

**PROLIANCE INTERNATIONAL, INC. (AMEX: PLI)**  
INDUSTRY: BUSINESS SERVICES DISCLOSURES: 1, 10

RATING: ACCUMULATE/BUY  
RISK: HIGH

CLOSING PRICE 11/06/06	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$3.70	N/M	15.8	\$58.5	5-10%	\$5.00

ANNUAL DATA – DECEMBER YEAR END			
	2005A	2006E	2007E
EPS	\$ (2.59)	\$ (0.57)	\$0.32*
P/E	N/M	N/M	11.5
REVENUE (MIL.)	\$296.8	\$414.7	\$434.5
P/S	0.20	0.14	0.13

EARNINGS – CONTINUING OPS.					
	Q1	Q2	Q3	Q4	ANNUAL
2007E	\$ (0.19)	\$ 0.25	\$ 0.37	\$ (0.12)	\$ 0.32
2006E	\$ (0.33)	\$ 0.07	\$ 0.08	\$ (0.40)	\$ (0.57)
2005E	\$ (0.32)	\$ (0.29)	\$ (0.75)	\$ (0.88)	\$ (2.59)
2004A	\$ (0.19)	\$ (0.02)	\$ 0.19	\$ (0.03)	\$ (0.05)

\* \$0.25 EST., FULLY TAXED

### Proliance Turns A Profit

On November 14, Proliance International, Inc. announced results for 3Q06. As expected, the company swung from a loss in 3Q05 (after exclusion of extraordinary income) to a small profit, although the profit was less than we had hoped in our introductory report in early November.

Comparisons to 3Q05 results need to be normalized because of the merger with Modine Aftermarket Holdings, Inc. during the year-ago quarter on July 22, 2005. (Results of the European business acquired from Modine are reported on a one-month lag.) On a pro forma basis, assuming a full quarter of Modine's operating results, sales for 3Q06 of \$120.7 million were slightly lower in dollar terms than normalized sales in 3Q05, although in unit terms, sales increased. Below we discuss the causes of the evident pressure on margins. The loss from continuing operations in 3Q05 of \$9.9 million would not have changed significantly on a pro forma basis.

The Company reported net income for 3Q06 of \$1.3 million, or \$0.08 per basic and diluted share. This compares to the pro forma loss in 3Q05 of \$0.75 per share. Although reported net income was \$3.3 million, or \$0.25 per basic and diluted share, in 3Q05, we exclude extraordinary income associated with negative goodwill arising from the merger of \$13.2 million, or \$1.00 per basic and diluted share. (The average number of outstanding shares was lower in 3Q05 than in 3Q06 because some 8.1 million additional shares were issued on July 22, 2005 in connection with the merger transaction.)

Management's plan to improve cash flow and reduce debt levels in the short term by making more efficient use of inventories is underway. As an example of the improvement, inventory days are down from over 150 days in 4Q05 to 135 in 3Q06. As described below, because of both soft market conditions and higher raw material costs in 3Q06, the Company is accelerating its efforts to meet its trimmer inventory targets, which includes a goal of 3.5 to 4 turns per year compared to 2005's two- turns per year.

### Margin Pressure in the Domestic Segment

The Company considers that two factors depressed the domestic market for air conditioning products in 3Q06: Cooler-than-usual summer weather conditions in much of the country generally lessened the added strain on

auto heat exhaust systems thereby reducing the number of breakdowns. Also, the higher fuel prices that plagued the economy and consumers disposable income also kept drivers off the roads...fewer auto-miles means fewer breakdowns in general. As for domestic heat exchange products, although unit sales increased during the period, PLI experienced a shift away from more lucrative retail accounts toward wholesale customers which worked to lower Proliance's overall average selling prices. Sales margin and gross margin both showed the pressure, in both heat exchange and air conditioning products.

Most investors know that the cost of copper almost doubled over the past year, while the cost of aluminum has increased about 40%. First, this puts a terrible strain on PLI's cost of goods sold just because so much copper is used in the manufacture of cooling system components and the timing couldn't have been worse since the Company had hoped to shift some of the production process away from copper toward aluminum. Because of the timing of material costs flow through Proliance's inventories, the greatest effect of the raw materials cost increases will be reflected in the fourth quarter operating results. Separately, customers so far have resisted accepting the pass-through of these costs in domestic heat exchange products, although in other, international markets, as well as in domestic heavy duty products, Proliance has been able to recapture some of these costs in its own pricing.

Two businesses acquired from Modine have helped Proliance diversify: the international and heavy duty (heavy truck and industrial heat exchange products) segments. 3Q06 results were strong internationally, particularly in Europe, and domestic heavy duty products improved. The Company attributed these results to new product introductions and robust demand.

### **Rising Raw Materials Costs and Shifting Inventories**

As discussed in our last report, the Company is responding by moving as many heat exchange products as practical from copper and brass construction to aluminum and plastic. Although this transition will be largely completed in 4Q06, the improvement in unit costs will not be realized until 2007. The Mexico City operation has already been hit in 2006 by restructuring costs associated with the production shift towards aluminum heat exchange products, which are produced in Nuevo Laredo.

Although global inventories in units are down from 3Q05, inventory dollars at \$137 million are up from the year-ago level of \$126 million. Of that, over \$13 million, or nearly 10% of the total, can be attributed to higher material costs and the impact of currency translation. To bring inventories down even further, the Company has announced shorter work weeks for some of its plants into the first quarter of 2007, in excess of the normal seasonal variation. The Company expects additional costs relating to unabsorbed overhead during 4Q06.

Interest costs were higher by approximately \$1.5 million in 3Q06, compared to 3Q05, reflecting higher interest rates, higher debt levels and increased usage of customer-sponsored payment programs. The company's \$3.6 million in interest expense in 3Q06 consisted 25% of vendor discounts and 75% of interest on financing.

### **\$12 Million in Restructuring Costs Down; \$5 Million To Go**

Managing the overall impact of raw material cost increases will require ongoing streamlining. As an example, the Company had hoped to sell its idle Emporia, Kansas radiator and oil cooler manufacturing plant in 3Q06. This deal fell through. While the Company is now pursuing new purchasers, hopes for disposing of the plant in 2006 have faded. On the other hand, after some restructuring, the Company has announced a net reduction of 22 locations from the 123 branches which the pre-merger operations maintained separately.

Through these restructurings and disposals, and through some economies of scale in purchasing as a combined Company, Proliance has made some progress toward clawing back its margins in the face of rising costs.

Consolidated gross margin for 3Q06 was \$30.4 million, or 25.2% of sales, versus a consolidated gross margin of \$15.1 million, or 14.8% of sales, in the same period in 2005. (However, in 3Q05, gross margin was lowered from 19.8% by non-recurring costs: \$2.6 million of unabsorbed overhead from production cutbacks at Nuevo Laredo, a \$1.1 million write-off of inventory related to the merger, \$0.9 million of higher-cost inventory acquired in the merger, and \$0.5 million as a result of other restructuring costs.) Selling, general and administrative expenses declined, as a percentage of sales, from 20.6% of net sales (\$21.0 million) in 3Q05 to 19.8% of net sales (\$23.9 million) in 3Q06.

At the time of the merger, the Company anticipated \$14 million in restructuring costs. Management now estimates that they have incurred \$12 million, with possibly another \$4-\$5 million more to be incurred. Of this \$4 to \$5 million, roughly half has already been announced. The associated cost benefits are anticipated for 2007.

### Outlook

Due to the steep rise in commodity costs, higher interest expense and unabsorbed overhead, 4Q06 is shaping up for a greater net loss from continuing operations before restructuring charges than previously expected. However, we do expect bottom-line improvement over 4Q05. Moreover, the benefits of conversion to aluminum, slimming-down the branch distribution network, and other cost and expense reduction initiatives will be realized in 2007. Management anticipates that continued improvement in the company's "go-to-market" model and new marketing initiatives can shift the customer mix more favorably in 2007.

Our adjusted estimate for PLI's fourth quarter now stands with revenues at \$90.5 million and a \$0.40 loss per share. We have reduced our enthusiasm regarding fourth quarter's top-line and certainly trimmed back the margins due to the flow-through of copper and material input price increases. Although the gross margin shows improvement rising from 15.9% in the year ago quarter to 20.5%, the seasonality of the business and the above discussed cost flow-through works to hinder profitability. We have also loaded the fourth quarter with quite a sizable charge for consolidation and odd clean-up expenses.

For 2007, we are projecting that revenues grow 4.5% to \$434.5 million, which seems fairly conservative given the lower level of travel miles journeyed during the past year, and particularly during the critical summer period. In addition, the mild weather conditions last summer should not occur again meaning that we are really estimating that next year's growth in revenues are just reflecting PLI experiencing a more normal travel/weather year. EPS for the year does show a rebound. We are now using \$0.25 for fully-taxed, full-year numbers (\$0.32 on a reported basis). If the projected, significant loss in the first quarter is not as large as planned, the Company could significantly improve the total year performance.

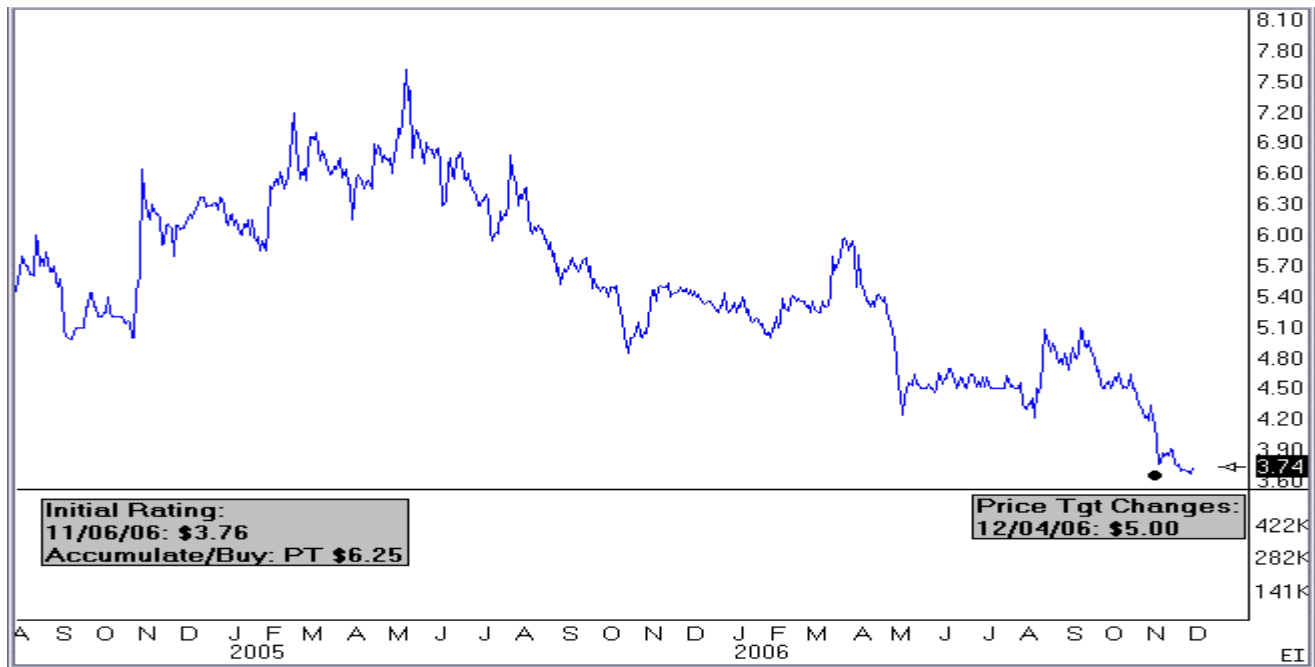
### Valuation

We are getting to the point where investors should really start looking over the valley to the next hill-top—that is, the two businesses have been operating as one for over a year, several external events have negatively impacted operating returns for the last year (but those should turn to positives), and management's efforts to restore margins should become successful in the intermediate future. Hence, we are still maintaining our **BUY** rating on this Company and upping the risk profile to a "High" level only to describe the trouble (read: losses) that PLI has to work through the next six months.

Our thoughts on the valuation reflect the following views: The replacement part manufacturers usually sell with a mid-teen P/Es multiple range...the industry currently stands right there in the middle teens. We still believe that given the newness of PLI's name on Wall Street's radar screen, the turn-around "surprise," the inherent worth of the Company's business and the lack of coverage from the brokerage arena, PLI shares stand in a

perfect “information vacuum.” A turn-around warrants a much higher multiple given the “discovery” factor of the shares by the Street and the “Forward Look” to future profitability the Street should award the stock given profitable performance. Our valuation work points to a potential price target of \$5.00 based on a higher multiple for next year “rebound” earnings. Using a 25-times multiple with our \$0.25 per share earnings estimate, generates a \$6.25 target. Since we are still a year away from the “Turn,” a 20% risk adjusted price target is discounted to \$5.00 for mid- to late-2007.

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.



<b>Proliance</b>												
\$ in thousands, except EPS												
	2004	2005	1Q06A	2Q06A	3Q06A	4Q06E	2006E	1Q07E	2Q07E	3Q07E	4Q07E	2007E
Net sales	\$ 218,433	\$ 296,838	\$ 91,336	\$ 112,110	\$ 120,734	\$ 90,500	\$ 414,680	\$ 97,000	\$ 117,500	\$ 125,000	\$ 95,000	\$ 434,500
Cost of sales	174,575	247,430	70,388	83,074	90,327	71,948	315,737	74,933	86,656	91,688	72,058	\$ 325,334
Gross Profit (Loss)	43,858	49,408	20,948	29,036	30,407	18,553	98,944	22,068	30,844	33,313	22,943	109,166
Gross Margin	20.1%	16.6%	22.9%	25.9%	25.2%	20.5%	23.9%	22.8%	26.3%	26.7%	24.2%	25.1%
SG & A	39,987	66,313	22,932	24,376	23,923	21,750	92,981	22,245	23,500	24,000	22,000	91,745
Restructuring and other special charges		3,854	520	134	837	800	2,291	700	800	800	600	2,900
Operating (loss) income from continuing operations	3,871	(20,759)	(2,504)	4,526	5,647	(3,998)	3,672	(878)	6,544	8,513	343	14,521
Interest Expense	4,812	7,958	2,253	2,691	3,634	2,200	10,778	2,150	2,100	2,000	1,950	8,200
Income (Loss) from continuing operations before taxes	(941)	(28,717)	(4,757)	1,835	2,013	(6,198)	(7,107)	(3,028)	4,444	6,513	(1,608)	6,321
Income tax (benefit) provision 1.	(592)	(986)	302	793	754	175	2,024	-0.225	400	650	225	1,275
Tax rate	62.9%	3.4%	-6.3%	43.2%	37.5%	-2.8%	-28.5%	0.0%	9.0%	10.0%	-14.0%	20.2%
Income Tax fully taxed at 37%												2,339
Income (Loss) from continuing operations	(349)	(27,731)	(5,059)	1,042	1,259	(6,373)	(9,131)	(3,027)	4,044	5,863	(1,833)	5,046
Income (Loss) fully taxed												3,982
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	(6,373)	(9,131)	(3,027)	4,044	5,863	(1,833)	5,046
Net (loss) income fully taxed												3,982
EPS Fully diluted												
Continuing operating	\$ (0.05)	\$ (2.59)	\$ (0.33)	\$ 0.07	\$ 0.08	\$ (0.40)	\$ (0.57)	\$ (0.19)	\$ 0.25	\$ 0.37	\$ (0.12)	\$ 0.32
Discounted 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	\$ (0.40)	\$ (0.57)	\$ (0.19)	\$ 0.25	\$ 0.37	\$ (0.12)	\$ 0.32
Net Income fully taxed												\$ 0.25
Shares outstanding:												
Basic	7,106	10,714	15,256	15,256	15,256	15,500	15,500	15,500	15,500	15,500	15,500	15,500
Diluted	7,106	10,714	15,256	15,838	15,803	15,900	15,900	15,900	15,900	15,900	15,900	15,900
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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<b>Buy</b>	Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
<b>Accumulate</b>	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.
<b>Hold</b>	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.
<b>Sell</b>	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

### EQUITY RISK SYSTEM:

<b>High</b>	The security is more volatile than the market and/or the company is more leveraged than its peer group.
<b>Moderate</b>	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.
<b>Low</b>	The security is less volatile than the market and/or the company is less leveraged than its peer group.

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