



NEWS RELEASE

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ALABAMA AIRCRAFT INDUSTRIES, INC. REPORTS FINANCIAL RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2008

BIRMINGHAM, AL (November 18, 2008) – Alabama Aircraft Industries, Inc. (NASDAQ: AAI), a leading provider of aircraft maintenance and modification services, today announced its operating results for the third quarter and nine months ended September 30, 2008. Operating results from continuing operations showed improvement for both the quarter and nine months ended September 30, 2008 when compared to the same periods in 2007, despite the decreases in revenue. Losses from continuing operations for the third quarter of 2008 were \$1.1 million compared to losses from continuing operations for the third quarter of 2007 of \$10.9 million. Revenue from continuing operations for the third quarter of 2008 was \$6.8 million versus revenue from continuing operations of \$13.9 million in the third quarter of 2007. The loss from continuing operations for the first nine months of 2008 was \$0.9 million compared with losses from continuing operations of \$12.2 million for the first nine months of 2007. Revenue from continuing operations for the nine months ended September 30, 2008 was \$38.9 million, compared to revenue from continuing operations of \$49.3 million for the nine months ended September 30, 2007.

Including the results of discontinued operations, the net loss for the third quarter of 2008 was \$1.7 million compared to net income for the third quarter of 2007 of \$0.5 million, which included a gain of \$11.3 million on the Company's sale of Pemco World Air Services ("PWAS"). Net losses for the first nine months of 2008 were \$3.4 million compared with net income of \$2.1 million in the first nine months of 2007. The Company's results of operations for the quarter and nine months ended September 30, 2007 were positively impacted by the \$11.3 million gain on the sale of PWAS which was divested in the third quarter of 2007 and were negatively impacted by the recording of a \$9.7 million valuation allowance against deferred income tax accounts which substantially increased the reported income tax expense in the third quarter of 2007. The Company's results of operations for the quarter and nine months ended September 30, 2008 were negatively impacted by losses incurred by its Space Vector Corporation subsidiary ("SVC"). The Board of Directors of AAI in the second quarter of 2008 approved a plan to divest SVC. Both the results of PWAS and SVC are presented as discontinued operations for all periods reported herein and in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 filed with the Securities and Exchange Commission.

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Ronald Aramini, Alabama Aircraft's President and Chief Executive Officer, stated "We are very pleased that the U.S. Court of Federal Claims took a very objective look at the whole KC-135 award, properly overturning the award to Boeing and ordering the U.S. Air Force ("USAF") to re-compete the program. While we only delivered one KC-135 aircraft in the third quarter, leading to a large decrease in revenue, we did induct six KC-135 aircraft in the third quarter. We are in the final stages of negotiating an extension to the current KC-135 bridge contract which will lead to additional inductions in the fourth quarter of 2008 and 2009. We are also a significant subcontractor to many of the prime contractors recently awarded the Future Flexible Acquisition and Sustainment Tool Contract ("F2AST"). We expect the USAF to begin using F2AST in 2009 to procure a large amount of C-130 maintenance work for which we will compete. We have also already inducted one P-3 aircraft in the fourth quarter of 2008 and expect additional inductions."

Mr. Aramini further stated "Our efforts to increase productivity and control expenses continue to positively impact our results of operations. Our operating results for both the third quarter and first nine months of 2008 were improved despite lower revenue. We are cautiously optimistic that the steps we have taken to improve efficiency, control costs and grow revenue will lead to profitable operations in 2009."

Third Quarter 2008 vs. 2007 Results

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

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenue from continuing operations	\$ 6.77	\$ 13.90	(51.3%)
Gross profit (loss)	0.08	(0.33)	124.2%
Operating loss from continuing operations	(1.31)	(2.46)	46.7%
Loss from continuing operations before taxes	(1.50)	(2.65)	43.4%
Loss from continuing operations	(1.11)	(10.86)	89.8%
Net (loss) income	(1.75)	0.54	(424.1%)
EBITDA* from continuing operations	(1.05)	(2.07)	49.3%

* A description of the Company's use of non-GAAP financial 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 from continuing operations less cost of revenue, less selling, general and administrative ("SG&A) expenses.

The Company's 2008 third quarter revenue decreased \$7.1 million as compared to 2007 third quarter revenue. Revenue from the KC-135 PDM program decreased \$3.9 million during the third quarter of 2008 versus the third quarter of 2007. The KC-135 program, which accounted for 84% of revenue in the third quarter of 2008 and 69% of revenue in the third quarter of 2007, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. The Company delivered one PDM aircraft in the third quarter of 2008 compared to two PDM aircraft in the third quarter of 2007. Revenue decreased on the KC-135 program in the third quarter of 2008 versus the third quarter of 2007 due to a decrease in the contractual price for each aircraft delivered and a temporary reduction of the work hours on the program. The Company did not deliver any P-3 aircraft in the third quarter of 2008 versus one P-3 aircraft in the third quarter of 2007, resulting in a decrease in P-3 revenue of \$1.3 million. The Company is continuing to pursue additional contracts to perform maintenance services on P-3 aircraft. Revenue decreased \$1.9 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

Gross profit increased from a loss of \$0.3 million during the third quarter of 2007 to a profit of \$0.1 million during the third quarter of 2008. Gross profit on KC-135 revenue decreased \$1.6 million due to decreased revenue and low volume. Cost of revenue on the KC-135 program increased in the third quarter of 2008 as a percentage of revenue due to increased inefficiencies on the KC-135 maintenance line caused by unusually low volume. Gross profit increased \$0.6 million as a result of losses on the P-3 program recorded in the third quarter of 2007 for which there were no comparable losses in the third quarter of 2008. The Company recorded losses on the USAF C-130 program of \$0.5 million in the third quarter of 2007 for which there were no comparable losses in the third quarter of 2008. During the third quarter of 2007, the Company recorded a charge of \$0.6 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 \$0.7 million during the third quarter of 2008 compared to the third quarter of 2007. The Company reduced expenses by \$1.1 million in the third quarter of 2008 as compared to the third quarter of 2007 due to reduced revenue and expense controls implemented by the Company in late 2007. These expense reductions were partially offset by \$0.4 million of legal fees associated with the KC-135 contract protest and legal action. During the third quarter of 2007, the Company incurred \$0.4 million of corporate SG&A expenses that previously had been allocated to PWAS and SVC 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 that are included in discontinued operations (\$0.6 million in 2007), decreased to \$0.2 million in the third quarter of 2008 from \$0.8 million in the third quarter of 2007. Interest expense decreased primarily as a result of the extinguishment of a large portion of the Company's debt when PWAS was sold.

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During the third quarter of 2007, due principally to the KC-135 contract not being awarded to the Company, the Company recorded a \$9.7 million valuation allowance against deferred income tax accounts which substantially increased the reported income tax expense in the third quarter of 2007. At September 30, 2008 and December 31, 2007, all deferred tax assets continued to be subject to a deferred tax valuation allowance. During the third quarter of 2008, the Company recorded an income tax benefit of \$0.3 million related to the recovery of amounts previously expensed in 2007.

Nine Months 2008 vs. 2007 Results

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

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenue from continuing operations	\$ 38.89	\$ 49.32	(21.1%)
Gross profit	5.88	3.03	94.1%
Operating loss from continuing operations	(0.55)	(4.48)	87.7%
Loss from continuing operations before taxes	(1.14)	(5.05)	77.4%
Loss from continuing operations	(0.85)	(12.22)	93.0%
Net (loss) income	(3.36)	2.06	(263.1%)
EBITDA* from continuing operations	0.65	(3.23)	120.1%

* A description of the Company's use of non-GAAP financial 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 from continuing operations less cost of revenue, less selling, general and administrative ("SG&A) expenses.

The Company's revenue for the first nine months of 2008 declined \$10.4 million from revenue for the first nine months of 2007. Revenue from the KC-135 PDM program declined \$3.4 million during the first nine months of 2008 versus the first nine months of 2007. The KC-135 program, which accounted for 82% of revenue in the first nine months of 2008 and 72% of revenue in the first nine months of 2007, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. The Company delivered eight PDM aircraft during the first nine months of 2008 compared to nine PDM aircraft during the first nine months of 2007. Revenue decreased on the KC-135 program in the first nine months of 2008 versus the first nine months of 2007 due to a decrease in the contractual price for each aircraft delivered and a temporary reduction of the work hours on the program. The Company delivered one P-3 aircraft in the first nine months of 2008 versus four P-3 aircraft in the first nine months of 2007, resulting in a decrease in P-3 revenue of \$3.8 million. The Company is continuing to pursue additional contracts to perform maintenance services on P-3 aircraft. Revenue decreased \$3.2 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

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Gross profit increased from \$3.0 million during the first nine months of 2007 to \$5.9 million during the first nine months of 2008. Gross profit on KC-135 revenue decreased \$0.2 million during the first nine months of 2008 due to decreased revenue. Cost of revenue on the KC-135 program decreased as a percentage of revenue due to increased efficiencies on the KC-135 maintenance line. During the first nine months of 2007, the Company recorded a charge of \$0.6 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. Gross profit increased \$1.8 million as a result of losses on the P-3 program in the first nine months of 2007 for which there were no comparable losses in the first nine months of 2008.

SG&A expenses decreased \$1.1 million during the first nine months of 2008 compared to the first nine months of 2007. The Company reduced expenses by \$3.0 million in the first nine months of 2008 as compared to the first nine months of 2007 due to reduced revenue and expense controls implemented by the Company in late 2007. These expense reductions were partially offset by \$1.4 million of legal fees associated with the KC-135 contract protest and legal action. Also, during the first nine months of 2008, the Company forgave a related party receivable and accrued interest of \$0.5 million. During the first nine months of 2007, the Company incurred \$2.1 million of corporate SG&A expenses that previously had been allocated to PWAS and SVC 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 that are included in discontinued operations (\$2.2 million), decreased to \$0.6 million in the first nine months of 2008 from \$2.8 million in the first nine months 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 nine months of 2007, due principally to the KC-135 contract not being awarded to the Company, the Company recorded a \$9.7 million valuation allowance against deferred income tax accounts, which substantially increased the reported income tax expense in the first nine months of 2007. At September 30, 2008 and December 31, 2007, all deferred tax assets continued to be subject to a deferred tax valuation allowance. During the first nine months of 2008, the Company recorded an income tax benefit of \$0.3 million related to the recovery of amounts previously expensed in 2007.

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

The Company presents Earnings Before Interest, Taxes, Depreciation and Amortization from continuing operations, more commonly referred to as EBITDA from continuing operations, because its management uses the measure to evaluate the Company's performance and to allocate resources. In addition, the Company believes EBITDA is an important gauge used by commercial banks, investment banks, other financial institutions, and current and potential investors, to approximate its cash generation capability. Accordingly, the Company has included EBITDA as part of this report. The depreciation and amortization amounts used in the EBITDA calculation are those that were recorded in the consolidated statements of operations in this report. Due to the long-term nature of much of the Company's business, the depreciation and amortization amounts recorded in the consolidated statements of operations will not directly match the change in accumulated depreciation and amortization reflected on the Company's consolidated balance sheets. This is a result of the capitalization of depreciation expense on long-term contracts into work-in-process. EBITDA from continuing operations is not a measure of financial performance under generally accepted accounting principles in the United States ("GAAP") and should not be considered as a substitute for or superior to other measures of financial performance reported in accordance with GAAP. EBITDA from continuing operations as presented herein may not be comparable to similarly titled measures reported by other companies.

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 re-compete of the KC-135 contract; the outcome of pending and future litigation and the costs of defending such litigation; whether the Internal Revenue Service grants a 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

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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)*

	Quarter Ended September 30,	
	2008	2007
Revenue	\$ 6,773	\$ 13,903
Cost of revenue	6,691	14,234
Gross profit	82	(331)
Selling, general and administrative expenses	1,394	2,126
Operating loss	(1,312)	(2,457)
Interest expense	192	188
Loss from continuing operations before taxes	(1,504)	(2,645)
Income tax (benefit) expense	(394)	8,211
Loss from continuing operations	(1,110)	(10,856)
(Loss) income from discontinued operations, net of tax	(638)	49
Gain from sale of discontinued operations, net of tax	-	11,343
Net (loss) income	<u>\$ (1,748)</u>	<u>\$ 536</u>
Weighted average common shares outstanding:		
Basic	<u>4,129</u>	<u>4,128</u>
Diluted	<u>4,129</u>	<u>4,128</u>
Net (loss) income per common share:		
Basic loss from continuing operations	<u>\$ (0.27)</u>	<u>\$ (2.63)</u>
Basic (loss) income from discontinued operations	<u>\$ (0.15)</u>	<u>\$ 2.76</u>
Basic net (loss) income per share	<u>\$ (0.42)</u>	<u>\$ 0.13</u>
Diluted loss from continuing operations	<u>\$ (0.27)</u>	<u>\$ (2.63)</u>
Diluted (loss) income from discontinued operations	<u>\$ (0.15)</u>	<u>\$ 2.76</u>
Diluted net (loss) income per share	<u>\$ (0.42)</u>	<u>\$ 0.13</u>
<u>EBITDA Reconciliation*</u>		
Loss from continuing operations	\$ (1,110)	\$ (10,856)
Interest expense	192	188
Income tax (benefit) expense	(394)	8,211
Depreciation and amortization	261	392
EBITDA from continuing operations	<u>\$ (1,051)</u>	<u>\$ (2,065)</u>

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

	Nine Months Ended September 30,	
	2008	2007
Revenue	\$ 38,892	\$ 49,316
Cost of revenue	33,013	46,291
Gross profit	5,879	3,025
Selling, general and administrative expenses	6,433	7,508
Operating loss	(554)	(4,483)
Interest expense	587	563
Loss from continuing operations before taxes	(1,141)	(5,046)
Income tax (benefit) expense	(290)	7,176
Loss from continuing operations	(851)	(12,222)
(Loss) income from discontinued operations, net of tax	(2,505)	2,937
Gain from sale of discontinued operations, net of tax	-	11,343
Net (loss) income	<u>\$ (3,356)</u>	<u>\$ 2,058</u>
Weighted average common shares outstanding:		
Basic	<u>4,129</u>	<u>4,127</u>
Diluted	<u>4,129</u>	<u>4,127</u>
Net income (loss) per common share:		
Basic loss from continuing operations	<u>\$ (0.21)</u>	<u>\$ (2.96)</u>
Basic (loss) income from discontinued operations	<u>\$ (0.61)</u>	<u>\$ 3.46</u>
Basic net (loss) income per share	<u>\$ (0.81)</u>	<u>\$ 0.50</u>
Diluted loss from continuing operations	<u>\$ (0.21)</u>	<u>\$ (2.96)</u>
Diluted (loss) income from discontinued operations	<u>\$ (0.61)</u>	<u>\$ 3.46</u>
Diluted net (loss) income per share	<u>\$ (0.81)</u>	<u>\$ 0.50</u>
<u>EBITDA Reconciliation*</u>		
Loss from continuing operations	\$ (851)	\$ (12,222)
Interest expense	587	563
Income tax (benefit) expense	(290)	7,176
Depreciation and amortization	1,201	1,253
EBITDA from continuing operations	<u>\$ 647</u>	<u>\$ (3,230)</u>

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