



NEWS RELEASE

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ALABAMA AIRCRAFT INDUSTRIES, INC. (FORMERLY PEMCO AVIATION GROUP, INC.) REPORTS 2007 YEAR END AND FOURTH QUARTER FINANCIAL RESULTS

BIRMINGHAM, AL (March 31, 2008) – Alabama Aircraft Industries, Inc. (NASDAQ: AAIL), a leading provider of aircraft maintenance and modification services for the U.S. Government, today reported the operating results for its year ended and three months ended December 31, 2007. The Company reported that revenue from continuing operations decreased to \$72.8 million in 2007 compared to \$97.6 million in 2006, a decrease of 25.4%. Net income increased from \$0.5 million in 2006 to \$0.9 million in 2007. Net income in 2007 was positively affected by the gain on the Company's sale of Pemco World Air Services, Inc. ("PWAS") of \$11.4 million (net of tax) and income from discontinued operations of \$3.2 million (net of tax) for the year. The Company recorded losses from continuing operations of \$13.7 million in 2007 versus losses of \$1.7 million in 2006. The results from continuing operations in 2007 were negatively affected by a \$9.7 million valuation allowance on deferred tax assets and a decrease in revenue from the KC-135 program of \$24.2 million.

Ronald Aramini, Alabama Aircraft's President and CEO, stated "We are pleased to report net income for 2007. In addition, we continue to implement several initiatives to increase productivity and control expenses. The Company completed the divestiture of our Commercial Services Segment ("CSS") in September 2007 as we sold our PWAS subsidiary to an affiliate of Sun Capital Partners, Inc. The proceeds from the sale were sufficient to eliminate all of our bank debt and provide ongoing working capital for our Government Services Segment ("GSS"). The Company is focused on obtaining new U.S. Government contracts in 2008. We have made or intend to make proposals on several opportunities to work on C-130 and P-3 aircraft. The majority of these opportunities will be awarded in mid-to-late 2008 with work beginning in the fall of 2008. The Company is now qualified as a small business after having registered with the Small Business Administration. This will allow the Company to compete for contracts for which it was previously unable to compete. We believe this small business qualification will provide additional opportunities in the future."

Mr. Aramini further stated "The Company continues to pursue overturning the award of the new KC-135 contract to the Boeing Company. The Company was notified in September 2007 that the U.S. Air Force ("USAF") awarded the new KC-135 contract to The Boeing Company. The Company immediately protested the award with the U.S. Government Accountability Office ("GAO"), and the contract was stayed for 100 days pending the results of

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the protest. On December 27, 2007 the GAO upheld in part the Company's protest on the basis that the USAF failed to conduct a proper analysis of Boeing's cost/price proposal for realism or potential risk. The USAF filed a Request for Reconsideration on January 7, 2008, which was denied by the GAO on February 1, 2008. On March 3, 2008, the USAF advised the Company that in response to the recommendation by the GAO it had completed additional review, documentation and a new award decision and that the Company's proposal was not selected for award. The Company filed a protest on the new award decision on March 11, 2008. The Company believes it will receive additional KC-135 aircraft while the GAO protest is ongoing."

2007 vs. 2006 Results

Summary of comparative results for the year ended December 31, 2007 versus results for the year ended December 31, 2006:

(Dollars in Millions)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue from continuing operations	\$ 72.80	\$ 97.64	(25.4%)
Gross profit	5.01	12.00	(58.3%)
Operating loss from continuing operations	(6.84)	(2.05)	(233.4%)
Loss from continuing operations before taxes	(7.46)	(2.71)	(175.3%)
Loss from continuing operations	(13.73)	(1.73)	(691.6%)
Net income	0.95	0.52	82.1%
EBITDA* from continuing operations	(4.95)	(0.02)	

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

Results of Continuing Operations

The \$20.4 million decrease in revenue at the GSS was primarily due to decreases in deliveries of KC-135 aircraft, offset by increases in C-130 and P-3 deliveries. The KC-135 PDM program, which accounted for 66% of GSS revenue in 2007, 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 \$24.2 million during 2007. During 2006, the Company delivered 19 PDM aircraft and two drop-ins, compared to 12 PDM aircraft and no drop-ins during 2007. Year-over-year the Company realized an increase in revenue per PDM aircraft delivered in 2007 due to higher pricing on each aircraft delivered. Partially offsetting the decrease in GSS revenue was an increase in revenue of \$2.6 million under contracts to perform non-routine maintenance work on other aircraft, primarily C-130 aircraft. Revenue increased as a result of more C-130 aircraft in process during 2007 which increased the amount of non-routine services provided under the program. The Company delivered no U.S. Coast Guard ("USCG") C-130 aircraft during 2007 compared to two USCG C-130s during 2006 for depot level maintenance. Revenue

from the USCG program decreased \$3.4 million due to this decrease in deliveries. Revenue for the P-3 program increased \$1.8 million in 2007 due to the delivery of five P-3s during 2007 versus the delivery of three P-3s during 2006.

Cost of sales decreased \$17.8 million to \$67.8 million in 2007 from \$85.6 million in 2006. Cost of sales decreased at a slightly lower rate than revenue because of the fixed expenses related to operating the Birmingham, Alabama facility. Cost of sales was adversely affected in 2007 by \$2.6 million of losses on the P-3 contract, \$1.7 million of losses on the USAF C-130 contract and a charge of \$0.8 million related to freezing the defined benefit pension plan for salaried employees. Cost of sales was adversely affected in 2006 by \$3.7 million of losses on the P-3 contract, \$1.3 million of losses on the USAF C-130 contract and \$0.5 million of losses on the USCG contract.

Gross profit at GSS decreased from \$7.0 million to \$3.7 million due to decreased deliveries of KC-135 aircraft. Overall, the Company's gross profit as a percentage of revenue decreased to 5.7% in 2007 from 8.2% in 2006. The decrease in gross profit as a percentage of revenue in 2007 is primarily due to the decline in revenue from the KC-135 program.

SG&A expenses decreased \$2.2 million, or 15.6%, to \$11.9 million in 2007 from \$14.1 million in 2006. As a percent of revenue from continuing operations, SG&A expenses increased to 16.3% in 2007 from 14.4% in 2006. The increase in SG&A expense as a percent of revenue from continuing operations is primarily attributable to the reduction in KC-135 revenue which was offset by cost reductions to improve the profitability of the Company.

During 2007, the Company recorded income tax expense for continuing operations of \$6.3 million. Income tax expense for 2007 was significantly affected by a valuation allowance on deferred income tax assets of \$9.7 million which was recorded due to the uncertainty of future taxable income as a result of the lack of significant long-term contracts. During 2006, the Company recorded income tax benefits at an effective rate of 36.0%. The Company's effective tax rate is impacted by the allocation of taxable income, losses or gains between Alabama and California.

Revenue at the Company's Manufacturing and Components Segment ("MCS") decreased \$4.4 million during 2007 versus 2006 primarily due to the termination of a large missile program in late 2006. In addition, revenue in 2007 was adversely affected because revenue on work performed on several of the larger MCS programs has been deferred due to the timing of revenue recognition milestones, the timing of receiving additional funding on projects and the timing of award fee recognition. Gross profit for the MCS decreased from \$4.6 million in 2006 to \$1.2 million in 2007 for these same reasons.

Income from Discontinued Operations

Income from discontinued operations, net of tax, increased to \$3.2 million in 2007 from \$2.3 million in 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 the Company's 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 2007, the Company incurred \$1.9 million of corporate SG&A expenses that previously had been allocated to PWAS for segment reporting purposes. During 2006, the Company incurred \$2.5 million of corporate SG&A expenses that previously had been allocated to PWAS and another divested subsidiary, Pemco Engineers, Inc. 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 (\$2.3 million), increased to \$2.8 million in 2007 from \$2.3 million in 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.

As a result of the awarding of the KC-135 contract to The Boeing Company and the lack of other long-term contracts in conjunction with the sale of PWAS, which generated significant pretax income during 2007 and 2006, there is insufficient evidence for the Company to conclude as of December 31, 2007 that it is more likely than not that the deferred income tax assets recorded by the Company would be realized. During 2007, the Company recorded a \$9.7 million valuation allowance against the deferred income tax asset accounts which substantially increased the reported income tax expense in 2007.

Gain on Sale of Discontinued Operations

The Company recorded a pretax gain of \$17.6 million for the sale of PWAS in the third quarter of 2007. The Company recorded \$6.2 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.

Fourth Quarter Results

Summary of comparative results for the three months ended December 31, 2007:
(Dollars in Millions)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue from continuing operations	\$ 17.45	\$ 23.66	(26.2%)
Gross profit	1.09	2.25	(51.7%)
Operating loss from continuing operations	(1.85)	(1.09)	(69.6%)
Loss from continuing operations before taxes	(1.90)	(1.28)	(48.7%)
Loss from continuing operations	(1.20)	(0.80)	(49.6%)
Net income	(1.11)	0.54	305.4%
EBITDA* from continuing operations	(1.37)	(0.39)	(253.0%)

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

Results of Continuing Operations

Revenue at GSS decreased \$4.4 million or 21.9% in the fourth quarter of 2007 versus the fourth quarter of 2006. Revenue from the KC-135 PDM program decreased \$5.1 million during the fourth quarter of 2007 versus the fourth quarter of 2006. During the fourth quarter of 2007, the Company delivered three PDM aircraft compared to five PDM aircraft during fourth quarter of 2006. The Company delivered one P-3 aircraft in the fourth quarter of 2007 and one in the fourth quarter of 2006. Revenue increased by \$0.7 million during the fourth quarter of 2007 versus the fourth quarter of 2006 under contracts to perform non-routine maintenance work on USAF C-130 aircraft. Revenue at MCS decreased \$1.8 million in the fourth quarter of 2007 compared to the fourth quarter of 2006 due to the termination of a large missile program in late 2006.

Gross profit and the operating loss of the Company was negatively affected during the fourth quarter of 2007 by \$0.9 million of legal and accounting fees related to the protest of the KC-135 contract and \$0.8 million of pension expense related to freezing the defined benefit pension plan for salaried employees at December 31, 2007. The Company also recorded \$0.3 million of expense related to the estimated obsolescence of raw material inventory during the fourth quarter.

Management has taken significant steps to reduce costs including headcount reductions, administrative cost reductions, freezing the pension plan for salaried employees as of December 31, 2007, eliminating salary increases for 2008 and restructuring the medical and dental benefit plans. Negotiations are moving forward with the union for similar cost reductions. In addition, the Board of Directors, in a unified move to support the Company, has agreed to a 50% reduction in all Board fees in 2008.

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

EBITDA is defined as earnings 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. 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 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.

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

	Fourth Quarter Ended December 31,	
	2007	2006
Sales:		
Government Services Segment	\$ 15,745	\$ 20,159
Manufacturing and Components Segment	1,707	3,496
Total Sales	<u>17,452</u>	<u>23,655</u>
Cost of Sales	<u>16,363</u>	<u>21,402</u>
Gross Profit	1,089	2,253
Selling, General and Administrative Expenses	<u>2,938</u>	<u>3,343</u>
Operating Loss	(1,849)	(1,090)
Interest Expense	<u>(51)</u>	<u>(188)</u>
Loss from Continuing Operations Before Taxes	(1,900)	(1,278)
Income Tax Benefit	<u>(702)</u>	<u>(477)</u>
Loss from Continuing Operations	(1,198)	(801)
Income From Discontinued Operations, net of Tax	-	1,343
Gain on Sale of Discontinued Operations, net of Tax	85	-
Net Loss	<u>\$ (1,113)</u>	<u>\$ 542</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 loss from continuing operations	<u>\$ (0.29)</u>	<u>\$ (0.19)</u>
Basic income from discontinued operations	<u>\$ 0.02</u>	<u>\$ 0.33</u>
Basic net (loss) income per share	<u>\$ (0.27)</u>	<u>\$ 0.13</u>
Diluted loss from continuing operations	<u>\$ (0.29)</u>	<u>\$ (0.19)</u>
Diluted income from discontinued operations	<u>\$ 0.02</u>	<u>\$ 0.32</u>
Diluted net (loss) income per share	<u>\$ (0.27)</u>	<u>\$ 0.13</u>
<u>EBITDA Reconciliation*</u>		
Loss from Continuing Operations	\$ (1,198)	\$ (801)
Interest Expense	51	188
Income Tax Benefit	(702)	(477)
Depreciation and Amortization	479	706
EBITDA from Continuing Operations	<u>\$ (1,370)</u>	<u>\$ (384)</u>

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

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

	Year Ended December 31,	
	2007	2006
Sales:		
Government Services Segment	\$ 65,061	\$ 85,499
Manufacturing and Components Segment	7,743	12,145
Total Sales	<u>72,804</u>	<u>97,644</u>
Cost of Sales	<u>67,798</u>	<u>85,644</u>
Gross Profit	5,006	12,000
Selling, General and Administrative Expenses	<u>11,850</u>	<u>14,053</u>
Operating Loss	(6,844)	(2,053)
Interest Expense	<u>(614)</u>	<u>(656)</u>
Loss from Continuing Operations Before Taxes	(7,458)	(2,709)
Income Tax Expense (Benefit)	<u>6,269</u>	<u>(975)</u>
Loss from Continuing Operations	(13,727)	(1,734)
Income From Discontinued Operations, net of Tax	3,244	2,253
Gain on Sale of Discontinued Operations, net of Tax	<u>11,428</u>	<u>-</u>
Net Loss	<u>\$ 945</u>	<u>\$ 519</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>4,127</u>	<u>4,123</u>
Diluted	<u>4,131</u>	<u>4,228</u>
Net Income (Loss) Per Common Share:		
Basic loss from continuing operations	<u>\$ (3.33)</u>	<u>\$ (0.42)</u>
Basic income from discontinued operations	<u>\$ 3.56</u>	<u>\$ 0.55</u>
Basic net income per share	<u>\$ 0.23</u>	<u>\$ 0.13</u>
Diluted loss from continuing operations	<u>\$ (3.33)</u>	<u>\$ (0.42)</u>
Diluted income from discontinued operations	<u>\$ 3.55</u>	<u>\$ 0.53</u>
Diluted net income per share	<u>\$ 0.23</u>	<u>\$ 0.12</u>
<u>EBITDA Reconciliation*</u>		
Loss from Continuing Operations	\$ (13,727)	\$ (1,734)
Interest Expense	614	656
Income Tax Expense (Benefit)	6,269	(975)
Depreciation and Amortization	1,898	2,036
EBITDA from Continuing Operations	<u>\$ (4,946)</u>	<u>\$ (17)</u>

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