



APRIL 16, 2007

UPDATE REPORT

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PROLIANCE INTERNATIONAL, INC. (AMEX: PLI)

INDUSTRY: TRANSPORTATION

DISCLOSURES: 1, 6, 10

RATING: ACCUMULATE

RISK: HIGH

| CLOSING PRICE 04/13/07 | TRAILING P/E (TTM) | SHARES OUT (MILS.) | MARKET CAP (MILS.) | 3-5 YEAR REV. GROWTH | PRICE TARGET |
|---------------------------|-----------------------|-----------------------|-----------------------|-------------------------|--------------|
| \$3.68 | N/M | 15.3 | \$59.1 | 5-10% | \$4.30 |

| ANNUAL DATA – DECEMBER YEAR END | | | |
|---------------------------------|-----------|---------|---------|
| | 2006A | 2007E | 2008E |
| EPS | \$ (1.19) | \$0.02 | \$0.36 |
| P/E | N/M | 184.0 | 10.2 |
| REVENUE (MIL.) | \$416.1 | \$430.6 | \$445.7 |
| P/S | 0.14 | 0.14 | 0.13 |

| EARNINGS – CONTINUING OPS. | | | | | |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| | Q1 | Q2 | Q3 | Q4 | ANNUAL |
| 2008E | N/A | N/A | N/A | N/A | \$ 0.36 |
| 2007E | \$ (0.21) | \$ 0.03 | \$ 0.04 | \$ 0.17 | \$ 0.02 |
| 2006A | \$ (0.33) | \$ 0.07 | \$ 0.08 | \$ (1.00) | \$ (1.19) |
| 2005A | \$ (0.32) | \$ (0.29) | \$ (0.75) | \$ (0.88) | \$ (2.59) |

Fourth Quarter and Year End Results

PLI reported its 4Q06 and 2006 results March 29 after close of market, and discussed them with shareholders in a conference call on March 30.

4Q06 held no surprises. Net sales in 4Q06 were \$91.9 million, 4.9% above sales of \$87.6 million in 4Q05. Net loss for 4Q06 was \$15.3 million, or \$1.00 per basic and diluted share, just over our estimate of \$0.99.

Loss from continuing operation was \$12.8 million for 4Q06 and \$5.1 million for the year. The loss for 4Q06 was 18.5% greater than \$10.8 million in 4Q05, while the \$5.1 million loss for the year was a 75.5% improvement over the loss of \$20.8 million in 2005.

Sales Up

PLI attributed the sales increase to:

- Wholesale sales;
- the International segment, and
- the Domestic Heavy Duty product line (heavy truck and industrial heat exchange products).

These last two lines benefited from new product introductions and solid demand. Only in these segments did PLI exercise sufficient pricing power to largely recapture increased raw material costs. In other segments, customers resisted price increases.

Also, as we have seen in past quarters, rising wholesale sales can be a mixed blessing. They mean more pressure on margins, as the overall sales mix shifts from higher-margin retail sales toward lower-margin wholesale sales.

Directly and Indirectly, 4Q06 Margins Hardest Hit By Rising Commodity Costs

4Q06 gross margin directly reflects the greatest impact of the steep rise in commodity costs during 2006.

Management expects that it will be 2Q07 at the earliest before gross margins begin to improve as the impact of the switch from copper inputs to aluminum inputs flows through.

4Q06 net loss indirectly reflects rising costs from previous quarters as well. 4Q06 included the effect of a change in accounting estimate regarding the way the Company amortizes capitalized variances. This change, designed to make this amortization match more closely to the flow of costs through inventory, resulted in a non-cash charge of \$1.8 million to cost of sales and thus to 4Q06 earnings.

Cost of sales was further increased in 4Q06 by the recognition of about \$2 million in “underabsorbed overhead.” This represents a portion of sales overhead costs that had been not allocated to earlier periods’ sales because the allocation had been based on a higher assumed sales volume. In other words, gross margin for the year is correct, but gross margin for the first three quarters is overstated and for the last quarter is understated.

These two housekeeping adjustments clean up the inventory and cost of goods sold accounts so that the benefit of cost improvements will be visible sooner.

Vendor discounts continue to rise as the sales mix shifts further toward wholesale sales. These were \$4.0 million in 2005 and \$5.8 million in 2006, that is, 1.3% of revenues and 1.4% of revenues, respectively. This item is carried in the Interest Expense line.

Cost-Cutting Measures

PLI closed 29 branches and agencies in 2006, reducing its number of branches and agencies 24%, from 123 to 94, and reducing headcount by 650 from about 2,200. PLI also consolidated its branch administrative functions in Racine, Wisconsin (a legacy from the Modine acquisition) into its New Haven, Connecticut corporate office. These effects have begun to show in 4Q06 – SG&A has fallen from \$23.8 million, or 27.2% of revenues in 4Q05 to \$22.6 million, or 24.6% of revenues –and management anticipates further improvement in 2007.

As discussed in previous notes, PLI has been shifting production away from copper and brass heat exchanges (produced in PLI’s Mexico City facility), toward more aluminum and plastic heat exchange products (produced in PLI’s Nuevo Laredo facility). Transition costs were still flowing through in 4Q06. However, the transition is now complete and after higher-cost products remaining in inventory sell through 1Q07, unit costs should begin to improve.

Inventory management is moving in the right direction. Although the company’s stated goal of four turns per year has not yet been met, turns are up from 2.0 in 2005 to 2.7 in 2006. In the face of rising sales, inventories are down 1.8% year-over-year. When an adjustment of \$10 million is taken to strip out the effects of rising commodity costs, unit inventories are down 10% year-over-year.

Finally, PLI believes there is still room for such cost-saving measures as product design improvements and identifying alternative sources of supply.

Continuing Tough Market Conditions

Fourth quarter is usually PLI’s slowest period. U.S. demand for automotive products in general and PLI’s products in particular has historically closely tracked vehicle miles driven. According to the company, this year in 4Q06, miles driven improved over 3Q06 as gas prices eased lower from the summer peak. However, miles

driven for the full year 2006 were still roughly flat with 2005 and 2004. (According to the U.S. Department of Transportation, U.S. miles driven grew every year from 1981 to 2004, at an average of 2.8% annually.)

In addition, management believes that an unseasonably warm winter in late 2006 depressed sales for both heat exchange and cooling system products. As we discussed in our last note, severe winters stress the soft, temperature-conductive copper, brass and aluminum in both heating and cooling systems, driving breakage and subsequent replacement.

Compensation Change

It was discussed on the call that on March 26, 2007, CEO Charles Johnson agreed to take a 15% pay cut for 2007, reducing his base salary from \$500,000 to \$425,000. The Board of Directors also agreed that in the event of Mr. Johnson's termination, his base salary and benefits will continue to be paid out to him for two years, rather than one year as previously agreed.

Outlook

PLI has been focused on reducing inventory through production cutbacks and plans to maintain this course through 1Q07, the company's other seasonally slower quarter. Expecting the approach of a stronger selling season in 2Q07, PLI plans to increase production at that time.

Demographics are on PLI's side. According to the U.S. Department of Transportation Bureau of Transportation Statistics, the median age of automobiles on the road dropped from 4.9 years old in 1970 to 8.6 years old in 2003. As more older cars are out there, we expect that more aftermarket parts, including heating and cooling systems, will be going into them.

Valuation and Recommendation

The company's shares have receded from the \$5.00 mark of earlier this year and now trade at \$3.85.

We ran a scenario based on management's guidance that PLI would see losses in 1Q07 at a level slightly higher than 1Q05 (when losses from continuing operations were \$2.3 million, or \$0.32 per share on the pre-merger share base of 7.1 million shares); that profitability would sharply increase in 4Q07 due to improving margins (despite the seasonality effect); and that 2007 would end the year in the black. Our model suggests that this is all well within the realm of the possible, but that there is little margin for error.

For simplicity we assumed an across-the-board haircut to SG&A representing the (mostly) fixed costs of the 29 closed stores, and no change in debt levels or interest payments (although, clearly, a refinancing could make a big difference). However, the vendor discount component of interest expense grows 100 basis points as a percentage of revenues. We assumed revenue growth at 3.5% annually and improvement to gross margins starting in the second quarter (since we know that 4Q06 is unrepresentatively low).

The result of this exercise was to lower our estimated 2007 earnings to **\$0.02** from **\$0.05** and our projection for 2008 to **\$0.36** from **\$0.50**. As before, we use a multiple of 16x earnings to value the 2008 earnings estimate, and discounting that target price projection by 10% for this year and 20% for next year. This yields a new target price of **\$4.30** – still a healthy 16% gain from the current price of \$3.70, and within the stock's three-month trading range.

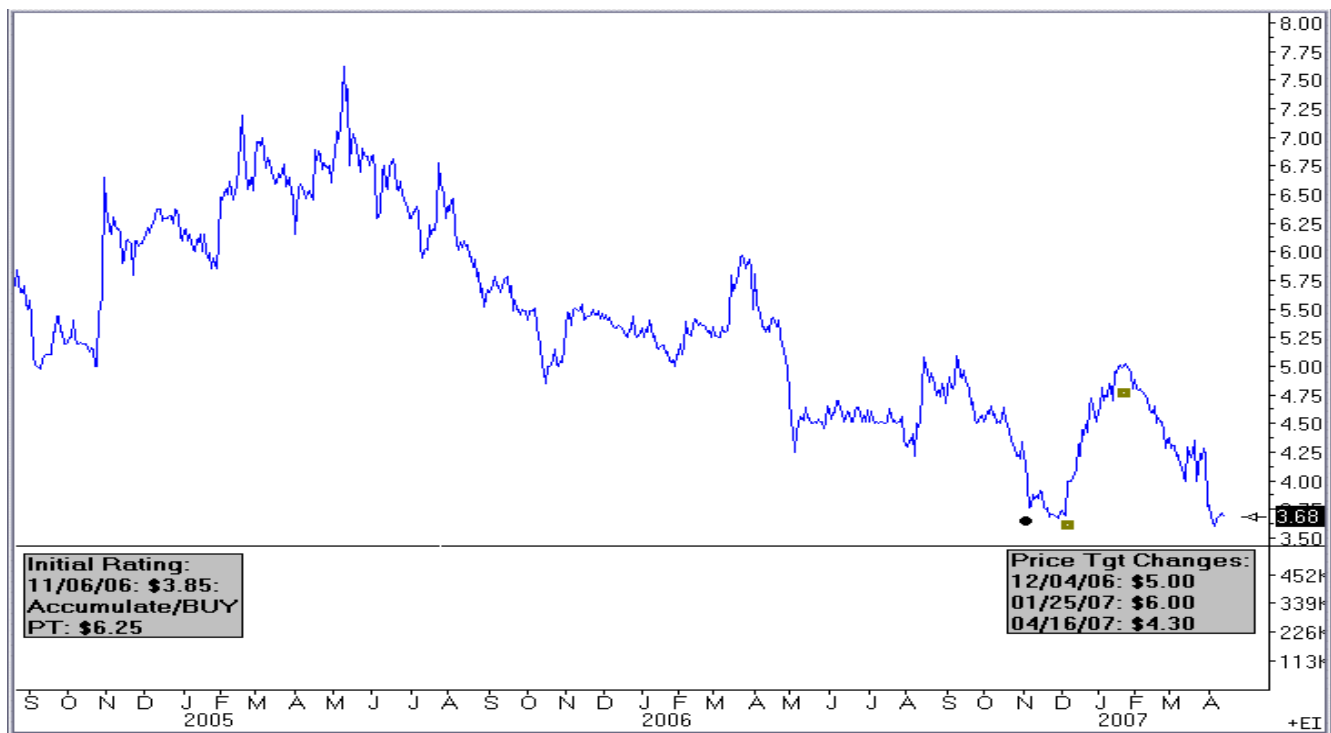
On a price-to-book-value ("breakup value") basis, PLI looks attractive. Trading at just 0.7 times book value, PLI is among the lowest-priced stocks in the auto parts industry by this metric. Another way to look at this is

Update Report

by book value per share: a \$3.70 purchase of one PLI share buys you \$5.62 of tangible book value. (The Modine acquisition in 2005 did not pump up PLI's balance sheet with goodwill; in fact, negative goodwill was incurred and flowed through the income statement in 3Q05 as an extraordinary item.)

Because small-cap stocks are speculative in nature, and because we believe most investors in this universe are looking for potential appreciation greater than 16%, we rate PLI **ACCUMULATE** pending the outcome of 1Q07 results. However, should the environment (which certainly has been a tough one in recent months) improve with this summer's cooling season, we could see the shares moving back into the \$5.50 range and **BUY** territory.

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 | | | | | | | | | | | | |
| | 2005 | 1Q06A | 2Q06A | 3Q06A | 4Q06A | 2006A | 1Q07E | 2Q07E | 3Q07E | 4Q07E | 2007E | 2008Proj. |
| Net sales | \$ 296,838 | \$ 91,336 | \$ 112,110 | \$ 120,734 | \$ 91,915 | \$ 416,095 | \$ 91,336 | \$ 110,161 | \$ 123,380 | \$ 105,755 | \$ 430,632 | \$ 445,678 |
| Cost of sales | 247,430 | 70,388 | 83,074 | 90,327 | 80,473 | 324,262 | 74,831 | 84,747 | 94,670 | 78,184 | \$ 332,432 | 338,269 |
| Gross Profit (Loss) | 49,408 | 20,948 | 29,036 | 30,407 | 11,442 | 91,833 | 16,505 | 25,414 | 28,711 | 27,570 | 98,200 | 107,408 |
| Gross Margin | 16.6% | 22.9% | 25.9% | 25.2% | 12.4% | 22.1% | 18.1% | 23.1% | 23.3% | 26.1% | 22.8% | 24.1% |
| SG & A | 66,313 | 22,932 | 24,376 | 23,923 | 22,580 | 93,811 | 16,592 | 20,836 | 23,817 | 19,843 | 81,089 | 83,922 |
| SG&A as a percent of revenues | 22.3% | 25.1% | 21.7% | 19.8% | 24.6% | 22.5% | 18.2% | 18.9% | 19.3% | 18.8% | 18.8% | 18.8% |
| Restructuring and other special charges | 3,854 | 520 | 134 | 837 | 1,638 | 3,129 | 1,997 | 500 | 500 | 400 | 3,397 | \$ 1,450 |
| Operating (loss) income from continuing operations | (20,759) | (2,504) | 4,526 | 5,647 | (12,776) | (5,107) | (2,085) | 4,078 | 4,394 | 7,327 | 13,715 | 22,037 |
| Operating Margin | -7.0% | -2.7% | 4.0% | 4.7% | -13.9% | -1.2% | -2.3% | 3.7% | 3.6% | 6.9% | 3.2% | 4.9% |
| Interest Expense | 7,958 | 2,253 | 2,691 | 3,634 | 2,650 | 11,228 | 3,041 | 3,324 | 3,522 | 3,258 | 13,144 | 13,144 |
| Income (Loss) from continuing operations before taxes | (28,717) | (4,757) | 1,835 | 2,013 | (15,426) | (16,335) | (5,126) | 754 | 872 | 4,070 | 570 | 8,892 |
| Income tax (benefit) provision 1. | (986) | 302 | 793 | 754 | -129 | 1,720 | (1,871) | 275 | 318 | 1,486 | 208 | 3,335 |
| Tax rate | 3.4% | -6.3% | 43.2% | 37.5% | 0.8% | -10.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 37.5% |
| Income Tax fully taxed at 37% | | | | | | | | | | | 211 | |
| Income (Loss) from continuing operations | (27,731) | (5,059) | 1,042 | 1,259 | (15,297) | (18,055) | (3,255) | 479 | 554 | 2,584 | 362 | 5,558 |
| Income (Loss) fully taxed | | | | | | | | | | | | |
| Income from discounted operations, net of tax | 848 | - | - | - | - | - | - | - | - | - | - | - |
| Gain on sale of discontinued operations, net of tax | 3,899 | - | - | - | - | - | - | - | - | - | - | - |
| Extraordinary income- write - off of negative goodwill | 13,053 | - | - | - | - | - | - | - | - | - | - | - |
| Net (loss) income | (9,931) | (5,059) | 1,042 | 1,259 | (15,297) | (18,055) | (3,255) | 479 | 554 | 2,584 | 362 | 5,558 |
| Net (loss) income fully taxed | | | | | | | | | | | | |
| EPS Fully diluted | | | | | | | | | | | | |
| Continuing operating | \$ (2.59) | \$ (0.33) | \$ 0.07 | \$ 0.08 | \$ (1.00) | \$ (1.18) | \$ (0.21) | \$ 0.03 | \$ 0.04 | \$ 0.17 | \$ 0.02 | \$ 0.36 |
| Discontinued operation | \$ 0.08 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Gain on sale of discontinued operation | \$ 0.36 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| From extraordinary income/write-off of negative goodwill | \$ 1.22 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net (loss) income | \$ (0.93) | \$ (0.33) | \$ 0.07 | \$ 0.08 | \$ (1.00) | \$ (1.19) | \$ (0.21) | \$ 0.03 | \$ 0.04 | \$ 0.17 | \$ 0.02 | \$ 0.36 |
| Net Income fully taxed | | | | | | | | | | | \$ - | |
| Shares outstanding: | | | | | | | | | | | | |
| Basic | 10,714 | 15,256 | 15,256 | 15,256 | 15,250 | 15,254 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 |
| Diluted | 10,714 | 15,256 | 15,838 | 15,803 | 15,250 | 15,254 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 |

1. Tax on Foreign Operations.

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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- (3) CFR expects to receive or intends to seek compensation for investment banking services from the Subject Company within the next 3 months.
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EQUITY RECOMMENDATION SYSTEM:

| | |
|-------------------|---|
| 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. |

EQUITY RISK SYSTEM:

| | |
|-----------------|--|
| 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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