



NEWS RELEASE

FOR IMMEDIATE RELEASE

Contact: Randall C. Shealy
Senior Vice President
Chief Financial Officer
(205) 510-4944

PEMCO AVIATION GROUP REPORTS PROFIT IN THE SECOND QUARTER AND FIRST SIX MONTHS OF 2007

BIRMINGHAM, AL (August 15, 2007) – Pemco Aviation Group, Inc. (NASDAQ: PAGI), a leading provider of aircraft maintenance and modification services, today announced the operating results of its second quarter and six months ended June 30, 2007. Net income for the second quarter of 2007 was \$0.63 million (\$0.15 per share) compared to net income for the second quarter of 2006 of \$0.45 million (\$0.11 per share), an improvement of 40%. Revenue for the second quarter of 2007 was \$53.2 million versus revenue of \$48.5 million in the second quarter of 2006, an increase of 10%. Net income for the first six months of 2007 was \$1.52 million (\$0.37 per share) compared with net income of \$0.52 million (\$0.13 per share) in the first six months of 2006. Revenue for the six months ended June 30, 2007 was \$105.6 million, compared to \$85.1 million in the six months ended June 30, 2006, an increase of 24%. The Company's results of operations in the first six months of 2006 was impacted by a \$0.36 million positive adjustment in a warranty reserve due to additional regulatory approvals issued during the second quarter of 2006 and the reversal of \$0.64 million of a \$1.50 million provision for accounts receivable.

Ronald Aramini, Pemco's President and CEO, stated "Pemco's second quarter and six month results reflect continued growth in revenue and net income for Pemco. Significant progress has also been made in the divestiture of our Commercial Services Segment ("CSS"). As previously announced, we signed a contract on July 10, 2007 to sell our Pemco World Air Services subsidiary to an affiliate of Sun Capital Partners, Inc. We expect the proceeds to be sufficient to eliminate all of our bank debt and provide working capital for our Government Services Segment ("GSS"). We have continued to deliver KC-135 aircraft in reduced flow days and high quality despite a decrease in inductions during the first six months of 2007. We anticipate the award of the new KC-135 contract will be made in the next few weeks and we remain very optimistic about winning."

Second Quarter 2007 vs. 2006 Results

Summary of comparative results for the second quarter ended June 30, 2007:
(Dollars in Millions)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue	\$ 53.18	\$ 48.48	9.7%
Gross profit	7.28	6.72	8.3%
Operating income from continuing operations	2.11	1.93	9.3%
Income from continuing operations before taxes	1.05	1.10	(4.5%)
Income from continuing operations	0.63	0.66	(4.5%)
Net income	0.63	0.45	40.0%
EBITDA* from continuing operations	2.97	2.85	4.2%

* 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.

GSS revenue decreased \$8.9 million in the second quarter of 2007, primarily due to decreases in KC-135 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 22.5% of revenue in the second quarter of 2007 and 44.7% of revenue in the second quarter of 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 \$9.7 million during the second quarter of 2007 versus the second quarter of 2006. During the second quarter of 2007, the Company delivered three PDM aircraft and no drop-ins, compared to six PDM aircraft and one drop-in during the second quarter of 2006. The Company delivered one P-3 aircraft in the second quarter of 2007 and 2006. Revenue from non-routine work performed on P-3 aircraft increased \$0.3 million during the second quarter of 2007 compared to the second quarter of 2006 due to more aircraft in work. Revenue increased \$1.0 million under contracts to perform non-routine maintenance work on USAF C-130 aircraft. Revenue on other U.S. Government programs decreased \$0.5 million during the second quarter of 2007 compared to the second quarter of 2006.

CSS revenue increased \$13.1 million in the second quarter of 2007, primarily due to increases in cargo conversion revenues of \$7.0 million, increases in maintenance, repair and overhaul ("MRO") revenue from Southwest Airlines of \$4.7 million, and increases in MRO revenue from Northwest Airlines of \$3.5 million, offset by decreases in revenue from various customers of \$1.3 million and settlement of the H-3 Request for Equitable Adjustment of \$0.8 million in the first quarter of 2006. CSS delivered four cargo conversions during the second quarter of 2007 compared to two during the second quarter of 2006. Two of the four cargo conversions were performed in mainland China. Southwest Airlines increased the number of aircraft inducted during the second quarter of 2007 versus the second quarter of 2006. Northwest Airlines increased the scope of work on aircraft inducted in the second quarter of 2007 as compared to the second quarter of 2006. CSS has several customers that provide drop-in aircraft on an inconsistent basis. These drop-in aircraft accounted for a larger percentage of revenue in the second quarter of 2006.

-MORE-

August 15, 2007

Gross profit at GSS decreased to \$0.6 million during the second quarter of 2007 compared to \$2.3 million during the second quarter of 2006. The decrease is primarily attributable to a decline in deliveries of KC-135 aircraft and losses incurred on the U.S. Navy P-3 program. Gross profit on the KC-135 program decreased \$0.6 million during the second quarter of 2007 versus the second quarter of 2006. The Company recorded losses on the U.S. Navy P-3 program of \$1.1 million during the second quarter of 2007 versus losses of \$0.5 million during the second quarter of 2006. Selling, general and administrative (“SG&A”) expenses decreased \$0.6 million during the second quarter of 2007 versus the second quarter of 2006 due to a decrease in the amount of allocated corporate expenses.

Gross profit at CSS increased from \$3.1 million during the second quarter of 2006 to \$6.1 million during the second quarter of 2007. Additional MRO revenue increased gross profit by \$1.8 million in the second quarter of 2007. Additional cargo conversions increased gross profit by \$1.8 million in the second quarter of 2007. Gross profit at CSS in 2006 was 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 decreased \$0.2 million to \$2.1 million in the second quarter of 2007 from \$2.3 million in the second quarter of 2006 due to a reduction of allocated corporate expenses. CSS also recognized a \$0.6 million reversal of a provision for doubtful accounts in the second quarter of 2006.

During the second quarter of 2007, the Company incurred \$0.5 million of legal and accounting expenses related to the planned sale of Space Vector Corporation and the sale of CSS. The Company did not allocate these expenses to its subsidiaries. There were no comparable unallocated corporate expenses in the second quarter of 2006.

Total interest expense, including discontinued operations, increased to \$1.1 million in the second quarter of 2007 from \$0.9 million in the second quarter of 2006. Interest expense increased primarily as a result of higher rates on variable interest rate loans resulting from amending existing credit agreements.

Six Months 2007 vs. 2006 Results

Summary of comparative results for the six months ended June 30, 2007:
(Dollars in Millions)

	2007	2006	Change
Revenue	\$ 105.58	\$ 85.14	24.0%
Gross profit	15.54	13.15	18.2%
Operating income from continuing operations	4.73	2.77	70.8%
Income from continuing operations before taxes	2.68	1.31	104.6%
Income from continuing operations	1.52	0.80	90.0%
Net income	1.52	0.52	192.3%
EBITDA* from continuing operations	6.41	4.58	40.0%

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

The \$11.3 million decrease in GSS revenue was 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 USAF C-130 aircraft. The KC-135 PDM program accounted for 25.4% of revenue in the first six months of 2007 and 47.1% of revenue in the first six months of 2006. Revenue from the KC-135 program decreased \$13.3 million during the first six months of 2007 versus the first six months of 2006. During the first six months of 2007, the Company delivered seven PDM aircraft and no drop-ins, compared to ten PDM aircraft and two drop-ins during first six months of 2006. The Company delivered two USCG C-130 aircraft during the first six months of 2006 for which there was no comparable revenue in 2007, resulting in a decrease in revenue of \$3.5 million. The Company delivered three P-3 aircraft in the first six months of 2007 versus one in the first six months of 2006, which increased revenue by \$1.1 million. Revenue from non-routine work performed on P-3 aircraft increased by \$1.1 million during the first six months of 2007 compared to the first six months of 2006 due to more aircraft in work. Revenue increased by \$2.1 million during the first six months of 2007 under contracts to perform non-routine maintenance work on USAF C-130 aircraft. Revenue on other U.S. Government programs increased \$0.9 million during the first six months of 2007 compared to the first six months of 2006.

The increase in CSS revenue of \$32.3 million was primarily due to increases in cargo conversion revenues of \$17.1 million, increases in MRO revenue from Southwest Airlines of \$11.5 million, and increases in MRO revenue from Northwest Airlines of \$8.9 million, offset by decreases in revenue from various customers of \$4.4 million and settlement of the H-3 Request for Equitable Adjustment of \$0.8 million in the first quarter of 2006. CSS delivered seven cargo conversions during the first six months of 2007 compared to two during the first six months of 2006. Three of the seven cargo conversions were performed in mainland China. Southwest Airlines increased the number of aircraft inducted during the first six months of 2007 versus the first six months of 2006. Northwest Airlines increased the scope of work on aircraft inducted in the first six months of 2007 as compared to the first six months of 2006. CSS has several customers that provide drop-in aircraft on an inconsistent basis. These drop-in aircraft accounted for a larger percentage of revenue in the first six months of 2006.

Gross profit at GSS decreased from \$5.3 million to \$3.3 million during the first six months of 2007 compared to the first six months of 2006. The decrease is primarily attributable to higher overhead rates caused by a reduction in man-hours and losses incurred on the U.S. Navy P-3 program. Gross profit on the KC-135 program decreased \$0.6 million during the first six months of 2007 versus the first six months of 2006. The Company recorded losses on the U.S. Navy P-3 program of \$1.1 million during the first six months of 2007 versus losses of \$0.4 million during the first six months of 2006. GSS SG&A expenses decreased by \$0.9 million to \$3.7 million in the first six months of 2007 from \$4.6 million in the first six months of 2006 due to a reduction in allocated corporate expenses.

Gross profit at CSS increased from \$5.9 million during the first six months of 2006 to \$11.3 million during the first six months of 2007. Gross profit during the first half of 2006 was

adversely impacted by the lockout of union employees at the Dothan, Alabama facility, from August 11, 2005 to October 9, 2005 and the bankruptcy of Northwest Airlines in the third quarter of 2005 as CSS capacity utilization increased back to normal levels. Additional MRO revenue increased gross profit by \$3.7 million in the first six months of 2007. Additional cargo conversions increased gross profit by \$2.5 million in the first six months of 2007. Gross profit at CSS in 2006 was also positively affected 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 \$4.9 million in the first six months of 2007 and 2006. CSS also recognized a \$0.6 million reversal of a provision for doubtful accounts in the first six months of 2006.

During the first six months of 2007, the Company incurred \$0.9 million of legal and accounting expenses related to the planned sale of Space Vector Corporation and the sale of CSS. The Company did not allocate these expenses to its subsidiaries. There were no comparable unallocated corporate expenses in the first six months of 2006.

Total interest expense increased to \$2.1 million in the first six months of 2007 from \$1.5 million in the first six months of 2006. Interest expense increased primarily as a result of higher rates on variable interest rate loans resulting from amending existing credit agreements.

****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, EBITDA has been used as one of the components to calculate the Company's debt covenants. Pemco believes EBITDA is a also 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," "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: 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; 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; 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)

	Second Quarter Ended June 30,	
	2007	2006
Sales:		
Government Services Segment	\$ 15,784	\$ 24,639
Commercial Services Segment	33,997	20,909
Manufacturing and Components Segment	3,403	3,044
Inter-segment Revenue	(8)	(112)
Total Sales	<u>53,176</u>	<u>48,480</u>
Cost of Sales	<u>45,899</u>	<u>41,759</u>
Gross Profit	7,277	6,721
Selling, General and Administrative Expenses	5,169	5,433
Reversal of Provision for Doubtful Accounts	-	(638)
Operating Income	2,108	1,926
Interest Expense	<u>(1,058)</u>	<u>(829)</u>
Income from Continuing Operations Before Taxes	1,050	1,097
Income Tax Expense	<u>(424)</u>	<u>(434)</u>
Income from Continuing Operations	626	663
Loss From Discontinued Operations, net of Tax	-	(218)
Net Income	<u>\$ 626</u>	<u>\$ 445</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,126</u>	<u>4,121</u>
Diluted	<u>4,189</u>	<u>4,252</u>
Net Income Per Common Share:		
Basic income from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Basic income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.05)</u>
Basic net income per share	<u>\$ 0.15</u>	<u>\$ 0.11</u>
Diluted income from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Diluted income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.05)</u>
Diluted net income per share	<u>\$ 0.15</u>	<u>\$ 0.10</u>
<u>EBITDA Reconciliation*</u>		
Net Income from Continuing Operations	\$ 626	\$ 663
Interest Expense	1,058	829
Income Tax Expense	424	434
Depreciation and Amortization	861	925
EBITDA from Continuing Operations	<u>\$ 2,969</u>	<u>\$ 2,851</u>

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

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

	Six Months Ended June 30,	
	2007	2006
Sales:		
Government Services Segment	\$ 35,413	\$ 46,669
Commercial Services Segment	65,224	32,963
Manufacturing and Components Segment	4,997	5,628
Inter-segment Revenue	(54)	(125)
Total Sales	<u>105,580</u>	<u>85,135</u>
Cost of Sales	<u>90,038</u>	<u>71,987</u>
Gross Profit	15,542	13,148
Selling, General and Administrative Expenses	10,808	11,013
Reversal of Provision for Doubtful Accounts	<u>-</u>	<u>(638)</u>
Operating Income	4,734	2,773
Interest Expense	<u>(2,059)</u>	<u>(1,459)</u>
Income from Continuing Operations Before Taxes	2,675	1,314
Income Tax Expense	<u>(1,153)</u>	<u>(519)</u>
Income from Continuing Operations	1,522	795
Loss From Discontinued Operations, net of Tax	<u>-</u>	<u>(271)</u>
Net Income	<u><u>\$ 1,522</u></u>	<u><u>\$ 524</u></u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,126</u>	<u>4,120</u>
Diluted	<u>4,142</u>	<u>4,300</u>
Net Income Per Common Share:		
Basic income from continuing operations	<u>\$ 0.37</u>	<u>\$ 0.19</u>
Basic income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.07)</u>
Basic net income per share	<u>\$ 0.37</u>	<u>\$ 0.13</u>
Diluted income from continuing operations	<u>\$ 0.37</u>	<u>\$ 0.18</u>
Diluted income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.06)</u>
Diluted net income per share	<u>\$ 0.37</u>	<u>\$ 0.12</u>
<u>EBITDA Reconciliation*</u>		
Net Income from Continuing Operations	\$ 1,522	\$ 795
Interest Expense	2,059	1,459
Income Tax Expense	1,153	519
Depreciation and Amortization	1,682	1,798
EBITDA from Continuing Operations	<u><u>\$ 6,416</u></u>	<u><u>\$ 4,571</u></u>