

## ALABAMA AIRCRAFT INDUSTRIES ANNOUNCES PROTEST WIN

**Birmingham, AL** (January 2, 2008) – Alabama Aircraft Industries, Inc. (“AAII”), formerly known as Pemco Aviation Group (NASDAQ: AAI) announced today that it has received notice that the General Accounting Office (GAO) has upheld one of several issues raised in its protest of the KC-135 contract award. The GAO issued an opinion on December 27 that finds the United States Air Force failed to conduct a proper cost/price evaluation or a proper risk evaluation of the proposal submitted by Boeing Aerospace Operations, Inc. In particular, the GAO issued a press release noting the absence of “any Air Force analysis as to the realism of certain changes Boeing introduced in its final proposals, or the potential risk associated with those changes.” It has recommended that the Air Force conduct a new cost/price evaluation in accordance with applicable legal requirements. AAI’s subsidiary, Alabama Aircraft Industries, Inc. – Birmingham, competed against Boeing for the contract which provides for a 5-year base term and 5 additional one-year options on maintenance and modification services on the United States Air Force KC-135 aircraft. The contract is estimated to be worth over \$1.1 billion.

Ron Aramini, President and Chief Executive Officer, states, “On December 27, 2007 we received notice that the GAO ruled in AAI’s favor in this important case. This is the second time the GAO has upheld a protest by AAI of an award to Boeing in connection with this Program. AAI believes that this decision will introduce an element of fairness into the process and a proper evaluation will establish that AAI is the low cost, low risk, best value provider of KC-135 PDM services. We continue to believe the other issues we raised in the protest have merit and could be sustained in civil litigation.”

Alabama Aircraft Industries, Inc. (AAI), with executive offices in Birmingham, Alabama, and facilities in Alabama, and California, performs maintenance and modification of aircraft for the U.S. Government and foreign and domestic commercial customers. The company also provides aircraft parts and support and engineering services and full service overhaul and repair for a wide range of aircraft. AAI also

develops and manufactures rocket vehicles and control systems, and precision components for the aviation industry.

*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.*

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