a result of the decrease in revenue. SG&A expenses at SVC decreased \$0.2 million in the first quarter of 2008 versus the first quarter of 2007 due to headcount reductions of administrative personnel.

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

During the first quarter of 2008, the Company forgave a note issued to it by Ronald Aramini, with outstanding principal and accrued interest thereon in the aggregate amount of \$0.5 million. During the first quarter of 2007, the Company incurred \$0.9 million of corporate SG&A expenses that previously had been allocated to PWAS for segment reporting purposes. Under accounting principles generally accepted in the United States, these allocated amounts are recorded in continuing operations rather than discontinued operations.

Total interest expense, including amounts in discontinued operations (\$0.8 million in 2007), decreased to \$0.2 million in the first quarter of 2008 from \$1.0 million in the first quarter of 2007. Interest expense decreased primarily as a result of extinguishing a large portion of the Company's debt when PWAS was sold.

During the first quarter of 2008, the Company recorded income tax expense at an effective rate of 17.3% for continuing operations as a result of utilizing net operating loss carryforwards which previously were subject to a deferred tax valuation allowance. At March 31, 2008 and December 31, 2007, all deferred tax assets were subject to a deferred tax valuation allowance. During the first quarter of 2007, the Company recorded income tax benefits at an effective rate of 44.2% for continuing operations and income tax expense at an effective rate of 44.7% for discontinued operations. 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 were subject to a deferred tax valuation allowance in the first quarter of 2007.

****Use of Non-GAAP Financial Measures***

EBITDA from continuing operations is defined as earnings from continuing operations before interest, taxes, depreciation and amortization. The Company presents EBITDA because its management uses the measure to evaluate the Company's performance and to allocate resources. In addition, EBITDA has been used as one of the components to calculate the Company's debt covenants. The Company believes EBITDA is also 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 income (loss) from continuing operations to EBITDA from continuing operations at the end of this release.

About Alabama Aircraft Industries

Alabama Aircraft Industries, 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 military customers. The Company also provides aircraft parts and support and engineering services, in addition to developing and manufacturing rocket vehicles and control systems, and precision components.

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," "anticipate," "estimate" 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: 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; the outcome of the Company's bid protest on the KC-135 contract; the outcome of pending and future litigation and the costs of defending such litigation; waiver of certain pension funding obligations; potential environmental and other liabilities; the inability of the Company to obtain additional financing; 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 Report 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.

ALABAMA AIRCRAFT INDUSTRIES, INC.*(In thousands except per share information)*

	First Quarter Ended March 31	
	2008	2007
Sales:		
Government Services Segment	\$ 19,611	\$ 19,629
Manufacturing and Components Segment	1,519	2,762
Total Sales	<u>21,130</u>	<u>22,391</u>
Cost of Sales	<u>17,044</u>	<u>19,285</u>
Gross Profit	4,086	3,106
Selling, General and Administrative Expenses	<u>2,874</u>	<u>3,458</u>
Operating Income (Loss)	1,212	(352)
Interest Expense	<u>(204)</u>	<u>(189)</u>
Income (Loss) from Continuing Operations Before Taxes	1,008	(541)
Income Tax (Expense) Benefit	<u>(174)</u>	<u>239</u>
Income (Loss) from Continuing Operations	834	(302)
Income From Discontinued Operations, net of Tax	<u>-</u>	<u>1,198</u>
Net Income	<u>\$ 834</u>	<u>\$ 896</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,129</u>	<u>4,126</u>
Diluted	<u>4,129</u>	<u>4,126</u>
Net Income Per Common Share:		
Basic income (loss) from continuing operations	<u>\$ 0.20</u>	<u>\$ (0.07)</u>
Basic income from discontinued operations	<u>\$ -</u>	<u>\$ 0.29</u>
Basic net income per share	<u>\$ 0.20</u>	<u>\$ 0.22</u>
Diluted income (loss) from continuing operations	<u>\$ 0.20</u>	<u>\$ (0.07)</u>
Diluted income from discontinued operations	<u>\$ -</u>	<u>\$ 0.29</u>
Diluted net income per share	<u>\$ 0.20</u>	<u>\$ 0.22</u>
<u>EBITDA Reconciliation*</u>		
Income (Loss) from Continuing Operations	\$ 834	\$ (302)
Interest Expense	204	189
Income Tax (Expense) Benefit	174	(239)
Depreciation and Amortization	444	471
EBITDA from Continuing Operations	<u>\$ 1,656</u>	<u>\$ 119</u>

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