

inventory and its average age has a direct correlation to demand. Also, the rate of breakdowns may accelerate if extreme temperature conditions exist, essentially high weather temperatures that are often found during the summer months, strain autos operating conditions causing greater rates of failure. Hence, there is seasonality experienced with the industry's revenue and particularly this company's operating record.

Heat transfer from inside the engine, or cab in the case of air conditioning, to outside the auto requires heat conducting metals—think more expensive copper and brass—and they have historically been used as major components in this arena. Given the recent meteoric rise in conductive metal prices, the industry and particularly Proliance, has experienced real upward pressures on their costs of manufacturing components. This has been addressed by improving component designs, substituting less expensive materials for more expensive copper, etc. and the more efficient use of expensive metals when necessary.

Trading on the AMEX under the symbol PLI, the recently combined firm is now named **PROLIANCE** and stands as the largest aftermarket supplier of heat exchange and temperature-control products in the U.S.. Major brand names that Proliance's components are found include Ready-Rad®, Modine®, NRF™ and MexPar™ radiators and Ready-Aire® and AirPro Quality Parts®. Additionally, Proliance has one of the largest distribution networks serving all channels of the aftermarket; Retailer, Warehouse Distribution, Hard Parts, Specialty Parts and the professional technician. This means that it has the valuable ability of supplying the dealership repair center, the specialty shop, the corner mechanics location as well as the DIY hobbyist and repairman in short order. Indeed, PLI is one of few companies capable of supplying such products to all of the major auto parts retailers and distributors on a same-day, or next-day basis, and for approximately 95% of existing auto and light truck models on the road today.

As an additional benefit to the consolidation of the two, former operating competitors, Proliance maintains an expansive network of warehouse facilities and distribution capabilities providing capacity well beyond that needed for just the supply of heat management components. PLI has invested in the systems necessary to become the preferred vendor across the industry, with 95% or greater linefill levels and the broadest product coverage of any firm in its class. To that end, much of the infrastructure is now in place to support \$1 billion in annual revenue.

INVESTMENT THESIS:

What investors have to realize is that Proliance is a Company that is not going away: They supply important components to the after-market auto repair industry (as long as Americans drive, they will need radiators and heat transfer parts) and when the consolidation dust settles, investors should witness a marked advance in EPS as improvements in margin joined with huge per share sales leverage drive gains in profitability. The following points help power our investment opinion:

- PLI is an attractive stock currently overshadowed by merger considerations.
- The integration should achieve an estimated \$45 to \$48 million in recurring full-year synergy benefits in 2007.
- High inventory levels from the merger will be sold, generating cash of \$30-\$40 million over the next three years.
- Gross margins will be impacted until manufacturing plants are running at normal rates, expected in 2007, but margins should expand due to the consolidation steps as well as re-tooling of many, light-duty heat exchange products to employ lower cost, plastic/aluminum components. This is planned to be also in place for 2007.
- Management expects to return to annual profitability in 2007 because of improved year-over-year margins.
- After-tax margins three to four years out could reach 5%.

The reason for considering PLI as an investment now is that with its large revenue base and relatively modest share count, there is real opportunity for considerable profit generation. Given our estimate of revenues for 2007

of \$433.0 million, or nearly \$27.50 per share, every percentage point improvement in bottom-line profit margin should produce roughly \$0.25 in EPS. Despite all the hard work that management and employees have dedicated to this combination, we are still only projecting that slightly more than a 2.0% net after tax margin is produced next year. We feel that this is a relatively conservative picture of the future given; commodity metal prices are off their highs (this should continue given the “soft landing” economic environment that seem evident); last year’s summer weather was temperate given earlier extremes; although car sales are shifting market shares from domestic to foreign operators, the US auto inventory is larger and still older. These are factors that all portend a normal or even better operating environment for the Company.

As for market valuation, PLI should represent an ideal opportunity as the economy’s uptrend becomes progressively feeble with age, consumer credit and excess cash options are more limited, and the growing fear of a real downturn more prevalent. Given that backdrop, potential PLI investors should approach the next several years believing that consumers may consider keeping “O’ Bessie” another year or two prompting an ever greater potential of replacing cooling system components.

These replacement part manufacturers normally sell with a mid-teen P/E multiple range...the industry currently stands at 16.0 times. Given the “newness” of the name on Wall Street’s radar, the turn-around “surprise” and the worth of the story, and no significant analytical coverage from the brokerage arena, PLI shares stand in a perfect “information vacuum.” Our normal valuation work would point to a potential target price of \$5.70 (untaxed EPS of \$0.55 times a 65% pass-through times a 16 multiple)...higher than the Company’s current price today. However, the rolling out of the operating progress story line, plus the NOL, and the above-mentioned “vacuum” leads us to project a modestly more aggressive target for the intermediate- and long-term. We believe that the shares should appreciate to \$6.00 to \$6.50, up 65% six or so months out as the Company establishes its turn-around and the name, Proliance, becomes better known.

DISCUSSION

Why should the merger work? A major reason why we think this merger will work is that Transpro and Modine covered different segments of the market. Transpro was stronger and had a good presence within auto parts stores, selling to the top five U.S. car parts retailers who primarily serve the do-it-yourself (DIY) market. Modine, on the other hand, had a stronger presence in the do-it-for-me (DIFM) market. Thus the combined company meshes complementary distribution and end-use markets together, covering all the bases through all five traditional distribution channels of Retailer, Warehouse Distribution, Hard Parts, Specialty Parts and the professional technician.

What did Modine bring to the table? Almost half the revenue of the combined company, and potentially a whole lot more. Importantly, Modine brought new distribution in the U.S., and new markets in Mexico, Central America and Europe. Modine’s major US manufacturing plant has been closed and relocated to Mexico, with the attendant cost savings and margin expansion that should eventually result.

Why Proliance? Proliance’s products often perform better than the Original Equipment Manufacturer (OEM) product. PLI has introduced a new line of product known as B.T.O.E. (Better Than Original Equipment). This innovative program offers product designs that “solve” the failure modes that caused the original equipment product to fail in the first place. Some provide *increased* cooling capacity versus the factory-installed radiator, and may have a more efficient design than the original part. With very few exceptions, a cooler engine leads to a longer life and increased mileage, and can be a worthwhile investment especially if towing a boat or other recreational vehicle often or driving for long distances. Cheaper products may not have the same cooling capacity, in some cases only 70%-80% of the OEM product, and they fail more often.

The Auto Aftermarket Industry

The automotive aftermarket industry differs substantially from the OEM supply business. Unlike the OEM business that primarily follows trends in new car production, the automotive aftermarket industry's performance tends to follow different trends, such as:

- Growth in number of vehicles on the road;
- Increase in average vehicle age;
- Increase in total miles driven per year;
- New and modified environmental regulations;
- Increase in pricing of new cars; and
- New car quality and related warranties.

Passenger car and light truck registrations grew at a CAGR of 2.5% from 2001 through 2004 in the U.S., and number about 225 million vehicles. Average miles driven, influenced by the price of fuel and general economic conditions, has been increasing at an annual rate of 1.7% since 1999. We expect this rate of growth to moderate in response to rising fuel prices; miles driven for the first seven months of 2006 were up only 0.07% and were down in the months April through July.

The Sweet Spot. The sweet spot for aftermarket suppliers like PLI is with 6-15 year old vehicles. The 6-10 year sector is the fastest growing segment of vehicles, with approximately 62 million on the road and growing at a CAGR of 2.2% through 2008. The 11 year plus group is growing at 1% and amounts to 74.8 million. These cars are off warranty but still have enough useful life to justify spending money on them. They still look relatively good, with better paint jobs and interiors, and owners will typically spend generously (compared to the cost of a new car) for maintenance.

The Temperature-Control Sector

Originally, the traditional radiator shop was the primary purchaser of radiators and cores. This was more of a fix-and-repair business versus a parts-replacement one. The radiator shop would work with cores and weld/solder the core to the header and holding tank. In many cases, this was the only way to repair a vehicle, and is still done today for some heavy-duty applications such as large generators that might service an oil-drilling rig. However, as the aftermarket offered more complete radiators, the radiator shop has been losing market share. These days, roughly 95% of all light truck and autos have complete radiators available in the aftermarket, making it usually better to replace a faulty radiator than to repair it.

Distribution has become key, and is one of the company's main strengths. In this day and age, it's all about instant gratification. Whether they are traditional radiator shops, retailers or professional technicians, nowadays they all want quick delivery. Radiators, unlike A/C units, need to be fixed soon as possible as a bad radiator impairs the drivability of a vehicle. For radiators and other heat-transfer equipment, PLI's distribution channels include retailers, such as Advance Auto Parts, AutoZone, and O'Reilly Automotive, which sell primarily to the DIY market. This market, imitating the home-improvement craze, has been growing at 4.4% annually.

Not surprisingly, many auto-parts retailers are attempting to sell into the professional technician or DIFM market. Indeed, 13% of Autozone's FY05 sales were to this market. Meanwhile, traditional wholesale parts distributors like NAPA and Carquest, which primarily sell to mechanics and installers, are attempting to sell more to the DIY market. Thus, the traditional channels of radiator distribution are blurring today, as each is attempting to sell into the other's markets.

Meanwhile, most of the A/C business is to mechanics, due to the restrictions on the release of refrigerants. In contrast to radiators, the repair of the A/C unit may be optional, as a car drives fine without it. And they're much more expensive to deal with than radiators – a radiator might be replaced for \$250-\$400, whereas a repair for an A/C unit can easily run well over \$1,000. For these reasons, consumers are more apt to forego or delay repair. The mileage and age of the vehicle are generally the deciding factor for the consumer in this case - the older the vehicle, the less likely the A/C will be repaired or replaced. Neither firm had a large A/C business going into the merger, and combined they do about \$50 million per year. While stable, A/C aftermarket sales have steadily declined since a change from Freon to R134a was mandated in 1993 and caused a surge in replacement business.

Seasonality and other influences. Historically, the temperature control business has been seasonal, with the June and September quarters generating about 55% of total sales. Pro-forma numbers suggest that the combined companies would have about 23% of revenues in Q1, 27% in 2Q, 28% in Q3 and 22% in Q4. While we believe that these are reasonable averages, they will change depending upon the weather. For instance, a late start to summer or an unusually cool one, results in reduced demand. Conversely, an extended period of hot weather into the fall can extend the season, as was the case in 2005.

The Company

Management. Since coming to Transpro in 2001, PLI's management has built a reputable organization able to win over major retailers. During that period, we believe competitive pricing pressure, irrational market participants and major price increases in raw materials such as copper, brass and aluminum (raw material are approximately 50% of COGS) have obscured management's effectiveness.

It is difficult to be qualified as a vendor to the large retailer space in which Autozone and CSK Auto operate. Comprehensive manufacturing and distribution systems have to be in place in order to deliver products on a timely basis, which as we noted for many items means same-day or next-day. For radiators, that means immediate delivery capability on 1,500 different models. And being on the shelf is no guarantee – only once a company has met on-time delivery over 95% of the time (called a fill rate) will you get a second chance to meet competitor's pricing & package offers. And the scale is massive; a typical retail store may carry 16,000 to 18,000 SKU's and be able to access up to 1,000,000 SKU's for next-day delivery. The proliferation of brands and models makes this a necessity.

The management of the combined company is the same as the management of Transpro prior to the merger:

- Paul R. Lederer was elected Chairman of Proliance's Board in August, 2005. He is also a director of Dorman Products, Inc. (a supplier of original equipment dealer automotive replacement parts), Maximus, Inc., United Components, Inc. and O'Reilly Automotive. Prior to his retirement in 1988, he was Executive Vice President – Worldwide Aftermarket for Federal-Mogul Corporation.
- Charles E. Johnson has serviced as President & CEO of Transpro since 2001. Prior to that, he served as CEO of Canadian General-Tower, Ltd., 1997 through 2001. Prior to that he was President and COO of Equion Corporation.
- Richard A. Wisot was appointed Vice President, Treasurer, Secretary and Chief Officer of Transpro in 2001. Prior to that, he served as Vice President, Treasurer and Chief Financial Officer of Ecoair Corp 1997 through 2001 and Vice President, Controller, Chief Accounting Officer of Echlin Inc., 1990 through 1996.

- David J. Albert was elected Executive Vice President, Operations in March of 2005. Prior to that he served as Vice President of Operations. From 1996 through 2002 he served as President and CEO of Hayden Industrial Products.
- Barry R. Banducci was elected Chairman in 1995 and stepped down in August 2005, continuing as a director. From 1984 to 1996, he served as Vice Chairman of the Board and director of The Equion Corporation, a manufacturer of automotive products. He served as President and CEO of Equion from 1988 to 1994 and from 1984 to 1988 President and COO of Equion. He also serves as a director Dexment Corporation.

The board consists of ten directors, six from Transpro and four from Modine. This structure helps support the desired tax result from the merger transaction, which was classified a reverse Morris trust.

The Merger

Before Transpro could have ever put this transaction together, it needed to transform itself from a marginal player to a preferred vendor. Current management, which took over in 2001, had to build several systems, including a robust cataloging program, for its line management and distribution of 5,000 different SKU's. This cataloging program was a major key to dealing with the retailers and major distributors, as the older paper catalogs were dated and unwieldy. The company needed a system that would integrate online searches for product by the distributor, professional technician, or DIY market participants. This done, Transpro began exploring the strategic expansion of its business.

The merger transaction with Modine's aftermarket products division took several years to accomplish. First, Transpro sold its Heavy Duty OEM business to Modine back in March of 2005 for \$17 million in cash. This allowed Transpro to focus only on the aftermarket business, while Modine could concentrate on OEM manufacturers. Then, in July of 2005, Modine spun off its aftermarket business to its shareholders and immediately merged this business into Transpro. The combined company was renamed Proliance International, Inc.

The Accounting

The acquisition was accounted for as a purchase, and accordingly, the assets and liabilities acquired were recorded at their estimated fair value on the date of the acquisitions. Modine shareholders received 52% and Transpro shareholders 48% of the 15,250,000 shares outstanding. Our operating model includes the reported changes and effects of the acquired business subsequent to the acquisition.

The aggregate consideration paid for the transaction was as follows (in thousands):

Value of common stock issued	
Common stock	\$ 81
Paid in capital	<u>50,586</u>
	50,667
Proliance transaction costs	4,468
Modine transaction costs reimbursed by Proliance	<u>4,239</u>
Total consideration	<u>\$ 59,374</u>

The shares of stock issued were valued at \$6.22 per share, which represented the average closing price of Proliance common stock for the two days before and after the merger agreement was announced.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at July 22, 2005. These amounts are based upon a preliminary opening balance sheet.

Value of common stock issued	
Common stock	\$ 81
Paid in capital	50,586
	50,667
Proliance transaction costs	4,468
Modine transaction costs reimbursed by Proliance	4,239
Total consideration	\$ 59,374
Current assets	\$ 101,120
Property, plant and equipment	20,259
Other assets	4,932
Assets acquired	126,311
Current liabilities	30,948
Other liabilities	2,677
Liabilities assumed	33,625
Net assets acquired	\$ 92,686

Most Current Balance Sheet

Expecting a third quarter operating report to be announced any day, we want to bring to investors the most up-to-date balance sheet information available knowing the short shelf life this may have. The following table reviews the most pertinent Balance Sheet items comparing them with the starting categories.

Proliance Int'l		<u>30-Jun-06</u>	<u>31-Dec-05</u>
\$ in millions			
Assets			
Current Assets			
Cash	\$	4.8	\$ 4.6
A/R		76.9	58.3
Inventory		133.7	121.1
Other current		5.3	5.0
Total Current Assets	\$	220.8	\$ 188.9
PPE		20.4	20.3
Other Assets		9.1	3.6
Deferred LT Asset Charges		0.0	4.5
Total Assets	\$	250.3	\$ 217.3
Liabilities			
Current Liabilities			
Accounts Payable	\$	98.8	\$ 80.7
Short/Current LTD		56.5	39.7
Total Current Liabilities		155.3	120.4
Long Term Debt		1.8	2.2
Other Liabilities		8.2	6.6
Deferred Long term Liab charges			0.9
Total Liabilities		165.3	130.1
Total Stockholder Equity		85.1	87.3
Total Liabilities & Equity	\$	250.3	\$ 217.3

A recent news item announced the amending of PLI's Loan and Security Agreement (Credit Facility terms) with Wachovia Capital Finance Corporation. This involved lowering its minimum EBITDA requirements and reserves. The generally more relaxed conditions indicate that the business has not totally turned as of yet and that the banks are still very willing to work with the Company as it completes its merger and finishes the difficult task of improving margins in the high material cost environment we have passed through this year. What it indicates to us at this time is that the third quarter is still not up to prior expectations but repairs are underway for a better 2007.

Looking Ahead

Proliance has the platform to generate \$1 billion in annual sales, and the Modine merger was a large step and expands the geographic regions served. The company now has the necessary distribution capability and systems in place, and could not have done it several years ago. If anything, Proliance needs to find more products to put through the distribution system, such as a line of fans sold only via Modine's European division.

Modine also used different accounting principles, which made it more akin to a costly distribution system with many branch locations, versus Transpro's "warehouse" model. With approximately 120 branch locations across the U.S., plus distribution facilities in Europe and eight in Latin America, Modine's operations had higher gross margins (through lower COGS) and higher SG&A.

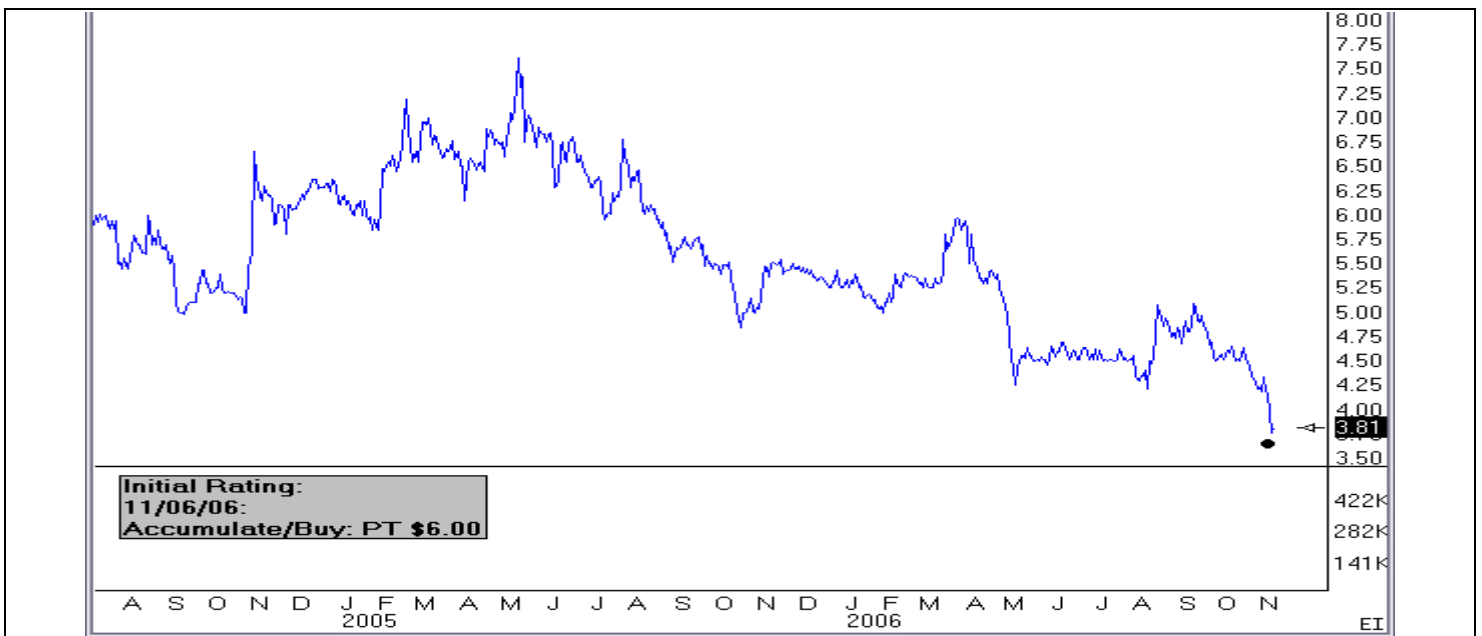
Due to the restructuring costs, PLI reported a loss for 2005. Restructuring charges will continue into 2006 and most likely PLI will report a loss for the year. However, there should be little or no lingering cost to the restructuring program in 2007. Moreover, in the short-run additional cash flow should result via the reduction of inventory. Management believes that the average inventory turn should be 3.5 to 4 times, which may take several years to achieve. At closing, the combined inventory was \$126 million and should be sold down to \$86 to \$96 million over several years and generate cash of \$30 to \$40 million.

Management is targeting a 5% after-tax margin for the combined company going forward, which may take several years to obtain. Certainly, 2006 is going to be a transition year, with expenses associated with the restructuring actions, related charges etc. However, the combined firms have annual sales of approximately \$430 million and stable end-user markets, so assuming a 5% after-tax margin equals \$21,500,000 in net income, or earnings per share of \$1.40, probably no later than 2008 or 2009.

RISKS

Risks to our scenario as outlined include:

- Lower-than-expected integration synergies from the restructuring.
- Cost reductions that fall short of expectations.
- Weaker than anticipated profitability.
- Intense competition resulting in lower-than-expected prices.
- Continued high levels of raw materials costs.
- Difficulty in meshing the two business models.
- A significant decline in the pace of new business.



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Proliance International, Inc.												
Year end: December												
\$ in thousands, except EPS												
	2004	2005	1Q06A	2Q06A	3Q06E	4Q06E	2006E	1Q07E	2Q07E	3Q07E	4Q07E	2007E
Net sales	\$ 218,433	\$ 296,838	\$ 91,336	\$ 112,110	\$ 117,600	\$ 92,400	\$ 413,446	\$ 99,498	\$ 116,802	\$ 121,128	\$ 95,172	\$ 432,600
Cost of sales	174,575	247,430	70,388	83,074	88,494	70,686	312,642	76,166	87,017	89,816	72,331	\$ 325,330
Gross Profit (Loss)	43,858	49,408	20,948	29,036	29,106	21,714	100,804	23,332	29,785	31,312	22,841	107,270
Gross Margin	20.1%	16.6%	22.9%	25.9%	24.8%	23.5%	24.4%	23.5%	25.5%	25.9%	24.0%	24.8%
SG & A	39,987	66,313	22,932	24,376	22,500	22,800	92,608	22,500	22,400	22,250	22,750	89,900
Restructuring and other special charges		3,854	520	134	1,250	500	2,404					
Operating (loss) income from continuing operations	3,871	(20,759)	(2,504)	4,526	5,356	(1,586)	5,792	832	7,385	9,062	91	17,370
Interest Expense	4,812	7,958	2,253	2,691	1,900	1,700	8,544	1,900	2,000	1,750	1,650	7,300
Loss from continuing operations before taxes	(941)	(28,717)	(4,757)	1,835	3,456	(3,286)	(2,752)	(1,068)	5,385	7,312	(1,559)	10,070
Income tax (benefit) provision 1.	(592)	(986)	302	793	400	300	1,795	300	400	400	400	1,500
Tax rate												
Income (Loss) from continuing operations	(349)	(27,731)	(5,059)	1,042	3,056	(3,586)	(4,547)	(1,368)	4,985	6,912	(1,959)	8,570
Income from discontinued 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	3,056	(3,586)	(4,547)	(1,368)	4,985	6,912	(1,959)	8,570
EPS Fully diluted												
Continuing operating	\$ (0.05)	\$ (2.59)	\$ (0.33)	\$ 0.07	\$ 0.20	\$ (0.23)	\$ (0.29)	\$ (0.09)	\$ 0.32	\$ 0.45	\$ (0.13)	\$ 0.55
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	\$ 0.20	\$ (0.23)	\$ (0.29)	\$ (0.09)	\$ 0.32	\$ 0.45	\$ (0.13)	\$ 0.55
Shares outstanding:												
Basic	7,106	10,714	15,256	15,256	15,400	15,500	15,500	15,500	15,500	15,500	15,500	15,500
Diluted	7,106	10,714	15,256	15,838	15,400	15,500	15,500	15,500	15,500	15,500	15,500	15,500
1. Tax on Foreign Operations.												
Ratios:												
SG & A	18.3%	22.3%	25.1%	21.7%	19.1%	24.7%	22.4%	22.6%	19.2%	18.4%	23.9%	20.8%
Net Margin	2.4%	-3.3%	-5.5%	0.9%	2.6%	-3.9%	-1.1%	-1.4%	4.3%	5.7%	-2.1%	2.0%

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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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.

DISTRIBUTION OF RECOMMENDATIONS:

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personnel and research analysts with the investment thesis and overall research recommendation developed before the commission is established.