

NEWS RELEASE

FOR IMMEDIATE RELEASE

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ALABAMA AIRCRAFT INDUSTRIES, INC. (FORMERLY PEMCO AVIATION GROUP, INC.) REPORTS THIRD QUARTER AND FIRST NINE MONTHS OF 2007 FINANCIAL RESULTS

BIRMINGHAM, AL (November 21, 2007) – Alabama Aircraft Industries, Inc. (NASDAQ: PAGI), a leading provider of aircraft maintenance and modification services to military customers, today announced the operating results of its third quarter and nine months ended September 30, 2007. Net loss for the third quarter of 2007 was \$1.6 million (\$0.39 per share) compared to a net loss for the third quarter of 2006 of \$0.5 million (\$0.13 per share). Revenue from continuing operations for the third quarter of 2007 was \$14.9 million versus revenue of \$21.7 million in the third quarter of 2006, a decrease of 31.1%. Net loss for the first nine months of 2007 was \$75,000 compared with a net loss of \$23,000 in the first nine months of 2006. Revenue from continuing operations for the nine months ended September 30, 2007 was \$55.4 million, compared to \$74.0 million in the nine months ended September 30, 2006, a decrease of 25.2%. The Company's results of operations in the third quarter and the first nine months of 2007 were impacted by a \$7.8 million gain from the sale of Pemco World Air Services, Inc. and a \$7.6 million charge to record a deferred tax asset valuation allowance at September 30, 2007. The Company's bank debt was paid off during the third quarter of 2007.

Ronald Aramini, Alabama Aircraft's President and CEO, stated "Alabama Aircraft operated on a breakeven basis for the nine months ended September 30, 2007, which was significantly impacted by reduced deliveries under the KC-135 program. The Company did complete the divestiture of our Commercial Services Segment ("CSS") in September 2007 as we sold our Pemco World Air Services subsidiary to an affiliate of Sun Capital Partners, Inc. The proceeds were sufficient to eliminate all of our bank debt and provide ongoing working capital for our Government Services Segment ("GSS"). The Company was notified in September 2007 that the U.S. Air Force awarded the new KC-135 contract to Boeing Corporation. The Company immediately protested the award with the U.S. Government Accountability Office ("GAO") as we believe our proposal was superior. The protest with the GAO is ongoing and their findings are expected to be released at the end of 2007. The Company is now qualified as a small business and we have registered with the Small Business Administration. This will allow the Company to compete on contracts on which it was previously unable to compete. Several requests for proposals are expected during the next few months on C-130 and P-3 aircraft that we expect to bid on. We look forward to the business opportunities that our small business qualification will provide."

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Third Quarter 2007 vs. 2006 Results

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

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue from continuing operations	\$ 14.94	\$ 21.69	(31.1%)
Gross (loss) profit	(0.36)	2.23	(116.1%)
Operating loss from continuing operations	(2.59)	(1.21)	(114.0%)
Loss from continuing operations before taxes	(2.78)	(1.40)	(98.6%)
Loss from continuing operations	(9.52)	(0.91)	(946.2%)
Net loss	(1.60)	(0.55)	(190.9%)
EBITDA* from continuing operations	(2.13)	(0.81)	(163.0%)

- * 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 loss from continuing operations to EBITDA from continuing operations is provided at the end of this press release. The Company defines "operating loss from continuing operations", as shown in the above table, as revenue less cost of sales, less SG&A expenses.

EBITDA from Continuing Operations

EBITDA from continuing operations of (\$2.13) million during the third quarter of 2007 and EBITDA from continuing operations of (\$0.81) million for the third quarter of 2006 was impacted by several items. EBITDA from continuing operations includes corporate SG&A expenses that have previously been allocated to subsidiaries which have been sold (primarily Pemco World Air Services) but which are not allowed to be presented as discontinued operations under Generally Accepted Accounting Principles ("GAAP"). The amounts of corporate SG&A expenses allocated to subsidiaries, exclusive of depreciation and stock based compensation, which have been sold are \$0.43 million and \$0.54 million for the three months ended September 30, 2007 and 2006, respectively. The Company has reduced corporate expenses during the third quarter of 2007 as a result of the reduction in the size of the Company. EBITDA from continuing operations includes stock-based compensation expense of \$0.07 million and \$0.15 million for the three months ended September 30, 2007 and 2006, respectively. Stock-based compensation is a non-cash charge the Company began recording in 2006 as a result of a change in accounting rules. In addition, the Company recorded several charges related to the KC-135 proposal, award and protest. During the three months ended September 30, 2006, the Company incurred \$0.64 million related to outside consultants to assist in preparing the initial KC-135 proposal. The Company reserved \$0.55 million of KC-135 inventory during the third quarter of 2007 when the award was made to Boeing. During the third quarter of 2007, the Company incurred \$0.28 million of legal fees related to the protest of the KC-135 award to Boeing.

Results of Continuing Operations

The \$4.8 million decrease in GSS revenue was primarily due to decreases in KC-135 deliveries. The KC-135 PDM program, which accounted for 75% and 72% of revenue in the third quarter of 2007 and 2006, respectively, allows for the Company to provide services on KC-135 PDM aircraft, drop-

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in aircraft, and other aircraft related areas. Revenue from the KC-135 PDM program decreased \$4.6 million during the third quarter of 2007 versus the third quarter of 2006. During the third quarter of 2007, the Company delivered two PDM aircraft, compared to four PDM aircraft during the third quarter of 2006. Revenue from non-routine work performed on U.S. Navy P-3 aircraft decreased \$0.7 million during the third quarter of 2007 compared to the third quarter of 2006 due to fewer aircraft in work. The Company delivered one P-3 aircraft in the third quarter of 2007 and the third quarter of 2006. Revenue was stable under contracts to perform non-routine maintenance work on USAF C-130 aircraft. Revenue on other U.S. Government programs increased \$0.6 million during the third quarter of 2007 compared to the third quarter of 2006.

Gross profit at GSS decreased from \$0.9 million to a gross loss of \$0.3 million during the third quarter of 2007 compared to the third quarter of 2006. The decrease is primarily attributable to lower margins across all programs due to the overall decline in production volume, partially offset by efficiency gains from the KC-135 PDM program. Gross profit on the KC-135 PDM program decreased \$0.7 million during the third quarter of 2007 versus the third quarter of 2006. The Company recorded losses on the USAF C-130 program of \$0.7 million during the third quarter of 2007 versus losses of \$0.2 million during the third quarter of 2006. During the third quarter of 2007, the Company recorded a charge of \$0.55 million to reduce the value of KC-135 specific inventory to its net realizable value as a result of the contract being awarded to Boeing. Selling, general and administrative ("SG&A") expenses decreased \$0.5 million during the third quarter of 2007 versus the third quarter of 2006 due to a decrease in the amount of allocated corporate expenses and an overall reduction in expenses.

Revenue at the Manufacturing and Components Segment ("MCS") decreased \$2.0 million during the third quarter of 2007 versus the third quarter of 2006 due to the termination of a missile program in September 2006 and work performed in the third quarter of 2007 for which revenue recognition milestones have not been achieved or additional funding on projects has not been received. Gross profit decreased from \$1.2 million in the third quarter of 2006 to breakeven in the third quarter of 2007 due to the termination claim for the missile program in September 2006, the deferral of revenue and profit on projects for which revenue recognition milestones have not been achieved or additional funding on projects has not been received, a reserve on accounts receivable of \$0.2 million and an overall lower volume of projects in the third quarter of 2007 versus the third quarter of 2006.

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

During the third quarter of 2006, the Company incurred \$0.7 million of corporate SG&A expenses that previously had been allocated to PWAS. During the third quarter of 2007, the Company incurred \$0.6 million of corporate SG&A expenses that previously had been allocated to PWAS.

Total interest expense, including discontinued operations, was \$0.8 million in the third quarter of 2007 and \$0.9 million in the third quarter of 2006. Higher rates on variable interest rate loans were offset by lower loan balances.

During the third quarter of 2007, due principally to the KC-135 contract not being awarded to the Company, the Company recorded a \$7.6 million valuation allowance against the deferred income

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tax asset accounts which substantially increased the reported income tax expense in the third quarter of 2007.

Income from Discontinued Operations

Income from discontinued operations, net of tax, was \$0.1 million in the third quarter of 2007 versus income from discontinued operations, net of tax, of \$0.4 million in the third quarter of 2006. The commercial services segment did not deliver any cargo conversions during the third quarter of 2007 versus one during the third quarter of 2006.

Gain on Sale of Discontinued Operations

The Company recorded a pretax gain of \$17.5 million for the sale of PWAS in the third quarter of 2007. The Company recorded \$9.7 million in tax expense on the gain due to differences in the gain on the sale for financial reporting purposes and income tax reporting purposes.

Nine Months 2007 vs. 2006 Results

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

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue from continuing operations	\$ 55.35	\$ 73.99	(25.2%)
Gross profit	3.92	9.75	(59.8%)
Operating loss from continuing operations	(5.00)	(0.96)	(420.8%)
Loss from continuing operations before taxes	(5.56)	(1.43)	(288.8%)
Loss from continuing operations	(11.10)	(0.93)	(1093.5%)
Net loss	(0.08)	(0.02)	(300.0%)
EBITDA* from continuing operations	(3.58)	0.37	(1067.6%)

* 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 loss from continuing operations to EBITDA from continuing operations is provided at the end of this press release. The Company defines "operating loss from continuing operations", as shown in the above table, as revenue less cost of sales, less SG&A expenses.

EBITDA from Continuing Operations

EBITDA from continuing operations of (\$3.58) million during the first nine months of 2007 and EBITDA from continuing operations of \$0.37 million for the first nine months of 2006 was impacted by several items. EBITDA from continuing operations includes corporate SG&A expenses that have previously been allocated to subsidiaries which have been sold (primarily Pemco World Air Services) but which are not allowed to be presented as discontinued operations under GAAP. The amounts of corporate SG&A expenses allocated to subsidiaries, exclusive of depreciation and stock based compensation, which have been sold are \$1.78 million and \$1.78 million for the nine months ended September 30, 2007 and 2006, respectively. The Company has

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made reductions in corporate expenses during 2007 as a result of the reduction in the size of the Company. EBITDA from continuing operations includes stock-based compensation expense of \$0.65 million and \$0.86 million for the nine months ended September 30, 2007 and 2006, respectively. Stock-based compensation is a non-cash charge the Company began recording in 2006 as a result of a change in accounting rules. In addition, the Company recorded several charges related to the KC-135 proposal, award and protest. During the nine months ended September 30, 2006, the Company incurred \$0.64 million related to outside consultants to assist in preparing the initial KC-135 proposal. The Company reserved \$0.55 million of KC-135 inventory during the first nine months of 2007 when the award was made to Boeing. During the first nine months of 2007, the Company incurred \$0.28 million of legal fees related to the protest of the KC-135 award to Boeing.

Results of Continuing Operations

The \$16.0 million decrease in GSS revenue was primarily due to decreases in KC-135 and Coast Guard C-130 deliveries offset by increased revenue from U.S. Navy P-3 aircraft and USAF C-130 aircraft. The KC-135 PDM program, which accounted for 75% of GSS revenue in the first nine months of 2007 and 83% of GSS revenue in the first nine months 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 PDM program decreased \$17.5 million during the first nine months of 2007 versus the first nine months of 2006. During the first nine months of 2007, the Company delivered nine PDM aircraft and no drop-ins, compared to fourteen PDM aircraft and two drop-ins during first nine months of 2006. The Company delivered two USCG C-130 aircraft during the first nine 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 four P-3 aircraft in the first nine months of 2007 versus two in the first nine months of 2006, which increased revenue by \$1.0 million. Revenue from non-routine work performed on P-3 aircraft increased by \$1.1 million during the first nine months of 2007 compared to the first nine months of 2006 due to more aircraft in work. Revenue increased by \$1.9 million during the first nine months of 2007 under contracts to perform non-routine maintenance work on USAF C-130 aircraft. Revenue on other U.S. Government programs increased \$1.1 million during the first nine months of 2007 compared to the first nine months of 2006.

Gross profit at GSS decreased from \$6.5 million to \$2.9 million during the first nine months of 2007 compared to the first nine months of 2006. The decrease is primarily attributable to higher overhead rates caused by a reduction in production volume and losses incurred on the U.S. Navy P-3 program. Gross profit on the KC-135 PDM program decreased \$0.8 million during the first nine months of 2007 versus the first nine months of 2006. During the third quarter of 2007, the Company recorded a charge of \$0.55 million to reduce the value of KC-135 specific inventory to its net realizable value as a result of the contract being awarded to Boeing. The Company recorded losses on the U.S. Navy P-3 program of \$2.0 million during the first nine months of 2007 versus losses of \$1.0 million during the first nine months of 2006. GSS SG&A expenses decreased by \$1.2 million to \$5.1 million in the first nine months of 2007 from \$6.3 million in the first nine months of 2006 due to a reduction in allocated corporate expenses.

Revenue at MCS decreased \$2.6 million during the first nine months of 2007 versus the first nine months of 2006 due to the termination of a large missile program in September 2006 and work performed in the first nine months of 2007 for which revenue recognition milestones have not been achieved or additional funding on projects has not been received. Gross profit at MCS

decreased from \$3.1 million in the first nine months of 2006 to \$0.9 million in the first nine months of 2007 due to the termination claim for the missile program in September 2006, the deferral of revenue and profit on projects for which revenue recognition milestones have not been achieved or additional funding on projects has not been received, a reserve on accounts receivable of \$0.2 million and an overall lower volume of projects in the first nine months of 2007 versus the first nine months of 2006.

Income from Discontinued Operations

Income from discontinued operations, net of tax, increased to \$3.2 million in the first nine months of 2007 from \$0.9 million in the first nine months of 2006. The CSS experienced large growth in cargo conversion revenue and maintenance, repair and overhaul revenue. The increase in volume of business increased capacity utilization at our former Dothan, Alabama facility, supplemented by work performed in mainland China. The improvements in volume and utilization led to lower cost and increased profitability on all lines of work.

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

During the first nine months of 2006, the Company incurred \$1.8 million of corporate SG&A expenses that previously had been allocated to PWAS. During the first nine months of 2007, the Company incurred \$1.9 million of corporate SG&A expenses that previously had been allocated to PWAS.

Total interest expense, including amounts in discontinued operations, increased to \$2.8 million in the first nine months of 2007 from \$2.3 million in the first nine months of 2006. Interest expense increased primarily as a result of higher rates on variable interest rate loans resulting from amending existing credit agreements and additional debt incurred on February 15, 2006.

During the third quarter of 2007, due principally to the KC-135 contract not being awarded to the Company, the Company recorded a \$7.6 million valuation allowance against the deferred income tax asset accounts which substantially increased the reported income tax expense in the third quarter of 2007.

Gain on Sale of Discontinued Operations

The Company recorded a pretax gain of \$17.5 million for the sale of PWAS in the first nine months of 2007. The Company recorded \$9.7 million in tax expense on the gain due to differences in the gain on the sale for financial reporting purposes and income tax reporting purposes.

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

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Alabama Aircraft 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. Alabama Aircraft 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 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 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)

	Third Quarter Ended September 30,	
	2007	2006
Sales:		
Government Services Segment	\$ 13,904	\$ 18,671
Manufacturing and Components Segment	1,038	3,021
Total Sales	<u>14,942</u>	<u>21,692</u>
Cost of Sales	<u>15,299</u>	<u>19,463</u>
Gross (Loss) Profit	(357)	2,229
Selling, General and Administrative Expenses	<u>2,237</u>	<u>3,438</u>
Operating Loss	(2,594)	(1,209)
Interest Expense	<u>(188)</u>	<u>(188)</u>
Loss from Continuing Operations Before Taxes	(2,782)	(1,397)
Income Tax (Expense) Benefit	<u>(6,738)</u>	<u>484</u>
Loss from Continuing Operations	(9,520)	(913)
Income From Discontinued Operations, net of Tax	142	366
Gain on Sale of Discontinued Operations, net of Tax	7,781	-
Net Loss	<u>\$ (1,597)</u>	<u>\$ (547)</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,128</u>	<u>4,125</u>
Diluted	<u>4,185</u>	<u>4,165</u>
Net Income Per Common Share:		
Basic income from continuing operations	<u>\$ (2.31)</u>	<u>\$ (0.22)</u>
Basic income (loss) from discontinued operations	<u>\$ 1.92</u>	<u>\$ 0.09</u>
Basic net income per share	<u>\$ (0.39)</u>	<u>\$ (0.13)</u>
Diluted income from continuing operations	<u>\$ (2.31)</u>	<u>\$ (0.22)</u>
Diluted income (loss) from discontinued operations	<u>\$ 1.89</u>	<u>\$ 0.09</u>
Diluted net income per share	<u>\$ (0.39)</u>	<u>\$ (0.13)</u>
<u>EBITDA Reconciliation*</u>		
Loss from Continuing Operations	\$ (9,520)	\$ (913)
Interest Expense	188	188
Income Tax Expense (Benefit)	6,738	(484)
Depreciation and Amortization	462	394
EBITDA from Continuing Operations	<u>\$ (2,132)</u>	<u>\$ (815)</u>

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

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

	Nine Months Ended September 30,	
	2007	2006
Sales:		
Government Services Segment	\$ 49,316	\$ 65,340
Manufacturing and Components Segment	6,036	8,649
Total Sales	<u>55,352</u>	<u>73,989</u>
Cost of Sales	<u>51,435</u>	<u>64,242</u>
Gross Profit	3,917	9,747
Selling, General and Administrative Expenses	<u>8,912</u>	<u>10,710</u>
Operating Loss	(4,995)	(963)
Interest Expense	<u>(563)</u>	<u>(468)</u>
Loss from Continuing Operations Before Taxes	(5,558)	(1,431)
Income Tax (Expense) Benefit	<u>(5,542)</u>	<u>498</u>
Loss from Continuing Operations	(11,100)	(933)
Income From Discontinued Operations, net of Tax	3,244	910
Gain on Sale of Discontinued Operations, net of Tax	7,781	-
Net Loss	<u>\$ (75)</u>	<u>\$ (23)</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,127</u>	<u>4,122</u>
Diluted	<u>4,179</u>	<u>4,244</u>
Net Income (Loss) Per Common Share:		
Basic loss from continuing operations	<u>\$ (2.69)</u>	<u>\$ (0.23)</u>
Basic income from discontinued operations	<u>\$ 2.67</u>	<u>\$ 0.22</u>
Basic net loss per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Diluted loss from continuing operations	<u>\$ (2.69)</u>	<u>\$ (0.23)</u>
Diluted income from discontinued operations	<u>\$ 2.64</u>	<u>\$ 0.21</u>
Diluted net loss per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
<u>EBITDA Reconciliation*</u>		
Loss from Continuing Operations	\$ (11,100)	\$ (933)
Interest Expense	563	468
Income Tax Expense (Benefit)	5,542	(498)
Depreciation and Amortization	<u>1,419</u>	<u>1,330</u>
EBITDA from Continuing Operations	<u>\$ (3,576)</u>	<u>\$ 367</u>

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