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MORNING NOTE

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PROLIANCE INTERNATIONAL INC.

(AMEX: PLI: \$2.89, BUY)

INDUSTRY: TRANSPORTATION

Disclosures: 1, 10

FY: Dec	2006A	2007E*	2008E*
EPS	(\$0.42)	(\$0.15)	\$0.35

*Under Review

PLI Replaces Credit Agreement, Revises Outlook

Proliance offered a revised outlook and business update this morning. We are revising our estimates accordingly.

- 2Q07 sales have been lower than expected, and the company warned that sales for the full year will likely also now be lower than previously expected.
- On July 19, 2007, PLI entered into a new credit agreement with Silver Point Finance, LLC. The \$100 million senior secured credit facility replaces PLI's current \$88 million credit facility with Wachovia. The new facility is led by Silver Point and includes Wachovia as a participant.
- The \$100 million facility includes a \$50 million term loan and a \$50 million revolving loan.
- As part of the refinancing, PLI will incur one-time debt extinguishment costs of \$2.0 million in 3Q07.
- Cost cuts, including further headcount reductions, are planned for the third and fourth quarters.
- However, this will result in restructuring charges \$3 million to \$4 million above prior guidance.

Revised Outlook

- PLI no longer expects to achieve profitability for the full year 2007.
- Management now expects a 2007 net loss of between \$12 million and \$17 million, as a result of:
 - charges associated with the previously discussed arbitration decision of \$3.2 million in 2Q07;
 - debt extinguishment costs \$2.0 million in 3Q07; and
 - restructuring expenses of \$5 million to \$7 million over the course of the year, a \$3 million to \$4 million increase from prior guidance of \$2 million to \$3 million.
 - About \$1.3 million in restructuring charges has been incurred in the first half of 2007, so this means we can expect \$3.7 to \$5.7 million more to come in the second half.

While of course none of this is good news, the company does seem to recognize the urgency of the situation. It plans to reduce the U.S. salaried workforce by approximately 15% and streamline distribution and manufacturing facilities in North America. The new credit facility should also give the company a little breathing room.

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This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Association of Investment Management & Research (AIMR). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on a recovery in the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, a projection of potential multiples given other similar operations, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

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