ALABAMA AIRCRAFT INDUSTRIES, INC.

Quarterly Financial Statements

June 30, 2009

ALABAMA AIRCRAFT INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS
(In Thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 2,423	$ 7,612
Accounts receivable, net	11,410	6,691
Inventories, net	6,344	5,092
Prepaid expenses and other	1,424	759
Assets of discontinued operations	-	2,759
Total current assets	21,601	22,913
Machinery, equipment and improvements at cost:		
Machinery and equipment	20,815	20,698
Leasehold improvements	19,142	18,921
	39,957	39,619
Less accumulated depreciation and amortization	(29,174)	(28,403)
Net machinery, equipment and improvements	10,783	11,216
Other non-current assets:		
Deposits and other	978	977
Restricted cash - letter of credit	285	589
Assets of discontinued operations	-	384
	1,263	1,950
Total assets	$ 33,647	$ 36,079

The accompanying notes are an integral part of these consolidated statements.

ALABAMA AIRCRAFT INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY
(In Thousands, Except Share Information)

	June 30, 2009 (Unaudited)	December 31, 2008
Current liabilities:		
Current portion of long-term debt	$ 4,016	$ 2
Accounts payable - trade	2,813	2,696
Accrued health and dental	375	368
Accrued liabilities - payroll related	3,162	2,794
Accrued liabilities - other	930	936
Customer deposits in excess of cost	1,319	2,767
Impairment on investment in Space Vector	-	1,898
Liabilities of discontinued operations	-	362
Total current liabilities	12,615	11,823
Long-term debt, less current portion	55	5,000
Long-term pension and post-retirement benefit liabilities	32,259	33,509
Other long-term liabilities	768	766
Total liabilities	45,697	51,098
Stockholders' equity:		
Preferred Stock, $0.0001 par value, 5,000,000 shares authorized, none outstanding	-	-
Common Stock, $0.0001 par value, 12,000,000 shares authorized, 4,128,950 outstanding at June 30, 2009 and December 31, 2008	1	1
Additional paid-in capital	15,338	15,324
Retained earnings	26,007	24,572
Treasury stock, at cost – 413,398 shares at June 30, 2009 and December 31, 2008	(8,623)	(8,623)
Accumulated other comprehensive income (loss):		
Minimum pension and post-retirement liabilities	(44,773)	(46,293)
Total stockholders' equity	(12,050)	(15,019)
Total liabilities and stockholders' equity	$ 33,647	$ 36,079

The accompanying notes are an integral part of these consolidated statements.

ALABAMA AIRCRAFT INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Net Income per Common Share Information)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Revenue	$ 17,261	$ 12,508
Cost of revenue	14,226	11,295
Gross profit	3,035	1,213
Selling, general and administrative expenses	1,997	2,153
Operating income (loss)	1,038	(940)
Interest expense	225	194
Income (loss) from continuing operations before income taxes	813	(1,134)
Income tax expense (benefit)	-	(70)
Income (loss) from continuing operations	813	(1,064)
Loss from discontinued operations, net of tax	-	(1,378)
Loss on sale of discontinued operations, net of tax	(10)	-
Net income (loss)	$ 803	$ (2,442)
Net income per common share:		
Basic income (loss) from continuing operations	$ 0.20	$ (0.26)
Basic loss from discontinued operations	$ (0.00)	$ (0.33)
Basic net income (loss) per share	$ 0.19	$ (0.59)
Diluted income (loss) from continuing operations	$ 0.20	$ (0.26)
Diluted loss from discontinued operations	$ (0.00)	$ (0.33)
Diluted net income (loss) per share	$ 0.19	$ (0.59)
Weighted average common shares outstanding:		
Basic	4,129	4,129
Diluted	4,129	4,129

The accompanying notes are an integral part of these consolidated statements.

ALABAMA AIRCRAFT INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Net Income per Common Share Information)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue	$ 32,928	$ 32,119
Cost of revenue	28,151	26,322
Gross profit	4,777	5,797
Selling, general and administrative expenses	4,070	5,039
Provision for (reversal of) doubtful accounts	(1,372)	-
Operating income	2,079	758
Interest expense	483	395
Income from continuing operations before income taxes	1,596	363
Income tax expense	27	104
Income from continuing operations	1,569	259
Income (loss) from discontinued operations, net of tax	78	(1,867)
Loss on sale of discontinued operations, net of tax	(212)	-
Net income (loss)	$ 1,435	$ (1,608)
Net income per common share:		
Basic income from continuing operations	$ 0.38	$ 0.06
Basic loss from discontinued operations	$ (0.03)	$ (0.45)
Basic net income (loss) per share	$ 0.35	$ (0.39)
Diluted income from continuing operations	$ 0.38	$ 0.06
Diluted loss from discontinued operations	$ (0.03)	$ (0.45)
Diluted net income (loss) per share	$ 0.35	$ (0.39)
Weighted average common shares outstanding:		
Basic	4,129	4,129
Diluted	4,129	4,129

The accompanying notes are an integral part of these consolidated statements.

ALABAMA AIRCRAFT INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ 1,435	$ (1,608)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of machinery, equipment and leasehold improvements	820	891
Amortization of debt issuance cost	123	-
Pension expense in excess of funding	270	1,121
Adjustment of reserves on receivables	(1,372)	-
Provision for inventory valuation	40	408
Loss on the sale of Space Vector	212	-
Reversal of losses on contracts-in-process	(14)	(1,000)
Forgiveness of related party receivable	-	440
Stock based compensation expense	14	183
Changes in assets and liabilities:		
Restricted cash	304	652
Accounts receivable, trade	(2,947)	2,533
Inventories	(1,171)	2,739
Prepaid expenses and other	(430)	42
Deposits and other	1	2,188
Customer deposits in excess of cost	(1,398)	44
Accounts payable and accrued liabilities	470	(4,729)
Total adjustments	(5,078)	5,512
Net cash (used in) provided by operating activities	(3,643)	3,904
Cash flows from investing activities:		
Capital expenditures	(262)	(312)
Proceeds from sale of Space Vector, net of expenses	64	-
Net cash used in investing activities	(198)	(312)
Cash flows from financing activities:		
Payment of debt issuance costs	(330)	-
Principal payments under long-term debt	(1,018)	(34)
Net cash used in financing activities	(1,348)	(34)
Net (decrease) increase in cash and cash equivalents	(5,189)	3,558
Cash and cash equivalents, beginning of period	7,612	8,799
Cash and cash equivalents, end of period	$ 2,423	$ 12,357
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 352	$ 400
Income taxes	$ 25	$ 789

The accompanying notes are an integral part of these consolidated statements

1. CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements have been prepared by Alabama Aircraft Industries, Inc. ("AAII" or the "Company") and are unaudited. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the period ended June 30, 2009 are not necessarily indicative of the operating results expected for the full year. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2008 Annual Financial Statements.

Business—AAII is an aerospace and defense company whose primary business is providing aircraft maintenance and modification services to the U.S. Government, including complete airframe inspection, maintenance, repair and custom airframe design and modification. The Company's Space Vector Corporation ("SVC") subsidiary was being marketed for sale at December 31, 2008 and was sold during the first quarter of 2009 and is presented herein as discontinued operations.

The Company provides aircraft maintenance and modification services for government and military customers and specializes in providing Programmed Depot Maintenance ("PDM") on large transport aircraft. In addition to PDM, various other repair, maintenance, and modification services are performed for the AAII's customers. The Company's contracts are generally multi-aircraft programs lasting several years. The Company believes that its facilities, tooling, experienced labor force, quality, and on-time delivery record position it currently as one of the premier providers of PDM for large transport aircraft in the country.

Financial Condition of the Company—The Company's primary sources of liquidity and capital resources include cash-on-hand and cash flows from operations (primarily from collection of accounts receivable and conversion of work-in-process inventory to cash). Principal factors affecting the Company's liquidity and capital resources position include, but are not limited to, the following: results of operations; the number of KC-135 inducted as a result of the U.S. Air Force ("USAF") extension of the Company's KC-135 bridge contract with The Boeing Company ("Boeing"); collection of accounts receivable; funding requirements associated with the Company's defined benefit pension plan ("Pension Plan"); settlements of various claims; legal cost related to the KC-135 PDM contract award; and the payment terms of any short-term or long-term debt. Due to the current state of the credit markets in the United States, the current status of the KC-135 contract and the Company's recent operating performance, there is uncertainty as to whether the Company would be able to obtain additional financing from lenders during 2009. The Company anticipates that cash-on-hand will be sufficient to fund operations, make moderate capital expenditures, make scheduled interest payments on its debt obligation for the next twelve months and make the required contributions to its Pension Plan.

Sale of Space Vector—On March 31, 2009, the Company sold all of the outstanding stock in SVC, a wholly-owned subsidiary of AAII-Birmingham, Inc., to a group of investors. The historical financial results of SVC have been presented in the accompanying financial statements as discontinued operations for all periods presented. The Company received $250,000 at closing. The Company also retained an interest in a portion of certain contract settlements which may be received by SVC in the future. All of the proceeds from the sale of SVC was used to reduce the Company's long-term debt.

Delisting and Deregistration of Common Stock and Suspension of Reporting Obligations—As a result of its filing a Form 25 with the Securities and Exchange Commission (the "SEC") on March 31, 2009, AAII voluntarily delisted its common stock from The Nasdaq Stock Market LLC effective April 10, 2009. Additionally, as a result of this Form 25 filing and a Form 15 with the SEC on April 10, 2009, AAII's common stock was deregistered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), effective July 9, 2009. Furthermore, AAII suspended its reporting obligations under Section 15(d) of the Exchange Act as a result of the Form 15 filing. The Company was eligible to deregister its common stock under Section 12 and to suspend its reporting obligations under Section 15(d) because it had fewer than 300 holders of record of its common stock as of January 1, 2009.

As a result of the Form 25 and Form 15 filings, effective April 10, 2009, AAII's obligation to file certain reports with the SEC, including Forms 10-K, 10-Q and 8-K, was suspended. Additionally, effective July 9, 2009, AAII and its common stock were no longer subject to the provisions of Sections 13, 14 or 16 of the Exchange Act, or the SEC's regulations thereunder, relating to proxy solicitation, tender offers, going private transactions and beneficial ownership reporting. If AAII has 300 or more record holders of its common stock as of the first day of any future fiscal year, AAII's reporting obligations will be automatically reinstated under Section 15(d) of the Exchange Act. Moreover, if AAII has 500 or more record holders of its common stock as of the first day of any future fiscal year, its common stock would again become registered under Section 12 of the Exchange Act and AAII would become subject to Sections 13, 14 and 16 of the Exchange Act and the SEC's regulations thereunder. AAII intends to remain at fewer than 300 shareholders of record, but cannot guarantee that it will be able to do so.

2. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 and December 31, 2008 consists of the following:

(In Thousands)

	June 30, 2009	December 31, 2008
Amounts billed	$ 9,540	$ 5,620
Recoverable costs and accrued profit on progress completed - not billed	1,870	1,071
Accounts receviable	$ 11,410	$ 6,691

Recoverable costs and accrued profit on progress completed but not billed consist of amounts of revenue recognized on contracts, for which billings had not been presented to the contract owners because the amounts, even though earned, were not billable under the contract terms. The total accounts receivable with the U.S. Government or with prime contractors to the U.S. Government totaled $8.8 million and $5.8 million at June 30, 2009 and December 31, 2008, respectively.

3. INVENTORIES

Inventories as of June 30, 2009 and December 31, 2008 consisted of the following:

(In Thousands)

	June 30, 2009	December 31, 2008
Work in process	$ 10,683	$ 9,562
Raw materials and supplies	6,753	6,361
Total	17,436	15,923
Less reserves for obsolete inventory	(3,124)	(3,210)
Less milestone payments and customer deposits	(7,968)	(7,621)
	$ 6,344	$ 5,092

A substantial portion of the above inventories relate to U.S. Government contracts or sub-contracts. The Company receives milestone payments on the majority of its government contracts. The title to all inventories on which the Company receives milestone payments is vested in the customer to the extent of the milestone payment balance.

4. RESTRICTED CASH

The Company is required by Wachovia Bank to post cash collateral for an outstanding letter of credit covering workers compensation claims. During the second quarter of 2009, the required amount was reduced from $580,000 to $285,000. This restricted cash has no contractual release date and has been classified as long-term in the consolidated balance sheets.

5. DEBT

Debt as of June 30, 2009 and December 31, 2008 consisted of the following:

(In Thousands)	June 30, 2009	December 31, 2008
Senior Secured Note, interest at 15%	4,000	5,000
Capital Lease Obligations	71	2
Total long-term debt	4,071	5,002
Less portion reflected as current	(4,016)	(2)
Long term-debt, net of current portion	$ 55	$ 5,000

On February 15, 2006, the Company entered into a Note Purchase Agreement with Silver Canyon Services, Inc. ("Silver Canyon"), pursuant to which the Company issued to Silver Canyon a senior secured note in the principal amount of $5.0 million (the "Note"). The Note accrues interest at an annual rate of 15%, which is payable quarterly in arrears. The Company may, at its election, redeem the Note at a price equal to 100% of the principal amount then outstanding, together with accrued and unpaid interest thereon. The payment of all outstanding principal, interest and other amounts owing under the Note may be declared immediately due and payable upon the occurrences of an event of default. On July 31, 2006, the Note was purchased by Special Value Bond Fund, LLC, which is managed by Tennenbaum Capital Partners, LLC, a related party of the Company. The Note Purchase Agreement was amended on January 28, 2009 to extend the maturity date of the Note to February 15, 2010. The Company used the $250,000 of proceeds from the sale of Space Vector to reduce the principal amount of the Note. In early April 2009, the Company reduced the amount of the Note by $750,000 bringing the outstanding balance of the principal down to $4.0 million.

If additional financing is needed, the Company's recent negative results of operations and the uncertainties regarding future contract awards will likely make it more difficult and expensive for the Company to raise additional capital that may be necessary to continue its operations. In addition, the delisting of the Company's Common Stock from Nasdaq on April 10, 2009 could have a materially adversely affect on the Company's access to the capital markets, and the limited liquidity and potentially reduced price of the Common Stock could materially adversely affect the Company's ability to raise capital on terms acceptable to the Company or at all. If the Company cannot raise adequate funds on acceptable terms, or at all, its business could be materially harmed.

6. STOCK OPTIONS

On May 14, 2003, the Company's stockholders approved amendments to the Company's Nonqualified Stock Option Plan (the "Stock Option Plan"), pursuant to which a maximum aggregate of 2,000,000 shares of Common Stock have been reserved for grants to key personnel. The Stock Option Plan expires by its terms on September 8, 2009. Options available to be granted under the Stock Option Plan amounted to approximately 166,000 at June 30, 2009. Options granted under the Stock Option Plan become exercisable over staggered periods and expire ten years after the date of grant.

The following table summarizes stock option activity for the six months ended June 30, 2009:

	Shares (In Thousands)	Weighted average exercise price per share
Outstanding as of December 31, 2008	1,262	$ 16.87
Granted	-	-
Exercised	-	-
Forfeited/Expired	(30)	22.68
Outstanding as of June 30, 2009	1,232	16.73
Exercisable as of June 30, 2009	1,185	17.12

The weighted average remaining term for outstanding stock options was 4.57 years at June 30, 2009. The aggregate intrinsic value at June 30, 2009 and 2008 was $0 and $0, respectively for stock options outstanding and $0 and $0, respectively for stock options exercisable. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. There were no options granted during the six months ended June 30, 2009.

SFAS No. 123(R) requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 10%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. As of June 30, 2009, approximately $40,000 of unrecognized stock compensation related to unvested awards (net of estimated forfeitures) is expected to be recognized over a weighted-average period of 1.02 years. There were no stock options exercised during the six months ended June 30, 2009 and 2008, respectively.

7. DEFERRED COMPENSATION PLAN

The Company has a deferred compensation arrangement for its Chief Executive Officer, which generally provides for payments upon retirement, death or termination of employment. The Company funded the deferred compensation liability by making contributions to a rabbi trust. The contributions are invested in U.S. treasury bills and do not include Company Common Stock. In February 2008, the CEO withdrew approximately $2.1 million from the deferred compensation plan assets thereby reducing the deferred compensation plan liabilities by $2.1 million.

The fair market values of the assets in the rabbi trust at June 30, 2009 and December 31, 2008 were $0.8 million and $0.8 million, respectively, and are reflected in the deposits and other line item in the accompanying consolidated balance sheets. The deferred compensation liability is adjusted, with a corresponding charge or credit to compensation cost, to reflect changes in the fair market value of the compensation liability. The amounts accrued under this plan were $0.8 million and $0.8 million at June 30, 2009 and December 31, 2008, respectively, and are reflected in other long-term liabilities in the accompanying consolidated balance sheets.

8. EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan (the "Pension Plan") in effect, which covers substantially all employees at its Birmingham facility who meet minimum eligibility requirements. Benefits for non-union employees are based upon salary and years of service, while benefits for union employees are based upon a fixed benefit rate and years of service. The Company froze the Pension Plan effective December 31, 2007 for all non-union employees. The funding policy is consistent with the funding requirements under federal laws and regulations concerning pensions. During the six months ended June 30, 2009 the Company contributed $1.3 million to the Pension Plan. No contributions were made to the Pension Plan in the first six months of 2008.

Components of the Pension Plan's net periodic pension cost were as follows:

(In Thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Service cost	$ 616	$ 636
Interest cost	3,126	3,196
Expected return on plan assets	(3,660)	(3,984)
Amortization of prior service cost	368	380
Amortization of net loss	1,152	894
Net pension cost	$ 1,602	$ 1,122

On February 29, 2008, the Company applied to the Internal Revenue Service ("IRS") for a waiver of contributions for the 2007 plan year which concluded on September 15, 2008. On September 15, 2008, the Company contributed $3.9 million to the Pension Plan, fully satisfying the contribution requirements for the 2007 plan year. On March 30, 2009, the IRS granted the waiver request resulting in a deferral of required contributions for the 2007 plan year being spread over the next five years. As a result of the waiver, the pension payment for the 2007 plan year is now considered a payment for the 2008 plan year. The remaining amount owed for the 2008 plan year of $0.5 million was made during the first quarter of 2009. The Company is required to contribute $3.3 million to the Pension Plan during 2009 of which $1.3 million was made in the first six months of 2009 and $1.0 million was made in July 2009. As a result of the waiver, the Pension Benefit Guaranty Corporation ("PBGC") filed liens on the Company's assets. The PBGC will maintain a lien on the Company's assets over the time period of the deferral of the 2007 plan year contributions, which will be approximately five years.

9. CONTINGENCIES

United States Government Contracts—The Company, as a U.S. Government contractor, is subject to audits, reviews, and investigations by the U.S. government related to its negotiation and performance of government contracts and its accounting for such contracts. Failure to comply with applicable U.S. Government standards by a contractor may result in suspension from eligibility for award of any new government contract and a guilty plea or conviction may result in debarment from eligibility for awards. The government may, in certain cases, also terminate existing contracts, recover damages, and impose other sanctions and penalties. The Company believes, based on all available information, that the outcome of any pending U.S. government audits, reviews, and investigations of which it is aware would not have a materially adverse effect on the Company's consolidated financial position or results of operations.

Concentrations

A small number of the Company's contracts account for a significant percentage of its revenues. Contracts and sub-contracts with the U.S. Government comprised 100% of the Company's revenues from continuing operations in 2009 and 2008, respectively. The KC-135 program in and of itself comprised 88% and 84% of the Company's total revenues from continuing operations in the first six months of 2009 and 2008, respectively. Termination or a disruption of any of these contracts (including by way of option years not being exercised), or the inability of the Company to renew or replace any of these contracts when they expire, could have a material adverse effect on the Company's financial position or results of operations.

Breach of Contract Lawsuits

On January 16, 2004, the Company filed a complaint in the Circuit Court of Dale County, Alabama against GE Capital Aviation Services, Inc. ("GECAS") for monies owed for modification and maintenance services provided on nine 737-300 aircraft, all of which were re-delivered to GECAS during 2003 and are in service. On January 20, 2004, the Company received service of a suit filed against the Company's former subsidiary, Pemco World Air Services, Inc. in New York state court, claiming breach of contract with regard to two of the aircraft re-delivered. On March 5, 2004, the Company filed a motion to dismiss the claim filed in the New York state court, which was denied. On March 24, 2004, the Circuit Court of Dale County, Alabama denied a motion filed by GECAS to dismiss or stay the proceedings. GECAS has subsequently paid in full charges owed on four of the nine aircraft. The New York state court ordered mediation in the matter. Mediation took place on October 6, 2004, but was unsuccessful in

bringing resolution. The case was again mediated on October 6, 2006 without success. On October 16, 2006, the New York state court granted the Company partial summary judgment as to two of the five GECAS counterclaims. Discovery was completed on September 15, 2007, and trial was conducted in Alabama from March 30, 2009 through April 23, 2009. The jury awarded the Company $2.1 million in compensatory damages and $6.5 million in punitive damages. The Company has filed motions for interest due under the contract requirements and expenses related to this case. On May 21, 2009, GECAS filed a Renewed Motion for Judgment As A Matter of Law, or Alternatively, Motion For A New Trial or To Set Aside Damages Award For Remittitur. The Court heard the arguments on the Pre-Judgment Interest motion and discovery motions on July 27, 2009 and awarded the Company $1.1 million in pre-judgment interest, to amend the total compensatory damage award to $3.3 million. Discovery orders pursuant to motions filed by the Company were entered as well in preparation for the defendant's challenge of punitive damages awarded.

Employment Lawsuits

On March 14, 2009, a federal jury in the United States District Court for the Northern District of Alabama (Southern Division) returned a verdict against the Company for $250,000 compensatory damages and $250,000 punitive damages in a case involving a former employee who was terminated for unethical conduct involving the threatening touching of a female employee. In July, 2005 the terminated employee filed EEOC charges against the Company for race and gender discrimination and retaliation for having been a plaintiff in a 2002 case brought against the Company. The jury found no evidence of retaliation, but found the Company liable on the basis of race and gender discrimination in the employee's termination. The Company maintains its position as to the appropriateness of steps taken. The case was settled by the Company's liability insurance carrier. The Company paid a $100,000 deductible in the first six months of 2009 as part of the settlement.

Various claims alleging employment discrimination, including race, sex, disability, and age have been made against the Company and its subsidiaries by current and former employees. Workers' compensation claims brought by employees are also pending in Alabama state court. The Company believes that none of these claims, individually or in the aggregate, is material to the Company and that such claims are more reflective of the general increase in employment-related litigation in the U.S., and Alabama in particular, than of any actual discriminatory employment practices by the Company or any subsidiary. Except for workers' compensation benefits as provided by statute, the Company intends to vigorously defend itself in all litigation arising from these types of claims. Management believes that the results of these claims will not have a material impact on the Company's financial position or results of operations.

Environmental Compliance

In December 1997, the Company received an inspection report from the Environmental Protection Agency ("EPA") documenting the results of an inspection at the Birmingham, Alabama facility. The report cited various violations of environmental laws. The Company has taken actions to correct the items raised by the inspection. On December 21, 1998, the Company and the EPA entered into a Consent Agreement and Consent Order ("CACO") resolving the complaint and compliance order. As part of the CACO, the Company agreed to assess a portion of the Birmingham facility for possible contamination by certain constituents and remediate such contamination as necessary. During 1999, the Company drilled test wells and took samples under its Phase I Site Characterization Plan. These samples were forwarded to the EPA in 1999. A Phase II Site Characterization Plan ("Phase II Plan") was submitted to the EPA in 2001 upon receiving the agency's response to the 1999 samples. The Phase II Plan was approved in January 2003, wells installed and favorable sampling events recorded. The Company compiled the results and submitted a revised work plan to the agency which was accepted on July 30, 2004. The Media Clean-up Standard Report, as required, was submitted to the EPA in January 2005. It is the Company's policy to accrue environmental remediation costs when it is probable that such costs will be incurred and when a range of loss can be reasonably estimated. The Company reviews the status of all significant existing or potential environmental issues and adjusts its accruals as necessary. The Company recorded liabilities of approximately $100,000 related to the Phase II Plan at both June 30, 2009 and December 31, 2008, which are included in accrued liabilities—other on the accompanying Consolidated Balance Sheets. Management believes that the results of the Phase II Plan will not have a material impact on the Company's financial position or results of operations.

In March 2005, Pemco Aeroplex received notice from the South Carolina Department of Health and Environmental Control that it was believed to be a potentially responsible party ("PRP") with regard to contamination found on the Philips Service Corporation ("PSC") site located in Rock Hill, South Carolina. Pemco was listed as a PRP due to alleged use by the Company of contract services in disposal of hazardous substances. The Company joined a large group of existing PRP notification recipients in retaining environmental counsel. The Company believes it is possible that paint chips were disposed of with this contractor beginning in 1997. PSC filed for bankruptcy in 2003. It is noted that contamination seems to be primarily linked to a diesel fuel tank leak whereby over 200,000 gallons

of diesel product was lost or released into the environment at the Rock Hill site. The database of manifests located on-site at PSC has been reviewed and the waste-in compilations have been completed, but remain subject to revision. The PRP group continues to increase. It is believed that the Company's potential liability will not exceed $50,000. The Company believes it is adequately insured in this matter and that the resolution of the above matter will not have a material impact on the Company's financial position or results of operations.

In addition, in conjunction with the sale of Pemco World Air Services ("PWAS") in September 2007, the buyer and the Company contracted for division of any environmental liability that may be required to meet applicable environmental remediation standards at the Company's former Dothan, Alabama facilities such that, in the event significant environmental remediation is required, the buyer will bear the risk of the first $1.0 million dollars of such losses and the Company will bear the risk of any such losses in excess of $1.0 million but not to exceed $2.0 million in the aggregate. As a result, the buyer would be responsible for all losses in excess of $3.0 million. The funds required to meet the Company's obligations have been escrowed for a five-year period. No portion of the amount required to be escrowed in connection with the sale of PWAS was considered as a portion of the gain recognized in connection with the sale. The Company considers the amount held in escrow to be a contingent asset and is not included in the Company's balance sheet.

Furthermore, the Company is subject to various environmental regulations at the federal, state, and local levels, particularly with respect to the stripping, cleaning, and painting of aircraft. Compliance with environmental regulations have not had, and are not expected to have, a material effect on the Company's financial position or results of operations.

10. DISCONTINUED OPERATIONS

On March 31, 2009, the Company sold all of the outstanding stock in Space Vector. The historical financial results of Space Vector have been presented in the accompanying consolidated financial statements as discontinued operations for all periods presented.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the business operations of Space Vector are reported as discontinued operations and, accordingly, income from discontinued operations have been reported separately from continuing operations. Revenue and income from discontinued operations for the three- and six-months periods ended June 30, 2009 and 2008, respectively were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In Thousands)		(In Thousands)	
Revenue	$ -	$ 496	$ 1,990	$ 2,015
Income (loss) before income taxes	$ -	$ (1,378)	$ 78	$ (1,867)
Income tax expense	-	-	-	-
Income (loss) from discontinued operations	$ -	$ (1,378)	$ 78	$ (1,867)

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

EXECUTIVE OVERVIEW

The Company operates primarily in the aerospace and defense industry and its principal business is providing aircraft maintenance and modification services to military customers. The Company's services are provided under traditional contracting agreements that include fixed-price, time and material, cost plus and variations of such arrangements. The Company's revenue and cash flows are derived primarily from services provided under these contracts, and cash flows include the receipt of milestone or progress payments under certain contracts.

The financial condition and results of operations of the Company, which operated as a subcontractor to The Boeing Company ("Boeing"), have been impacted by several unusual events in connection with the USAF KC-135 PDM program and the related recompetition for the new KC-135 PDM contract award. As discussed in previous filings, from May 2005 through June 2006, the Company worked in cooperation with Boeing to submit a proposal on the new KC-135 contract under a Memorandum of Agreement with Boeing ("MOA"). After filing an initial proposal with the USAF, which included critical financial and operational information on the Company's KC-135 program, the Company believes Boeing breached the MOA due to the USAF's reducing the number of aircraft in the request for proposal. From July 2006 to September 2007, the Company prepared its own proposal for the new KC-135 contract. The Company's proposal for the KC-135 PDM program was unsuccessful as the contract was awarded to Boeing in September 2007. The Company filed a protest with the Government Accountability Office ("GAO") and 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. On March 3, 2008, the USAF advised the GAO that in response to the recommendation by the GAO it had completed additional review 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 as to the USAF's lack of proper evaluation to meet GAO recommendations and sudden post-award change of work scope under the contract recompete. On June 13, 2008, the GAO denied the Company's March 11, 2008 protest. On June 27, 2008, the Company filed a complaint in the United States Court of Federal Claims (the "Court") protesting the actions of the USAF in connection with the award to Boeing of the KC-135 PDM contract. On July 3, 2008, the Court granted Boeing's motion to intervene in the case. On September 30, 2008, the Court set aside the KC-135 PDM solicitation enjoining the USAF from proceeding with the award to Boeing and requiring a resolicitation of the procurement that will explicitly address the role of the aging KC-135 fleet on the PDM process. In February 2009, the USAF and Boeing filed appeals of the Court's ruling with the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"). The Company filed a cross appeal with the Federal Circuit in April 2009. The Company expects the appeals process before the Federal Circuit to be resolved in the fourth quarter of 2009 or the first quarter of 2010. The Company has negotiated a subcontract with Boeing for KC-135 PDM work to be performed until a new solicitation and award is completed by the USAF pursuant to the Court's order.

In order to adjust for and mitigate the effects of the past events discussed above, the Company has taken several significant steps. On November 6, 2007 the Company officially qualified with the Small Business Administration as a small business for military contracts. The Company believes that this will provide vital opportunities for defense contracts which were previously unavailable. Management has also taken significant steps to reduce costs including headcount reductions, administrative cost reductions, freezing the defined benefit pension plan for salaried employees as of December 31, 2007, eliminating salary increases for 2008 and restructuring the medical and dental benefit plans. In addition, the Board of Directors, in a unified move to support the Company, agreed to a 50% reduction in all Board fees for 2008. Effective October 1, 2008, the previous compensation arrangements went back into effect. The Company and Boeing continue to be teamed on the KC-135 bridge contract for which the USAF exercised an option to extend through September 30, 2009. There are no assurances that the Company will receive more aircraft than what has already been inducted during the latest extension of the KC-135 bridge contract. There are no guarantees additional options will be exercised or that, if exercised, any aircraft will be inducted under such options.

RESULTS OF OPERATIONS

Three months ended June 30, 2009 versus three months ended June 30, 2008

The table below presents major highlights from the three months ended June 30, 2009 and 2008 excluding the results of discontinued operations, except for net income.

(In Millions)

	2009	2008	% Change
Revenue	$ 17.26	$ 12.51	38.0%
Gross profit	3.04	1.21	151.2%
Operating income (loss) from continuing operations	1.04	(0.94)	210.6%
Income (loss) from continuing operations before taxes	0.81	(1.13)	171.7%
Income (loss) from continuing operations	0.81	(1.06)	176.4%
Net income (loss)	0.80	(2.44)	132.8%
EBITDA from continuing operations	1.44	(0.52)	376.9%

The Company defines operating income from continuing operations, as shown in the above table, as revenues less cost of revenues, less selling, general, and administrative expenses.

EBITDA from continuing operations for the quarters ended June 30, 2009 and 2008 was calculated using the following approach:

(In Millions)

	2009	2008
Income (loss) from continuing operations	$ 0.81	$ (1.06)
Interest expense	0.23	0.19
Income tax expense	-	(0.07)
Depreciation and amortization	0.40	0.42
EBITDA from continuing operations	$ 1.44	$ (0.52)

The Company presents Earnings Before Interest, Taxes, Depreciation and Amortization, more commonly referred to as EBITDA, 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 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 as presented herein may not be comparable to similarly titled measures reported by other companies.

Second quarter 2009 revenue from continuing operations increased $4.8 million from the second quarter of 2008. Revenue from the KC-135 Program Depot Maintenance ("PDM") program increased by $4.2 million during the second quarter of 2009 versus the second quarter of 2008. The KC-135 program, which accounted for 86% of revenue in the second quarter of 2009 and 84% of revenue in the second quarter of 2008, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. During the second quarter of 2009, the Company delivered four PDM aircraft compared to three PDM aircraft during second quarter of 2008. Revenue increased on the KC-135 program in the second quarter of 2009 versus the second quarter of 2008 due to an increase in the number of KC-135 aircraft in work and one more delivery during the second quarter of 2009. The Company delivered one P-3 aircraft in the second quarter of 2009 versus no P-3 aircraft deliveries in the second quarter of 2008, resulting in an increase in P-3 revenue of $1.3 million. The Company has been successful in pursuing additional contracts to perform maintenance services on P-3 aircraft and has seen a growth in P-3 inductions with three P-3s in work at the end of the second quarter of 2009 and an additional induction in July 2009. Revenue decreased $1.5 million in the second quarter of 2009 versus the second quarter of 2008 under contracts to

perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft, due to a reduction of aircraft inducted. During the first quarter 2009, the Company was awarded a contract for de-paint services on USAF C-130 aircraft which resulted in an increase in revenue of $0.8 million in the second quarter of 2009 as compared to the second quarter of 2008.

Gross profit increased from $1.2 million to $3.0 million during the second quarter of 2009 compared to the second quarter of 2008. Gross profit on KC-135 revenue increased $0.7 million due to more aircraft in work during the second quarter of 2009 and due to one more delivery during the second quarter of 2009. Gross profit on the P-3 program increased $0.4 million in the second quarter of 2009 as compared to the second quarter of 2008 due to efficiency gains in the production line and due to no deliveries of P-3 aircraft in the second quarter of 2008. Gross profit increased $0.4 million during the second quarter of 2009 versus the second quarter of 2008 on non-routine maintenance work performed on C-130 due to an increase in the contract price. Work performed on the newly acquired contract for de-paint services on C-130 aircraft resulted in additional gross profit of $0.2 million.

Selling, general and administrative ("SG&A") expenses decreased $0.2 million during the second quarter of 2009 compared to the second quarter of 2008 due to a reduction in legal fees related to the KC-135 legal actions. SG&A expenses were 11.6% of revenue in the second quarter of 2009 as compared to 17.2% in the second quarter of 2008.

Interest Expense

Total interest expense increased $31,000 in the second quarter of 2009 as compared to the second quarter of 2008. The increase in interest expense was due to the amortization of a $400,000 debt extension fee paid to AAII in the first quarter of 2009 which was partially refunded to AAII in the second quarter of 2009.

Six months ended June 30, 2009 versus six months ended June 30, 2008

The table below presents major highlights from the six months ended June 30, 2009 and 2008 excluding the results of discontinued operations, except for net income.

(In Millions)	2009	2008	% Change
Revenue	$ 32.93	$ 32.12	2.5%
Gross profit	4.78	5.80	(17.6%)
Operating income from continuing operations	2.08	0.76	173.7%
Income from continuing operations before taxes	1.60	0.36	344.4%
Income from continuing operations	1.57	0.26	503.8%
Net income (loss)	1.44	(1.61)	189.4%
EBITDA from continuing operations	2.86	1.70	68.2%

The Company defines operating income from continuing operations, as shown in the above table, as revenues less cost of revenues, less selling, general, and administrative expenses.

EBITDA from continuing operations for the six months ended June 30, 2009 and 2008 was calculated using the following approach:

(In Millions)	2009	2008
Income from continuing operations	$ 1.57	$ 0.26
Interest expense	0.48	0.40
Income tax expense	0.03	0.10
Depreciation and amortization	0.78	0.94
EBITDA from continuing operations	$ 2.86	$ 1.70

The Company's revenue from continuing operations for the first six months of 2009 increased $0.8 million from revenue for the first six months of 2008. Revenue from the KC-135 PDM program increased $2.2 million during the first six months of 2009 versus the first six months of 2008. The KC-135 program accounted for 88% of revenue in the first six months of 2009 and 84% of revenue in the first six months of 2008. During the first six months of 2009, the Company delivered seven PDM aircraft which was consistent with the seven PDM aircraft delivered during first six months of 2008. Revenue increased on the KC-135 program in the first six months of 2009 versus the first six months of 2008 due to more KC-135 aircraft in work throughout the period. The Company delivered one P-3 aircraft in each of the first six months of 2009 and 2008. P-3 revenue increased $0.2 million due to an increase in the contractual price and an increase in P-3 aircraft in work during the first six months of 2009. Revenue decreased $2.9 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft, due to fewer aircraft in work during the first six months of 2009. The Company's award of a contract for de-paint services on USAF C-130 aircraft resulted in an increase in revenue of $1.3 million in the first six months of 2009 as compared to the first six months of 2008.

Gross profit decreased from $5.8 million to $4.8 million during the first six months of 2009 compared to the first six months of 2008. Gross profit on KC-135 revenue decreased $1.6 million due to a decrease in price per KC-135 aircraft. Gross profit on the P-3 program increased $0.2 million in the first six months of 2009 as compared to the first six months of 2008 due to efficiency gains in the production line. Gross profit increased $0.4 million during the first six months of 2009 versus the first six months of 2008 on non-routine maintenance work performed on C-130 due to an increase in the contractual price. Work performed on the newly acquired contract for de-paint services on C-130 aircraft resulted in additional gross profit of $0.2 million.

Selling, general and administrative ("SG&A") expenses decreased $1.0 million during the first six months of 2009 compared to the first six months of 2008 due to a reduction in legal fees related to the KC-135 legal actions. SG&A expenses were 12.4% of revenue in the first six months of 2009 as compared to 15.7% in the first six months of 2008. During the first six months of 2008, the Company forgave a related party receivable (including accrued interest) of $0.5 million. During the first six months of 2009, the Company reversed an allowance for doubtful accounts of $1.4 million due to positive developments in the GECAS case to collect the outstanding receivables.

Interest Expense

Total interest expense increased $88,000 in the first six months of 2009 as compared to the first six months of 2008. The increase in interest expense is due to the amortization of a $400,000 debt extension fee paid by AAII in the first six months of 2009 which was partially refunded to AAII in the first six months of 2009.

LIQUIDITY AND CAPITAL RESOURCES

General

The table below presents the major indicators of financial condition and liquidity.

(In Thousands, Except Ratios)

	June 30, 2009	Decmeber 31, 2008	Change
Cash	$ 2,423	$ 7,612	$ (5,189)
Working capital	8,986	11,090	(2,104)
Current portion of long-term debt and capital lease obligations	4,016	2	4,014
Long-term debt and capital lease obligations	55	5,000	(4,945)
Stockholders' equity	(12,050)	(15,019)	2,969

Working Capital

The Company has no current arrangements with respect to sources of additional financing, and its negative results of operations in prior years and the current lack of long-term contracts, exacerbated by the current state of the credit markets, will likely make it more difficult and expensive for the Company to raise additional capital that may be necessary to continue its operations. In addition, the delisting of the Company's Common Stock from Nasdaq could have a materially adverse affect the Company's access to the capital markets, and the limited liquidity and

potentially reduced price of the Common Stock could materially adversely affect the Company's ability to raise capital on terms acceptable to the Company or at all.

The Company's primary sources of liquidity and capital resources include cash-on-hand and cash flows from operations (primarily from collection of accounts receivable and conversion of work-in-process inventory to cash). Principal factors affecting the Company's liquidity and capital resources position include, but are not limited to, the following: results of operations; the number of KC-135 inducted as a result of the U.S. Air Force ("USAF") extension of the Company's KC-135 bridge contract with Boeing; collection of accounts receivable; funding requirements associated with the Company's defined benefit pension plan ("Pension Plan"); settlements of various claims; and the payment terms of any short-term or long-term debt. Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies continuing into 2009. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have lead to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access the capital markets to meet liquidity needs. Due to the current state of the credit markets in the United States, the current status of the KC-135 contract and the Company's recent operating performance, there is uncertainty as to whether the Company would be able to obtain additional financing from lenders during 2009. The Company anticipates that cash-on-hand will be sufficient to fund operations, make moderate capital expenditures, make scheduled interest payments on its debt obligation for the next twelve months and make the required contributions to its Pension Plan. However, the Company is proposing and is expecting to propose on several programs in the next twelve months. If the Company is successful in winning some or all of these programs, additional financing may be needed to fund working capital requirements related to the buildup of accounts receivable and inventory on the projects.

The financial condition and results of operations of the Company, which operated as a subcontractor to The Boeing Company ("Boeing"), have been impacted by several unusual events in connection with the USAF KC-135 PDM program and the related recompetition for the new KC-135 PDM contract award. As discussed in previous filings, from May 2005 through June 2006, the Company worked in cooperation with Boeing to submit a proposal on the new KC-135 contract under a Memorandum of Agreement with Boeing ("MOA"). After filing an initial proposal with the USAF, which included critical financial and operational information on the Company's KC-135 program, the Company believes Boeing breached the MOA due to the USAF's reducing the number of aircraft in the request for proposal. From July 2006 to September 2007, the Company prepared its own proposal for the new KC-135 contract. The Company's proposal for the KC-135 PDM program was unsuccessful as the contract was awarded to Boeing in September 2007. The Company filed a protest with the Government Accountability Office ("GAO") and 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. On March 3, 2008, the USAF advised the GAO that in response to the recommendation by the GAO it had completed additional review 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 as to the USAF's lack of proper evaluation to meet GAO recommendations and sudden post-award change of work scope under the contract recompete. On June 13, 2008, the GAO denied the Company's March 11, 2008 protest. On June 27, 2008, the Company filed a complaint in the United States Court of Federal Claims (the "Court") protesting the actions of the USAF in connection with the award to Boeing of the KC-135 PDM contract. On July 3, 2008, the Court granted Boeing's motion to intervene in the case. On September 30, 2008, the Court set aside the KC-135 PDM solicitation enjoining the USAF from proceeding with the award to Boeing and requiring a resolicitation of the procurement that will explicitly address the role of the aging KC-135 fleet on the PDM process. In February 2009, the USAF and Boeing filed appeals of the Court's ruling with the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"). The Company filed a cross appeal with the Federal Circuit in April 2009. The Company expects the appeals process before the Federal Circuit to be resolved in the fourth quarter of 2009 or the first quarter of 2010. The Company has negotiated a subcontract with Boeing for KC-135 PDM work to be performed until a new solicitation and award is completed by the USAF pursuant to the Court's order.

Cash Flow Overview

Operating activities used $3.6 million during the first six months of 2009, compared to providing $3.9 million during the first six months of 2008. Pension expense related to the Company's defined benefit plan exceeded funding by $0.3 million in the first six months of 2009 and $1.1 million in the first six months of 2008. Increases in accounts receivable and inventories used $4.1 million in the first six months of 2009 due to increases in aircraft in work. Decreases in accounts receivable and inventories provided $5.3 million in the first six months of 2008 due to decreases in aircraft in work. The Company used $0.3 million in the first six months of 2009 and 2008 for capital expenditures. The Company used $0.3 million in the first six months of 2009 to extend the maturity date of its outstanding debt. The Company used $1.0 million in the first six months of 2009 to reduce outstanding debt.

Future Capital Requirements

The Company's potential capital requirements over the next twelve months include: required minimum funding of the Pension Plan (noted below), interest payments on long-term debt, the cost of continuing legal actions with regards to the award of the KC-135 PDM contract to Boeing, and working capital required to fund increases in accounts receivable, inventory and equipment if the Company is awarded new contracts.

On February 29, 2008, the Company applied to the Internal Revenue Service ("IRS") for a waiver of contributions for the 2007 plan year which concluded on September 15, 2008. On September 15, 2008, the Company contributed $3.9 million to the Pension Plan, fully satisfying the contribution requirements for the 2007 plan year. On March 30, 2009, the IRS granted the waiver request resulting in a deferral of required contributions for the 2007 plan year being spread over the next five years. As a result of the waiver, the pension payment for the 2007 plan year is now considered a payment for the 2008 plan year. The remaining amount owed for the 2008 plan year of $0.5 million was made during the first quarter of 2009. As a result of the missed quarterly contributions while the waiver request was under consideration, the Pension Benefit Guaranty Corporation ("PBGC") filed liens on the Company's assets. The PBGC will maintain a lien on the Company's assets over the time period of the deferral of the 2007 plan year contributions, which will be approximately five years.

The Company's Pension Plan was under-funded by approximately $33.1 million and $9.2 million at December 31, 2008 and 2007, respectively, primarily due to inconsistent investment returns including large losses in the equity portion of the investment portfolio in 2008, and to a lesser extent an increase in actuarial liability resulting from lower interest rates, increased mortality rates and the terms of the collective bargaining agreements entered into in 2005. The Company froze the Pension Plan effective December 31, 2007 for all non-union employees. The Company is required to contribute $3.3 million to the Pension Plan during 2009 of which $1.3 million was made in the first six months of 2009 and $1.0 million was made in July 2009. The losses incurred in 2008 will likely result in substantially increased contributions to the Pension Plan in 2010 and beyond.

Senior Secured Debt

On February 15, 2006, the Company entered into a note purchase agreement (the "Note Purchase Agreement") with Silver Canyon Services, Inc. ("Silver Canyon") pursuant to which the Company issued to Silver Canyon a senior secured Note in the principal amount of $5.0 million (the "Note"). The Note accrues interest at an annual rate of 15%, which is payable quarterly in arrears. The Company may, at its election, redeem the Note at a price equal to 100% of the principal amount then outstanding, together with accrued and unpaid interest thereon. The Note contains customary events of default. On February 15, 2007, the Company entered into an Amended and Restated Senior Secured Note with Special Value Bond Fund, LLC, pursuant to which the maturity date for the principal amount of the Note was extended. On July 31, 2007, the Company entered into an Amended and Restated Senior Secured Note with Special Value Bond Fund, LLC, in which the maturity date for the principal amount of the Note was extended until February 15, 2009. On January 28, 2009, the maturity date for the principal amount of the Note was extended until February 15, 2010. The Company used the $250,000 from the sale of Space Vector to reduce the principal amount of the Note. In early April 2009, the Company reduced the amount of the Note by $750,000 bringing the outstanding balance of the principal down to $4.0 million.

BACKLOG

The following table presents the Company's backlog from continuing operations at June 30, 2009 and December 31, 2008:

	(In $ Thousands)	
Customer Type	**June 30, 2009**	**December 31, 2008**
KC-135 Aircraft	$ 27,036	$ 29,097
C-130 Aircraft	376	345
P-3 Aircraft	3,551	1,290
Total	$ 30,963	$ 30,732

Total backlog increased $0.2 million during the first six months of 2009. KC-135 backlog decreased $2.1 million due to having one less KC-135 in work at June 30, 2009. C-130 backlog at June 30, 2009 stayed consistent with the backlog level at December 31, 2008. P-3 backlog increased $2.3 million due to additional P-3 aircraft in work at June 30, 2009. The Company had eight KC-135 aircraft, four C-130 aircraft and three P-3 aircraft in work at June 30, 2009 versus nine KC-135 aircraft, two C-130 aircraft and one P-3 aircraft in work at December 31, 2008. In the first half of July 2009, the Company inducted one KC-135, one P-3 and two C-130 aircraft which added $6.2 million to the Company's backlog.