PROLIANCE INTERNATIONAL, INC.
Form 10-Q
August 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-13894

PROLIANCE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	34-1807383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Gando Drive, New Haven, Connecticut 06513

(Address of principal executive offices, including zip code)

(203) 401-6450

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock, $.01 par value, outstanding as of August 1, 2007 was 15,585,570.

Exhibit Index is on page 23 of this report.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

PROLIANCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited) (in thousands, except per share amounts)	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Net sales	$ 102,414	$ 112,110	$ 194,352	$ 203,446
Cost of sales	81,162	83,074	155,742	153,462
Gross margin	21,252	29,036	38,610	49,984
Selling, general and administrative expenses	19,906	24,376	40,495	47,308
Arbitration earn-out decision	3,174	—	3,174	—
Restructuring charges	1,053	134	1,328	654
Operating (loss) income	(2,881)	4,526	(6,387)	2,022
Interest expense	2,922	2,691	5,603	4,944
(Loss) income before taxes	(5,803)	1,835	(11,990)	(2,922)
Income tax provision	431	793	576	1,095
Net (loss) income	$ (6,234)	$ 1,042	$ (12,566)	$ (4,017)
Basic (loss) income per common share	$ (0.48)	$ 0.07	$ (0.90)	$ (0.27)
Diluted (loss) income per common share	$ (0.48)	$ 0.07	$ (0.90)	$ (0.27)
Weighted average common shares – basic	15,269	15,256	15,264	15,256
– diluted	15,269	15,838	15,264	15,256

The accompanying notes are an integral part of these statements.

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PROLIANCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,704	$ 3,135
Accounts receivable (less allowances of $4,566 and $5,543)	66,452	58,209
Inventories	116,044	118,912
Other current assets	6,962	7,498
Total current assets	193,162	187,754
Property, plant and equipment	48,609	47,697
Accumulated depreciation and amortization	(26,565)	(23,821)
Net property, plant and equipment	22,044	23,876
Other assets	9,795	12,732
Total assets	$ 225,001	$ 224,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 61,609	$ 53,545

Accounts payable	57,849	58,114
Accrued liabilities	26,981	28,355
Total current liabilities	146,439	140,014
Long-term liabilities:		
Long-term debt	7,297	1,657
Other long-term liabilities	6,622	8,218
Total long-term liabilities	13,919	9,875
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock, $.01 par value: authorized 2,500,000 shares; issued and outstanding as follows:		
Series A junior participating preferred stock, $.01 par value: authorized 200,000 shares; issued and outstanding – none at June 30, 2007 and December 31, 2006	—	—
Series B convertible preferred stock, $.01 par value: authorized 30,000 shares; issued and outstanding; – 12,781 shares at June 30, 2007 and December 31, 2006 (liquidation preference $4,453 at June 30, 2007 and $1,278 at December 31, 2006)	—	—
Common Stock, $.01 par value: authorized 47,500,000 shares; 15,627,506 shares issued at June 30, 2007; 15,339,892 shares issued at December 31, 2006; 15,585,570 shares outstanding at June 30, 2007; 15,297,956 shares outstanding at December 31, 2006	155	153
Paid-in capital	109,099	105,772
Accumulated deficit	(43,699)	(29,967)
Accumulated other comprehensive loss	(897)	(1,470)
Treasury stock, at cost, 41,936 shares at June 30, 2007 and December 31, 2006	(15)	(15)
Total stockholders' equity	64,643	74,473
Total liabilities and stockholders' equity	$ 225,001	$ 224,362

The accompanying notes are an integral part of these statements.

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PROLIANCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Unaudited)		
(in thousands)	2007	2006
Cash flows from operating activities:		
Net loss	$ (12,566)	$ (4,017)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,775	2,707
(Benefit from) provision for uncollectible accounts receivable	(516)	1,192

Non-cash restructuring charges	—	189
Non-cash stock compensation costs	130	126
Non-cash arbitration earn-out decision charge	3,174	—
Gain on sale of buildings	(886)	(138)
Deferred income tax	136	—
Changes in operating assets and liabilities:		
Accounts receivable	(7,450)	(19,788)
Inventories	3,250	(12,680)
Accounts payable	3,271	17,644
Accrued expenses	(1,981)	1,628
Other	(2,210)	1,779
Net cash used in operating activities	(11,873)	(11,358)
Cash flows from investing activities:		
Capital expenditures, net of sales and retirements	(213)	(2,595)
Cash expenditures for restructuring costs on Modine Aftermarket acquisition balance sheet	(187)	(842)
Cash expenditures for merger transaction costs	—	(952)
Net cash used in investing activities	(400)	(4,389)
Cash flows from financing activities:		
Dividends paid	(32)	(32)
Net borrowings under revolving credit facility	625	16,832
Net borrowings of short-term foreign debt	5,948	—
Borrowings under term loan	8,000	—
Repayments of term loan and capital lease obligations	(869)	(451)
Deferred debt issue costs	(880)	(136)
Proceeds from stock option exercise	25	—
Net cash provided by financing activities	12,817	16,213
Effect of exchange rate changes on cash	25	(220)
Increase in cash and cash equivalents	569	246
Cash and cash equivalents at beginning of period	3,135	4,566
Cash and cash equivalents at end of period	$ 3,704	$ 4,812

The accompanying notes are an integral part of these statements.

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PROLIANCE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Interim Financial Statements

The condensed consolidated financial information should be read in conjunction with the Proliance International, Inc. (the ‘‘Company’’) Annual Report on Form 10-K for the year ended December 31, 2006 including the audited financial statements and notes thereto included therein.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of consolidated financial position, consolidated results of operations and consolidated cash flows have been included in the accompanying unaudited condensed consolidated financial statements. All such adjustments are of a normal recurring nature. Results for the three and six months ended June 30, 2007 are not necessarily indicative of results for the full year.

Prior period amounts have been reclassified to conform to current year classifications.

Note 2 — Inventory

Inventory consists of the following:

(in thousands)	June 30, 2007	December 31, 2006
Raw material and component parts	$ 22,752	$ 22,730
Work in progress	4,201	3,858
Finished goods	89,091	92,324
Total inventory	$ 116,044	$ 118,912

Note 3 — Debt

Short-term debt and current portion of long-term debt consists of the following:

(in thousands)	June 30, 2007	December 31, 2006
Short-term foreign debt	$ 5,948	$ —
Revolving credit facility	53,297	52,672
Current portion of long-term debt	2,364	873
Total short-term debt and current portion of long-term debt	$ 61,609	$ 53,545

Short-term foreign debt, at June 30, 2007, represents borrowings by the Company's NRF subsidiary in The Netherlands under its available credit facility. At June 30, 2007, $0.6 million was borrowed in U.S. dollars at an annual interest rate of 7.45%, and $5.4 million was borrowed at a Euro equivalent at an annual interest rate of 5.5%.

On January 3, 2007, the Company amended its Loan and Security Agreement (the ''Credit Facility'') with Wachovia Capital Finance Corporation (New England) pursuant to a Sixteenth Amendment to the Loan and Security Agreement (the ''Amendment''). The Amendment, which was effective as of December 19, 2006, revised the inventory loan limit to reflect the Company's continued progress in reducing its inventory levels. The Inventory Loan Limit was previously $43.0 million from December 1, 2006 through December 31, 2006 and $40.0 million from and after January 4, 2007. The revised limits were $43.0 million from December 19, 2006 through January 4, 2007, $42.8 million from January 5, 2007 through January 11, 2007, $42.5 million from January 12, 2007 through January 18, 2007, $42.3 million from January 19, 2007 through January 25, 2007, $42.0 million from January 25, 2007 through February 1, 2007, $41.8 million from February 2, 2007 through February 8, 2007, $41.5 million from February 9, 2007 through February 15, 2007, $41.3 million from February 16, 2007 through February 22, 2007 and $41.0 million from and after February 23, 2007.

On January 19, 2007, the Company amended the Credit Facility pursuant to a Seventeenth Amendment to the Loan and Security Agreement (the ‘‘Seventeenth Amendment’’). The Seventeenth Amendment, which was effective as of January 19, 2007, reduced the amount of Minimum Excess Availability which the Company was required to maintain from $5.0 million to $2.5 million from and after January 19, 2007.

On February 28, 2007, the Company entered into an Amended and Restated Loan and Security Agreement with Wachovia Capital Finance Corporation (New England) (the ‘‘Wachovia Agreement’’). The Wachovia Agreement amended and restated the Company’s existing Credit Facility to reflect an additional Term B loan in the amount of $8.0 million. This additional indebtedness was secured by substantially all of the assets of the Company, including its owned real property locations across the United States. The maturity date of the Term B loan was July 2009. The Term B loan was to be repaid in twenty-two consecutive monthly installments of $167 thousand commencing on October 1, 2007 with the remaining balance paid on July 21, 2009. The Wachovia Agreement reset certain financial covenants including (i) EBITDA for the Company for the twelve months ended December 31, 2006–($1.0 million); three months ended March 31, 2007–($1.0 million), adjusted for any inventory revaluation, but not less than ($2.6 million); six months ended June 30, 2007–$7.5 million; nine months ended September 30, 2007–$17.5 million and twelve months ended December 31, 2007–$20.0 million; (ii) capital expenditures in 2007 were capped at $8.0 million and (iii) the Fixed Charge Ratio was amended to .50 to 1.00 for the six months ended June 30, 2007; .85 to 1.00 for the nine months ended September 30, 2007, the twelve months ended December 31, 2007, and the twelve months ended March 31, 2008; .90 to 1.00 for the twelve months ended June 30, 2008; .95 to 1.00 for the twelve months ended September 30, 2008; and 1.00 to 1.00 for the twelve months ended December 31, 2008. The Wachovia Agreement also established minimum EBITDA for the Company’s NRF subsidiary, unless there was Excess Availability of $15.0 million, for the following twelve-month periods: December 31, 2006–$4.5 million; March 31, 2007–$4.9 million; June 30, 2007–$5.2 million; September 30, 2007–$5.2 million and December 31, 2007–$5.5 million. The Wachovia Agreement did not affect the amount of Minimum Excess Availability that the Company was required to maintain. The Company was not in compliance with the EBITDA and Fixed Charge Ratio covenants as of June 30, 2007; however, these were cured when the outstanding debt under the Wachovia Agreement was paid in full on July 19, 2007 as described in Note 13 of the Notes to Condensed Consolidated Financial Statements. Availability under the Wachovia Agreement at June 30, 2007 was $8.6 million before deducting the $2.5 million availability block required by the Agreement.

On July 19, 2007, the Company entered into a new Credit and Guaranty Agreement (the ‘‘Agreement’’) by and among the Company and certain domestic subsidiaries of the Company, as guarantors, the lenders party thereto from time to time (collectively, ‘‘the Lenders’’), Silver Point Finance, LLC (‘‘Silver Point’’), as administrative agent for the Lenders, collateral agent and as lead arranger, and Wachovia Capital Finance Corporation (New England) (‘‘Wachovia’’), as borrowing base agent, as described in Note 13 of the Notes to Condensed Consolidated Financial Statements. A majority of the proceeds from this new credit facility were utilized to pay in full all outstanding borrowings under the Wachovia Agreement.

Note 4 — Comprehensive (Loss) Income

Total comprehensive (loss) income and its components are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2007	2006	2007	2006
Net (loss) income	$ (6,234)	$ 1,042	$ (12,566)	$ (4,017)
Minimum pension liability	—	—	—	—
Foreign currency translation	758	1,618	573	1,740
Comprehensive (loss) income	$ (5,476)	$ 2,660	$ (11,993)	$ (2,277)

Effective December 31, 2006, the Company adopted FASB Statement No. 158, ‘‘Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans’’ (‘‘FASB 158’’). As a result, the Company included $(0.9) million in accumulated other comprehensive loss (‘‘AOCL’’). This adjustment was shown in the Consolidated Statement of Changes in Shareholders’ Equity as a component of comprehensive loss for 2006 instead of as an adjustment of the ending balance of AOCL. The amount of comprehensive loss for 2006 will be corrected in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

Note 5 — Stock Compensation Plans

Stock Options:

An analysis of the stock plan option activity in the Company’s Stock Plan, Directors Plan and Equity Incentive Plan for the six months ended June 30, 2007 is as follows:

	Number of Options
Stock Plan	
Outstanding at December 31, 2006	460,026
Exercised	(10,000)
Cancelled	—
Outstanding at June 30, 2007	450,026
Directors Plan	
Outstanding at December 31, 2006	36,800
Exercised	—
Cancelled	—
Outstanding at June 30, 2007	36,800
Equity Incentive Plan	
Outstanding at December 31, 2006	179,958
Granted	25,000
Cancelled	—
Outstanding at June 30, 2007	204,958

The Company adopted the provisions of SFAS No.123(R), ‘‘Share-Based Payment’’ effective January 1, 2006. SFAS No. 123(R) established standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services that are based on the fair value of the entity's equity instruments, focusing primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost as a charge to operating results over the period during which an employee is required to provide service in exchange for the award, with the

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offset being additional paid-in capital. In adopting SFAS No. 123(R), the Company was required to recognize the unrecorded compensation expense related to unvested stock options issued prior to January 1, 2006. Results for the three and six months ended June 30, 2006 included $0 thousand and $2 thousand, respectively, of compensation expense and additional paid-in capital relating to these options. In addition, during the three and six months ended June 30, 2006, the Company recorded $23 thousand and $32 thousand, respectively, of compensation expense related to stock options granted on March 2, 2006. During the three and six months ended June 30, 2007, the Company recorded $17 thousand and $39 thousand, respectively, of compensation expense associated with options outstanding under the March 2, 2006 grant.

On June 4, 2007, the Company granted options to purchase 25,000 shares of common stock under the Equity Incentive Plan. The options were granted at an exercise price of $2.90, which represents the closing price of the Company's stock on the date of grant. The fair value of the grant was calculated at $1.59 per share, using an assumption of expected volatility of 51.21%, a risk free interest rate of 5.09% and an expected life of six years. The Company will record $40 thousand of compensation expense over the four year vesting period of the options. Results for the three and six months ended June 30, 2007 included $1 thousand of compensation expense related to this stock option grant.

Restricted Stock:

At June 30, 2007 and December 31, 2006, there were 47,138 and 49,426 shares of restricted stock outstanding, respectively, under the Equity Incentive Plan, which had been granted on March 2, 2006. During the quarter ended March 31, 2007, 12,357 outstanding restricted shares vested. The remaining shares outstanding at June 30, 2007 are unvested. During the three and six months ended June 30, 2007, $12 thousand and $29 thousand, respectively, of compensation expense was recorded. During the three and six months ended June 30, 2006, $16 thousand and $23 thousand, respectively, of compensation expense was recorded. The restricted stock is treated as issued and outstanding on the date of grant; however, it is excluded from the calculation of basic income (loss) per share until the shares are vested.

On March 26, 2007, the Company granted 17,689 shares of restricted stock to its Chief Executive Officer in conjunction with an agreement to reduce his calendar year 2007 base salary. Based upon the market price of the common stock on the date of grant, $4.24 per share, total compensation cost of $75 thousand will be recorded over the two-year vesting period of the shares. During the three and six months ended June 30, 2007, the Company recorded $9 thousand and $10 thousand, respectively, of compensation expense related to these restricted shares.

On May 3, 2007, the Company granted 11,868 shares of restricted stock to four members of its Board of Directors who had each agreed to receive $10 thousand of their annual retainer in the form of restricted stock. Based upon the market price of the common stock on the date of grant, $3.37 per share, total compensation cost of $40 thousand will be recorded over the one-year vesting period of the shares. During the three and six months ended June 30, 2007, the Company recorded $7 thousand of compensation expense related to these shares.

On June 4, 2007, the Company granted 5,000 shares of restricted stock. Based upon the market price of the common stock on the date of grant, $2.90 per share, total compensation cost of $15 thousand will be recorded over the three-year vesting period of the shares. During the three and six months ended June 30, 2007, the Company recorded compensation expense of $0.4 thousand related to these shares.

Performance Restricted Stock:

On May 3, 2007, the Company granted 232,600 shares of performance restricted stock. These shares vest over a three year period but are only earned if pre-determined targets for both net income and cash flow from operations during 2007 are achieved. Based upon the market price of the common stock on the date of grant, $3.37 per share, total compensation cost of $0.8 million will be recorded over the vesting period of the shares. During the three and six months ended June 30, 2007, the Company recorded $44 thousand of compensation expense related to these shares.

On June 4, 2007, the Company granted 15,000 shares of performance restricted stock. These shares vest over a three year period but are only earned if the pre-determined targets for both net income

and cash flow from operations during 2007, established for the May 3, 2007 performance stock grant, are achieved. Based upon the market price of the common stock on the date of grant, $2.90 per share, total compensation cost of $44 thousand will be recorded over the vesting period of the shares. During the three and six months ended June 30, 2007, the Company recorded $1 thousand of compensation expense related to these shares.

During the fourth quarter of 2006, performance restricted shares issued on March 2, 2006 were forfeited as pre-established goals for net income and cash flow for 2006 were not achieved. Results for the three and six months ended June 30, 2006 included compensation expense of $49 thousand and $69 thousand, respectively, relating to the performance restricted shares, which had been issued on March 2, 2006.

Note 6 — Restructuring and Other Special Charges

During the first six months of 2007, the Company reported $1.3 million of restructuring costs associated with changes to the Company’s branch operating structure and headcount reductions in the United States and Mexico. In September 2006, the Company had announced that it would be commencing a process to realign its branch structure which would include the relocation, consolidation or closure of some branches and the establishment of expanded relationships with key distribution partners in some areas, as well as the opening of new branches, as appropriate. Actions during the first six months of 2007 resulted in the reduction of branch and agency locations from 94 at December 31, 2006 to 85 at June 30, 2007 and the establishment of supply agreements with distribution partners in certain areas. It is anticipated that these and future actions to streamline the Company’s go-to-market approach, will improve its market position and business performance by establishing in some cases, relationships with distribution partners to better address geographic market areas that do not justify stand-alone branch locations. The headcount reductions in the United States resulted from the elimination of 15 salaried positions in order to lower operating overhead while reductions at the Company’s Mexican manufacturing facilities resulted from the elimination of 29 positions as a result of production cutbacks reflecting the conversion from copper/brass to aluminum construction, and the Company’s efforts to lower inventory levels. Annual savings from these actions are expected to exceed the costs incurred. These actions are part of the $2.0 million to $3.0 million of restructuring initiatives announced in the Company’s third quarter 2006 results of operations press release.

In response to soft 2007 second quarter sales, and expectations of lower than expected results for the full year due to current market conditions, on July 25, 2007, the Company announced that it was finalizing and acting upon a broad range of strategic actions to right size its operational and administrative structure going forward. These actions should reduce the U.S. salaried workforce by approximately 15% and streamline distribution and manufacturing facilities in North America. In addition, these restructuring charges will include a number of immediate actions to change the Company's ''go-to-market'' strategy through its branch operations, which will further reduce branch operating costs while also enhancing the Company's capability to effectively service its local customers. These actions are expected to increase restructuring costs for 2007 by $3 million to $4 million to between $5 million and $7 million, which includes the previously announced range of $2 million to $3 million. The Company expects to complete most of the indicated actions by the end of 2007.

The remaining restructuring reserve at June 30, 2007 was classified in other accrued liabilities. A summary of the restructuring charges and payments during the first six months of 2007 is as follows:

(in thousands)	Workforce Related	Facility Consolidation	Total
Balance at December 31, 2006	$ 674	$ 1,389	$ 2,063
Charge to operations	1,135	193	1,328
Cash payments	(1,241)	(741)	(1,982)
Balance at June 30, 2007	$ 568	$ 841	$ 1,409

The remaining accrual for facility consolidation consists primarily of lease obligations and facility exit costs, which are expected to be paid primarily by the end of 2007. Workforce related expenses will be paid by the end of the second quarter of 2008.

Note 7 — Retirement and Post-Retirement Plans

The components of net periodic benefit costs for domestic and international retirement and post-retirement plans are as follows:

	Three Months Ended June 30,			
	2007	2006	2007	2006
(in thousands)	Retirement Plans		Post-retirement Plans	
Service cost	$ 288	$ 286	$ —	$ 1
Interest cost	504	536	4	10
Expected return on plan assets	(518)	(559)	—	—
Amortization of net loss	138	168	—	1
Net periodic benefit cost	$ 412	$ 431	$ 4	$ 12

Six Months Ended June 30,

(in thousands)	2007 Retirement Plans	2006 Retirement Plans	2007 Post-retirement Plans	2006 Post-retirement Plans
Service cost	$ 570	$ 552	$ —	$ 1
Interest cost	999	1,081	7	20
Expected return on plan assets	(1,021)	(1,125)	—	—
Amortization of net loss	277	338	—	3
Net periodic benefit cost	$ 825	$ 846	$ 7	$ 24

The Company also participates in foreign multi-employer pension plans. For the three months ended June 30, 2007 and 2006, pension expense for these plans was $257 thousand and $352 thousand, respectively, and for the six months ended June 30, 2007 and 2006, $506 thousand and $569 thousand, respectively.

Note 8 — Arbitration Earn-Out Decision

Background. Pursuant to an Agreement and Plan of Merger, dated July 23, 1998 (the ‘‘Agreement’’) among Proliance International, Inc., EI Acquisition Corp., EVAP, Inc., and Paul S. Wilhide, Proliance (through an acquisition subsidiary) acquired from Mr. Wilhide all of the common stock of EVAP. The consideration for this transaction was a payment of $3.0 million in cash, the issuance of 30,000 shares of Series B Convertible Redeemable Preferred Stock of Proliance (the ‘‘Series B Preferred Stock’’) with an aggregate liquidation preference of $3.0 million, and the potential for an ‘‘earn-out’’ to Mr. Wilhide based on a calculation relating to EVAP’s financial performance during the years 1999 and 2000 that would, in whole or in part, take the form of an increase in the liquidation preference of the Series B Preferred Stock. There was a dispute between Proliance and Mr. Wilhide relating to the calculation of the earn-out. Mr. Wilhide claimed that the value of his earn-out was $3.75 million, while Proliance claimed that Mr. Wilhide was not entitled to any earn-out. An arbitration concerning the appropriate earn-out was held in early 2007 before a representative of Ernst & Young’s Dallas, Texas office.

Arbitrator Decision. On June 29, 2007, the arbitrator notified the parties that it had determined that Mr. Wilhide was entitled to an earn-out of $3.2 million. In accordance with the Agreement, this earn-out has been paid by increasing the liquidation preference of the 12,781 remaining outstanding shares of Series B Preferred Stock currently held by Mr. Wilhide, after prior conversions, from $100.00 per share (representing a current aggregate liquidation preference of $1.3 million) to $348.3727 per share (or an aggregate liquidation preference of $4.5 million).

Waiver of Conversion Cap. Under Section 3(b) of Proliance’s Certificate of Designations of Series B Preferred Stock (i) the Series B Preferred Stock is convertible into Proliance common stock based

upon the liquidation preference of the shares being converted divided by the market value of Proliance common stock at the time of conversion, and (ii) the aggregate number of shares of Proliance common stock to be issued upon conversion of Series B Preferred Stock may not exceed 7% of the total number of shares of common stock outstanding, after giving effect to the conversion (the ‘‘Conversion Cap’’), unless Proliance waives such Conversion Cap. On June 27, 2007, Proliance, by action of its board of directors, waived the Conversion Cap.

Financial Impact. As a result of the waiver of the Conversion Cap described above, the full amount of the earn-out determined to be payable by the arbitrator has been paid in additional liquidation preference on the Series B Preferred Stock (or ultimately in shares of Proliance common stock upon Mr. Wilhide’s conversion of his shares of Series B Preferred Stock), and no portion of that amount will be paid by Proliance in cash. In addition, Mr. Wilhide is entitled to payment in cash of dividends he would have received on his Series B Preferred Stock as if the earn-out took place in April 2000. These additional dividends, plus interest and an increased cash bonus payment due to Mr. Wilhide, require Proliance to pay Mr. Wilhide in cash the sum of $1.3 million as of June 30, 2007. Interest will continue to accrue until the actual payment date. The earn-out of $3.1 million and the interest on unpaid dividends through June 30, 2007 of $0.2 million and bonus payment of $28 thousand have been charged to operating results during the second quarter ended June 30, 2007. The additional dividends of $1.1 million have been deducted from Shareholders' Equity and a dividend payable is included in accrued expenses at June 30, 2007. As part of its decision, the arbitrator required Mr. Wilhide to reimburse Proliance for arbitration expenses in the amount of $0.2 million. This amount has been recorded as a reduction of operating expense during the second quarter ended June 30, 2007.

Note 9 — (Loss) Income Per Share

The following table sets forth the computation of basic and diluted (loss) income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2007	2006	2007	2006
Numerator:				
Net (loss) income	$ (6,234)	$ 1,042	$ (12,566)	$ (4,017)
Deduct – preferred stock dividend	(1,151)	(16)	(1,167)	(32)
Net (loss) income (attributable) available to common stockholders – basic	(7,385)	1,026	(13,733)	(4,049)
Add back preferred stock dividend	—	16	—	—
Net (loss) income (attributable) available to common stockholders – diluted	$ (7,385)	$ 1,042	$ (13,733)	$ (4,049)
Denominator:				
Weighted average common shares	15,484	15,476	15,396	15,403
Deduct – Unvested restricted and performance restricted shares	(215)	(220)	(132)	(147)
Adjusted weighted average common shares – basic	15,269	15,256	15,264	15,256
Unvested restricted and performance restricted shares	—	220	—	—
Dilutive effect of stock options	—	96	—	—
Dilutive effect of Series B preferred stock	—	266	—	—
Adjusted weighted average common shares – diluted	15,269	15,838	15,264	15,256
Basic (loss) income per common share	$ (0.48)	$ 0.07	$ (0.90)	$ (0.27)
Dilutive (loss) income per common share	$ (0.48)	$ 0.07	$ (0.90)	$ (0.27)

The adjusted weighted average basic common shares outstanding was used in the calculation of the diluted loss per common share for the three months ended June 30, 2007 and the six months ended

June 30, 2007 and 2006 as the use of weighted average diluted common shares outstanding would have an anti-dilutive effect on the net loss per share.

Note 10 — Business Segment Data

The Company is organized into two segments, based upon the geographic area served – Domestic and International. The Domestic marketplace supplies heat exchange and temperature control products to the automotive and light truck aftermarket and heat exchange products to the heavy duty aftermarket in the United States and Canada. The International segment supplies heat exchange and temperature control products for the automotive and light truck aftermarket and heat exchange products for the heavy duty aftermarket in Mexico, Europe and Central America.

The table below sets forth information about the reported segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2007	2006	2007	2006
Net sales:				
Domestic	$ 76,601	$ 88,064	$ 145,642	