



NEWS RELEASE

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

ALABAMA AIRCRAFT INDUSTRIES, INC. REPORTS 2008 YEAR END AND FOURTH QUARTER FINANCIAL RESULTS

BIRMINGHAM, AL (April 1, 2009) – Alabama Aircraft Industries, Inc., 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, 2008. The Company reported that revenue from continuing operations decreased to \$53.5 million in 2008 from \$65.1 million in 2007, a decrease of 17.8%. The Company recorded losses from continuing operations of \$1.1 million in 2008 versus losses from continuing operations of \$13.3 million in 2007. The Company's results from continuing operations in 2007 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. Including the results of discontinued operations, the net loss for 2008 was \$5.8 million compared to net income for 2007 of \$0.9 million, which included a gain of \$11.4 million on the Company's sale of Pemco World Air Services ("PWAS"). The Company's results of operations for 2008 were negatively impacted by losses incurred by its Space Vector Corporation subsidiary ("SVC") of \$2.8 million and by a \$1.9 million impairment charge recorded in the fourth quarter of 2008 related to the sale of SVC. Both the results of PWAS and SVC are presented as discontinued operations for all periods reported herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission.

The Company reported that revenue from continuing operations decreased to \$14.6 million in the fourth quarter of 2008 compared to \$15.7 million in the fourth quarter of 2007, a decrease of 7.0%. The Company recorded losses from continuing operations of \$0.2 million in the fourth quarter of 2008 versus losses of \$1.1 million in the fourth quarter of 2007. Including the results of discontinued operations, the net loss for the fourth quarter of 2008 was \$2.4 million compared to a net loss from continuing operations of \$1.1 million in the fourth quarter of 2007. The fourth quarter of 2008 was negatively impacted by a \$1.9 million impairment charge related to the sale of SVC.

Ronald Aramini, Alabama Aircraft's President and CEO, stated "We are pleased to report significantly improved results from continuing operations in 2008 as a result of our initiatives to increase productivity and control expenses despite lower revenue. Revenue decreased in the fourth quarter of 2008 versus the fourth quarter of 2007 due to the low volume of aircraft inductions during the first half of 2008. However, the Company's backlog increased 130% in the last half of 2008 from \$13.3 million at June 30, 2008 to \$30.7 million at December 31, 2008 which strengthens the Company's position going into 2009. The Company has been awarded new U.S. Government contracts in 2009 and expects further contract awards later during the year. We are beginning to receive C-130 maintenance subcontracts from the prime contractors who were recently awarded the Future Flexible Acquisition and Sustainment Tool Contract. We inducted one P-3 aircraft in the fourth quarter of 2008 and another P-3 in the first quarter of 2009. The fourth quarter P-3 induction will be delivered early in the second quarter of 2009, ahead of schedule. We expect additional inductions of P-3 aircraft during the second quarter of 2009. The additional volume of aircraft and our focus on improved execution of our contracts enabled us to achieve positive EBITDA in the fourth quarter of 2008. We remain optimistic that the steps we have taken to improve efficiency, control costs and grow revenue will lead to profitable operations in 2009."

Mr. Aramini further stated "The Company completed several strategic initiatives in the first quarter of 2009 including the sale of SVC, obtaining a waiver of pension contributions from the Internal Revenue Service for the 2007 plan year, and beginning the process to delist from Nasdaq and suspend our registration and reporting obligations with the Securities and Exchange Commission. Each of the initiatives will result in a reduction of expenses and help increase the Company's already strong competitive position. The proceeds from the sale of SVC will be used to reduce the Company's outstanding debt and reduce interest cost. While we were very pleased that the U.S. Court of Federal Claims (the "Court") took a very objective look at the whole KC-135 award, properly overturning the award to The Boeing Company ("Boeing") and ordering the U.S. Air Force ("USAF") to re-compete the KC-135 program, we were also disappointed that the USAF and Boeing decided to appeal the Court's ruling. We don't expect the appeals process to be resolved until the fourth quarter of 2009 or the first quarter of 2010. We are in the final stages of negotiating an extension to the current KC-135 bridge contract which we anticipate will lead to continued inductions through September 30, 2009 and an option for fiscal year ending September 30, 2010."

2008 vs. 2007 Results

Summary of comparative results for the year ended December 31, 2008 versus results for the year ended December 31, 2007:

(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenue from continuing operations	\$ 53.5	\$ 65.1	(17.8%)
Gross profit	\$ 7.7	\$ 3.8	102.6%
Operating loss from continuing operations	\$ (0.5)	\$ (6.4)	92.2%
Loss from continuing operations before taxes	\$ (1.3)	\$ (7.0)	81.4%
Loss from continuing operations	\$ (1.1)	\$ (13.3)	91.7%
Net (loss) income	\$ (5.8)	\$ 0.9	(744.4%)
EBITDA* from continuing operations	\$ 1.1	\$ (4.7)	123.4%

- * 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 revenue, 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 \$11.6 million decrease in revenue from continuing operations at the Company was primarily due to decreases in deliveries of KC-135 aircraft, C-130 aircraft and P-3 aircraft. The KC-135 PDM program, which accounted for 83.3% of revenue from continuing operations in 2008, 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 \$3.4 million during 2008. During 2008, the Company delivered eleven PDM aircraft, compared to twelve PDM aircraft during 2007. Revenue from continuing operations decreased \$2.6 million under contracts to perform non-routine maintenance work on C-130 aircraft offset by additional revenue of \$0.7 million to perform paint stripping under a new C-130 contract. Revenue from continuing operations decreased as a result of fewer C-130 aircraft in process during 2008. Revenue for the P-3 program decreased \$5.1 million in 2008 due to the delivery of five P-3s during 2007 versus delivery of one P-3 during 2008. Revenue from continuing operations decreased \$1.2 million on other contracts primarily as a result of fewer aircraft inducted under miscellaneous paint contracts.

Cost of revenue decreased \$15.4 million, or 25.2%, to \$45.8 million in 2008 from \$61.2 million in 2007. Cost of sales was adversely impacted 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.

Gross profit increased from \$3.8 million, or 102.6%, to \$7.7 million due to improvements in operational efficiency. Overall, the Company's gross profit percentage of revenue from continuing operations increased to 14.4% in 2008 from 5.9% in 2007. The increase in gross profit as a percentage of revenue in 2008 is primarily due to losses incurred on the P-3 and C-130 programs in 2007 offset by the impact of a lower revenue base over which to spread the fixed cost of operating the Birmingham, Alabama facility.

Selling, general and administrative ("SG&A") expenses decreased \$2.1 million, or 20.1%, to \$8.2 million in 2008 from \$10.2 million in 2007. As a percent of sales, SG&A expenses decreased to 15.3% in 2008 from 15.7% in 2007 as the Company implemented a cost reduction program in 2008 as a result of lower revenue.

During 2008, the Company recovered certain income taxes previously expensed. During 2007, the Company recorded income tax expense for continuing operations of \$6.3 million. Income tax expense for 2007 was significantly impacted 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.

(Loss) Income from Discontinued Operations

Results from discontinued operations decreased from \$2.8 million of income from discontinued operations in 2007 to \$4.7 million of losses from discontinued operations in 2008. SVC incurred losses of \$2.8 million in 2008 as a result of revenue decreasing from \$7.7 million in 2007 to \$4.5 million in 2008. SVC also continued to incur losses on a large battery contract during 2008. AAI recorded an impairment charge of \$1.9 million in 2008 on its investment in SVC to adjust the value of SVC's net assets to approximate the proceeds expected from the sale. PWAS, which was sold in 2007, experienced significant growth in cargo conversion revenue and maintenance, repair and overhaul revenue in 2007. 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 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, 2008:
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenue from continuing operations	\$ 14.6	\$ 15.7	(7.0%)
Gross profit	\$ 1.8	\$ 0.8	125.0%
Operating income (loss) from continuing operations	\$ 0.1	\$ (1.9)	105.3%
Loss from continuing operations before taxes	\$ (0.1)	\$ (2.0)	95.0%
Loss from continuing operations	\$ (0.2)	\$ (1.1)	81.8%
Net loss	\$ (2.4)	\$ (1.1)	18.2%
EBITDA* from continuing operations	\$ 0.5	\$ (1.4)	135.7%

* 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 revenue, 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 decreased \$1.1 million or 7.2% in the fourth quarter of 2008 versus the fourth quarter of 2007. Revenue from the KC-135 PDM program increased \$0.1 million during the fourth quarter of 2008 versus the fourth quarter of 2007. The Company delivered three PDM aircraft during each of the fourth quarter of 2008 and 2007. The Company delivered no P-3 aircraft in the fourth quarter of 2008 and one in the fourth quarter of 2007 resulting in a revenue decrease of \$1.1 million. Revenue decreased by \$0.1 million during the fourth quarter of 2008 versus the fourth quarter of 2007 under contracts to perform non-routine maintenance and paint stripping work on USAF C-130 aircraft.

Gross profit increased \$1.0 million, or 30.3%, to \$1.8 million in the fourth quarter of 2008 from \$0.8 million in the fourth quarter of 2007. Gross profit was negatively impacted by \$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 of 2007.

SG&A expenses decreased \$1.0 million, or 36.2%, to \$1.7 million in the fourth quarter of 2008 from \$2.7 million in the fourth quarter of 2007. As a percent of sales, SG&A expenses decreased to 11.8% in the fourth quarter of 2008 from 17.2% in 2007 as the Company implemented a cost reduction program in 2008 as a result of lower revenue. SG&A expenses were 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.

****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 and facilities in Birmingham, Alabama, 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.

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 plans, objectives, expectations, intentions, 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 Company's pending delisting from The Nasdaq Stock Market LLC and deregistration of its Common Stock from the SEC; the award or loss of contracts; the Company's ability to obtain additional contracts and perform under existing contracts; the outcome of the Company's legal action with regards to the KC-135 contract; the outcome of pending and future litigation and the costs of defending such litigation; potential environmental and other liabilities; the inability of the Company to obtain additional financing; 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. 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)

	Year Ended December 31,	
	2008	2007
Revenue	\$ 53,499	\$ 65,061
Cost of revenue	45,810	61,250
Gross profit	7,689	3,811
Selling, general and administrative expenses	8,160	10,213
Operating loss from continuing operations	(471)	(6,402)
Interest expense	(780)	(601)
Loss from continuing operations before income taxes	(1,251)	(7,003)
Income tax (benefit) expense	(159)	6,269
Loss from continuing operations	(1,092)	(13,272)
(Loss) income from discontinued operations and impairment charges, net of tax	(4,694)	2,789
Gain on sale of discontinued operations, net of tax	-	11,428
Net (loss) income	<u>\$ (5,786)</u>	<u>\$ 945</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 (loss) income per common share:		
Basic loss from continuing operations	<u>\$ (0.26)</u>	<u>\$ (3.22)</u>
Basic (loss) income from discontinued operations	<u>\$ (1.14)</u>	<u>\$ 3.44</u>
Basic net (loss) income per share	<u>\$ (1.40)</u>	<u>\$ 0.23</u>
Diluted loss from continuing operations	<u>\$ (0.26)</u>	<u>\$ (3.22)</u>
Diluted (loss) income from discontinued operations	<u>\$ (1.14)</u>	<u>\$ 3.44</u>
Diluted net (loss) income per share	<u>\$ (1.40)</u>	<u>\$ 0.23</u>
<u>EBITDA Reconciliation*</u>		
Loss from continuing operations	\$ (1,092)	\$ (13,272)
Interest expense	780	601
Income tax expense (benefit)	(159)	6,269
Depreciation and amortization	1,604	1,726
EBITDA from continuing operations	<u>\$ 1,133</u>	<u>\$ (4,676)</u>

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

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

	Fourth Quarter Ended December 31,	
	2008	2007
Revenue	\$ 14,607	\$ 15,745
Cost of revenue	12,797	14,959
Gross profit	1,810	786
Selling, general and administrative expenses	1,727	2,705
Operating income (loss) from continuing operations	83	(1,919)
Interest expense	(193)	(38)
Loss from continuing operations before income taxes	(110)	(1,957)
Income tax expense (benefit)	131	(907)
Loss from continuing operations	(241)	(1,050)
Income from discontinued operations, net of tax and impairment charges, net of tax	(2,189)	(148)
Gain on sale of discontinued operations, net of tax	-	85
Net loss	<u>\$ (2,430)</u>	<u>\$ (1,113)</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 (loss) income per common share:		
Basic loss from continuing operations	<u>\$ (0.06)</u>	<u>\$ (0.25)</u>
Basic loss from discontinued operations	<u>\$ (0.53)</u>	<u>\$ (0.02)</u>
Basic net loss per share	<u>\$ (0.59)</u>	<u>\$ (0.27)</u>
Diluted loss from continuing operations	<u>\$ (0.06)</u>	<u>\$ (0.25)</u>
Diluted loss from discontinued operations	<u>\$ (0.53)</u>	<u>\$ (0.02)</u>
Diluted net loss per share	<u>\$ (0.59)</u>	<u>\$ (0.27)</u>
<u>EBITDA Reconciliation*</u>		
Loss from continuing operations	\$ (241)	\$ (1,050)
Interest expense	193	38
Income tax expense (benefit)	131	(907)
Depreciation and amortization	403	473
EBITDA from continuing operations	<u>\$ 486</u>	<u>\$ (1,446)</u>

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