

PROLIANCE INTERNATIONAL, INC. (AMEX: PLI)

INDUSTRY: TRANSPORTATION

DISCLOSURES: 1, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 07/30/07	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$2.25	N/M	15.3	\$34.4	5-10%	\$4.00

ANNUAL DATA – DECEMBER YEAR END			
	2006A	2007E	2008E
EPS	\$ (1.19)	\$ (0.81)	\$0.32
P/E	N/M	N/M	7.0
REVENUE (MIL.)	\$416.1	\$409.8	\$424.2
P/S	0.08	0.08	0.08

EARNINGS PER SHARE					
	Q1	Q2	Q3	Q4	ANNUAL
2008E	N/A	N/A	N/A	N/A	\$ 0.32
2007E	\$ (0.42)	\$ (0.27)	\$ (0.16)	\$ 0.03	\$ (0.81)
2006A	\$ (0.33)	\$ 0.07	\$ 0.08	\$ (1.00)	\$ (1.19)
2005A	\$ (0.32)	\$ (0.29)	\$ (0.75)	\$ (0.88)	\$ (2.59)

PLI Trading At Less Than Half Book Value

We have revised our estimates after PLI's lowered outlook, released last week. To sum up:

- 2Q07 sales were lower than expected, and the company warned that sales for the full year will likely also be lower than previously expected.
- 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 of \$2.0 million in 3Q07; and
 - restructuring expenses of \$5 million to \$7 million over the course of the year, of which only about \$1.3 million has been incurred in the first half of 2007.

PLI is taking action to reduce the U.S. salaried workforce by approximately 15% and streamline distribution and manufacturing facilities in North America, which suggests to us that plants will be closed.

We looked at the SEC filings regarding PLI's 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, most recently amended on February 28, 2007. The new facility is led by Silver Point and includes Wachovia as a participant.

Both loans have financial covenants relating to consolidated EBITDA, capital expenditures, leverage and the fixed charge coverage ratio. It appears that interest expense may go up. The interest rate on the old loan was 3% above prime or 3% above the Eurodollar rate, at Wachovia's option. The interest rate on the new loan is the company's choice of a per annum Base Rate plus 375 basis points or a per annum LIBOR Rate plus 475 basis points.

Valuation and Recommendation

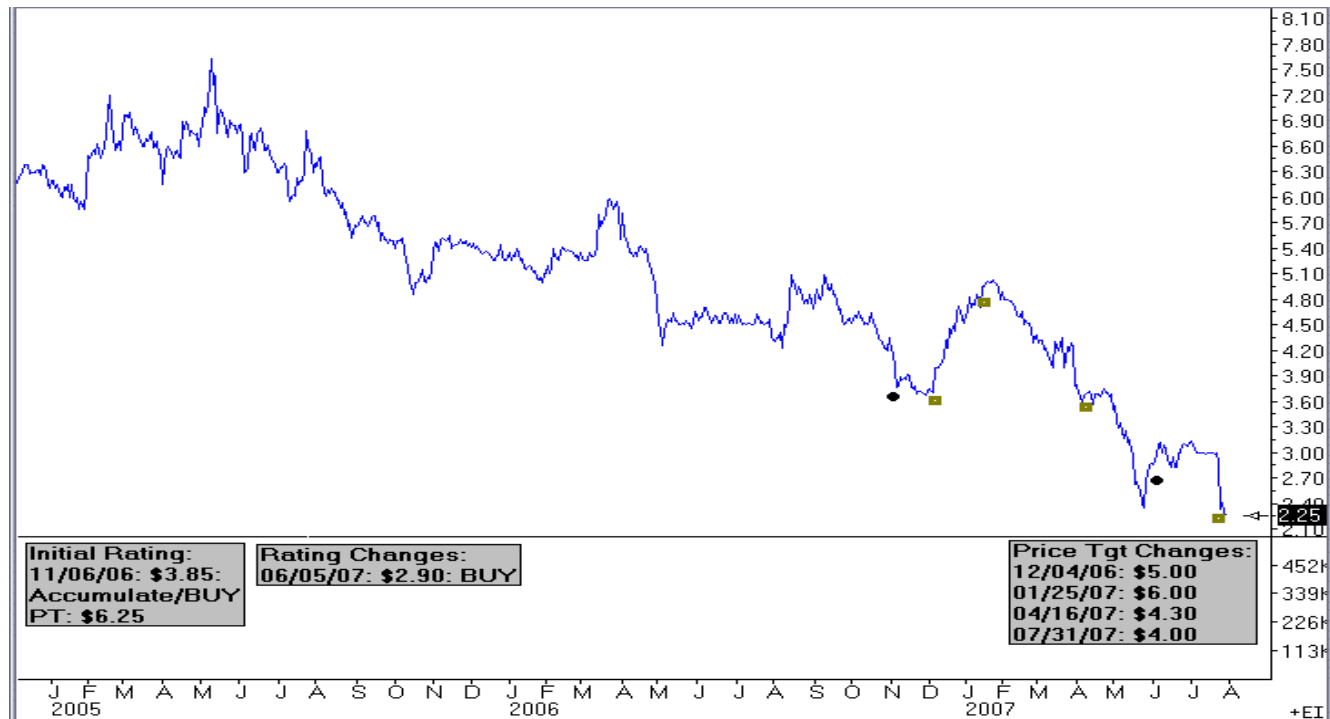
The aftermarket industry continues to consolidate, with Keystone Automotive (Nasdaq: KEYS – Not Rated) on July 17 agreeing to sell to LKQ Corp. (Nasdaq: LKQX – Not Rated) for a 10% premium over the then-current share price. Could PLI also attract a suitor? At these levels, the possibility bears consideration.

PLI’s stock has become an even better value since January, when it peaked at \$5.02. It has even given up a bounce to the \$3.00 level that it made on the appointment of Arlen Henock as CFO in June. The valuation now appears compelling at a price of 0.08 times sales, compared to 1.1x for KEYS, 1.8x for U.S. Auto Parts Network (Nasdaq: PRTS – Not Rated) or 1.6x for O’Reilly Automotive (Nasdaq: ORLY – Not Rated).

The net asset value on PLI’s March 31 balance sheet is \$68 million, which is \$4.46 per share as reported, or about \$5.30 per share when the \$13 million of negative goodwill from the 2005 Modine acquisition is added back to the balance sheet. The stock is now trading at less than half that level. It should be noted that PLI’s assets, including its real estate, have been pledged as collateral to secure its credit facility.

Incorporating higher interest charges, more restructuring and lower sales leads us to a new 2007 revenue target of \$409.8 million, down from \$427.8 million, and a net loss target of \$(12.4) million, or \$(0.81) per share. We also eased up our 2008 EPS target slightly from \$0.35 to \$0.32, and we reduce our price target from \$4.30 to \$4.00 on this basis. However, with the stock recently trading at only \$2.31, this target still represents a substantial upside, with the downside risk partly limited by the possibility of a sale. We maintain our BUY rating.

Proliance International, Inc. (AMEX: PLI) of New Haven, Connecticut, is an international manufacturer and distributor of aftermarket heat exchange and temperature control products for automotive and heavy-duty applications serving North America, Central America and Europe.



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Proliance													
\$ in thousands, except EPS													
	2004	2005	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E	2008Proj.
Net sales	\$ 218,433	\$ 296,838	\$ 91,336	\$ 112,110	\$ 120,734	\$ 91,915	\$ 416,095	\$ 91,938	\$ 98,271	\$ 120,577	\$ 99,045	\$ 409,831	\$ 424,175
Cost of sales	174,575	247,430	70,388	83,074	90,327	80,473	324,262	74,580	75,599	92,760	76,195	\$ 319,134	\$ 321,949
Gross Profit (Loss)	43,858	49,408	20,948	29,036	30,407	11,442	91,833	17,358	22,671	27,817	22,850	90,697	102,226
Gross Margin	20.1%	16.6%	22.9%	25.9%	25.2%	12.4%	22.1%	18.9%	23.1%	23.1%	23.1%	22.1%	24.1%
SG & A	39,987	66,313	22,932	24,376	23,923	22,580	93,811	20,589	18,991	21,320	15,829	76,730	80,169
SG&A as a percent of revenues	18.3%	22.3%	25.1%	21.7%	19.8%	24.6%	22.5%	22.4%	19.3%	17.7%	16.0%	18.7%	18.9%
Restructuring and other special charges		3,854	520	134	837	1,638	3,129	275	4,348	5,011	3,011	12,645	\$ 1,450
Operating (loss) income from continuing operations	3,871	(20,759)	(2,504)	4,526	5,647	(12,776)	(5,107)	(3,506)	(668)	1,486	4,010	1,322	20,607
Operating Margin	1.8%	-7.0%	-2.7%	4.0%	4.7%	-13.9%	-1.2%	-3.8%	-0.7%	1.2%	4.0%	0.3%	4.9%
Interest Expense	4,812	7,958	2,253	2,691	3,634	2,650	11,228	2,681	3,179	3,513	3,190	12,563	12,563
Income (Loss) from continuing operations before taxes	(941)	(28,717)	(4,757)	1,835	2,013	(15,426)	(16,335)	(6,187)	(3,847)	(2,027)	820	(11,242)	8,044
Income tax (benefit) provision 1.	(592)	(986)	302	793	754	-129	1,720	145	346	346	346	1,184	3,016
Tax rate	62.9%	3.4%	-6.3%	43.2%	37.5%	0.8%	-10.5%	-2.3%	-9.0%	-17.1%	42.2%	-10.5%	37.5%
Income (Loss) from continuing operations	(349)	(27,731)	(5,059)	1,042	1,259	(15,297)	(18,055)	(6,332)	(4,193)	(2,373)	473	(12,425)	5,027
Income (Loss) fully taxed													
Income from discounted operations, net of tax	5,527	848	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of discontinued operations, net of tax	-	3,899	-	-	-	-	-	-	-	-	-	-	-
Extraordinary income- write - off of negative goodwill	0	13,053	-	-	-	-	-	-	-	-	-	-	-
Net (loss) income	5,178	(9,931)	(5,059)	1,042	1,259	(15,297)	(18,055)	(6,332)	(4,193)	(2,373)	473	(12,425)	5,027
EPS Fully diluted													
Continuing operating	\$ (0.05)	\$ (2.59)	\$ (0.33)	\$ 0.07	\$ 0.08	\$ (1.00)	\$ (1.18)	\$ (0.42)	\$ (0.27)	\$ (0.16)	\$ 0.03	\$ (0.81)	\$ 0.32
Discontinued operation	\$ 0.78	\$ 0.08	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain on sale of discontinued operation	\$ -	\$ 0.36	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From extraordinary income/write-off of negative goodwill	\$ -	\$ 1.22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net (loss) income	\$ 0.73	\$ (0.93)	\$ (0.33)	\$ 0.07	\$ 0.08	\$ (1.00)	\$ (1.19)	\$ (0.42)	\$ (0.27)	\$ (0.16)	\$ 0.03	\$ (0.81)	\$ 0.32
Shares outstanding:													
Basic	7,106	10,714	15,256	15,256	15,256	15,250	15,254	15,259	15,259	15,259	15,259	15,259	15,500
Diluted	7,106	10,714	15,256	15,838	15,803	15,250	15,254	15,259	15,259	15,259	15,259	15,259	15,500

DISCLOSURES

This update report has been commissioned by Proliance International, Inc. (the Company) as part of an on-going research and awareness program contracted between Catalyst Financial Resources LLC (CFR), and the Company. CFR has been paid or promised payment for the production and editorial content of this report. The Company is paying CFR \$6,000 per month for 12 months for services rendered. However, the opinions, forecasts and price targets are based on our examination of company fundamentals, conversations with management, independent analysis of markets, economic conditions, and other publicly available information.

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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Buy	Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
Accumulate	Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range.
Hold	Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market.
Sell	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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High	The security is more volatile than the market and/or the company is more leveraged than its peer group.
Moderate	The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
Low	The security is less volatile than the market and/or the company is less leveraged than its peer group.

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