



AUGUST 13, 2007

MORNING NOTE

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PROLIANCE INTERNATIONAL INC.
(AMEX: PLI: \$2.29, BUY)
INDUSTRY: TRANSPORTATION

Disclosures: 1, 10

FY: Dec	2006A	2007E	2008E
EPS	(\$0.42)	(\$0.81)	\$0.32

PLI Still Trading At Less Than Half Book Value

We revised our estimates after PLI's lowered outlook in late July. 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 originally 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.
- PLI's stock has become an even better value since January, when it peaked at \$5.02.
- 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 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.
- We are looking for 2Q07 revenues of \$98.3 million and a loss for the quarter of \$(0.27).

We maintain our BUY rating and our price target of \$4.00.

DISCLOSURES

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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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