TRANSPRO INC
Form 10-Q
November 09, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

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

TRANSPRO, 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 [X] No [ ]

The number of shares of common stock, $.01 par value, outstanding as of November 7, 2001 was 6,608,610.

Exhibit Index is on page 15 of this report.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRANSPRO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(in thousands, except per share amounts)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Net sales	$ 57,224	$ 53,625
Cost of sales	42,303	41,562
Gross margin	14,921	12,063

Selling, general and administrative expenses	12,586	12,764
Restructuring and other special charges	2,926	425
Loss from continuing operations before interest, taxes and extraordinary item	(591)	(1,126)
Interest expense, net	1,261	1,071
Loss from continuing operations before taxes and extraordinary item	(1,852)	(2,197)
Income tax benefit	(821)	(577)
Loss from continuing operations before extraordinary item	(1,031)	(1,620)
Income from discontinued operation, net of taxes	--	--
Gain on sale of discontinued operation, including income from operations during phase-out period, net of taxes	--	187
(Loss) income before extraordinary item	(1,031)	(1,433)
Loss on debt extinguishment, net of taxes	--	--
Net (loss) income	$ (1,031)	$ (1,433)
Basic (loss) earnings per common share:		
Continuing operations	$ (0.16)	$ (0.25)
Discontinued operation	--	--
Gain on sale of discontinued operation	--	0.03
Loss on debt extinguishment	--	--
Net (loss) earnings per common share	$ (0.16)	$ (0.22)
Diluted (loss) earnings per common share:		
Continuing operations	$ (0.16)	$ (0.25)
Discontinued operation	--	--
Gain on sale of discontinued operation	--	0.03
Loss on debt extinguishment	--	--
Net (loss) earnings per common share	$ (0.16)	$ (0.22)
Weighted average common shares - basic	6,609	6,575
Weighted average common shares and equivalents -diluted	6,609	6,575
Cash dividends per common share	$ --	$ --

The accompanying notes are an integral part of these statements.

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TRANSPRO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)
(in thousands)

	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000	NINE MONTHS ENDED SEPTEMBER 30, 2001	20
Net (loss) income	$(1,031)	$(1,433)	$(7,468)	$ 3
Other comprehensive income, net of tax:				
Foreign currency translation	--	--	--	
Minimum pension liability	--	--	--	
Comprehensive (loss) income	$(1,031)	$(1,433)	$(7,468)	$ 2

The accompanying notes are an integral part of these statements.

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TRANSPRO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data) ASSETS	SEPTEMBER 2001 (Unaudite
Current assets:	
Cash and cash equivalents	$ --
Accounts receivable (less allowances of $3,034 and $2,698)	39,413
Inventories, net:	
Raw materials	16,021
Work in process	2,340
Finished goods	40,391
Total inventories	58,752
Deferred income tax benefit	12,161
Other current assets	1,456
Total current assets	111,782
Property, plant and equipment	81,244
Accumulated depreciation and amortization	(56,098
Net property, plant and equipment	25,146
Goodwill (net of amortization of $806 and $1,130)	4,741
Other assets	2,341
Total assets	$ 144,010
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Revolving credit debt and current portion of long-term debt	$ 35,077
Accounts payable	15,415
Accrued expenses	8,746
Accrued insurance	2,364

Accrued salaries and wages	4,408
Accrued taxes	1,431
Total current liabilities	67,441
Long-term liabilities:	
Long-term debt, net of current portion	7,869
Retirement and post-retirement obligations	3,218
Deferred income taxes	1,398
Other liabilities	146
Total liabilities Commitments and contingent liabilities	80,072
Stockholders' equity:	
Preferred stock, $0.01 par value: authorized 2,500,000 shares;	
Issued and outstanding as follows:	
Series A junior participating preferred stock, $0.01 par value Authorized: 200,000 shares; issued and outstanding: none at September 30, 2001 and December 31, 2000	--
Series B convertible preferred stock, $0.01 par value Authorized: 30,000 shares; issued and outstanding: 30,000 shares at September 30, 2001 and December 31, 2000; (liquidation preference $3,000 at September 30, 2001 and December 31, 2000)	--
Common stock, $0.01 par value: authorized 17,500,000 shares: 6,650,546 shares issued at September 30, 2001 and 6,662,446 at December 31, 2000; 6,608,610 shares outstanding at September 30, 2001 and 6,590,335 at December 31, 2000	66
Paid-in capital	55,029
Unearned compensation	--
Retained earnings	9,143
Accumulated other comprehensive loss	(285
Treasury stock, at cost:	
41,936 shares at September 30, 2001 and 72,111 at December 31, 2000	(15
Total stockholders' equity	63,938
Total liabilities and stockholders' equity	$ 144,010

The accompanying notes are an integral part of these statements.

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TRANSPRO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (in thousands)	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Cash flows from operating activities:		
Net (loss) income	$ (7,468)	$ 3,371
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:		

Restructuring and other special charges	2,926	1,220
Loss on extinguishment of debt	380	--
Gain on sale of discontinued operation	--	(6,189)
Income from discontinued operation	--	(440)
Depreciation and amortization	4,172	4,416
Deferred income taxes	(5,837)	261
Provision for losses - accounts receivable	898	288
Changes in operating assets and liabilities:		
Accounts receivable	(6,157)	(3,976)
Inventories	16,534	(8,963)
Accounts payable	(6,557)	6,921
Accrued expenses	2,470	(4,215)
Net assets held for disposition	--	(37)
Other	2,882	(1,665)
Net cash provided by (used in) operating activities	4,243	(9,008)
Cash flows from investing activities:		
Net proceeds from sale of discontinued operation	--	26,772
Capital expenditures, net of retirements	(2,091)	(3,653)
Net cash (used in) provided by investing activities	(2,091)	23,119
Cash flows from financing activities:		
Dividends paid	(113)	(760)
Net borrowings under revolving credit facility	34,811	--
Repayments under term loan	(570)	--
Borrowings under term loan	4,490	--
Net repayments of previous revolving credit arrangement	(40,042)	(13,374)
Deferred debt costs	(900)	--
Net cash used in financing activities	(2,324)	(14,134)
Decrease in cash and cash equivalents	(172)	(23)
Cash and cash equivalents:		
Beginning of period	172	222
End of period	$ --	$ 199

The accompanying notes are an integral part of these statements.

TRANSPRO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - INTERIM FINANCIAL STATEMENTS

The condensed consolidated financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 including the financial statements and notes thereto included therein.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments which are of a normal recurring nature, 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.

NOTE 2 - RESTRUCTURING AND OTHER SPECIAL CHARGES

During the third quarter of 2001, the Company implemented a restructuring program designed around its business initiatives to improve operating performance. The program, which is expected to continue into 2002, includes the redesign of our distribution system, headcount reductions, the transfer of production between manufacturing facilities and a reevaluation of our product offerings.

As a part of this program, the Company recorded restructuring and other special charges of $2.9 million during the third quarter of 2001. A summary of this charge is as follows:

(in thousands)

	CHARGE TO OPERATIONS	CASH PAYMENTS	NON-CASH CHARGES
Workforce related	$ 784	$273	$ --
Facility consolidations	312	77	--
Impairment of goodwill	1,830	--	1,830
Total	$2,926	$350	$1,830

The workforce-related charge reflects the elimination of 28 salaried and hourly positions within the OEM and aftermarket segments during the quarter. Cash payments are expected to continue through the end of 2002.

The $312 thousand facility consolidation charge represents inventory and machinery movement, lease termination and facility exit expenses associated with the transfer of several product lines between OEM segment manufacturing locations and the closure of five Aftermarket segment branch facilities as part of the redesign of the Company's distribution system. Cash payments are expected to continue into 2002.

Due to changes in product demand, the Company has decided to exit its copper-brass condenser product line and close a California manufacturing plant, resulting in the impairment of $1.8 million of goodwill recorded as part of the Rahn Industries acquisition in 1996. The write-off is the result of a

determination that the present value of estimated future cash flows is less than the carrying amount of the goodwill.

During the first quarter of 2000, the Company recorded $795 thousand in closure costs related to actions taken in the Aftermarket segment to close a regional radiator manufacturing facility and to consolidate one distribution facility into another existing location. A summary of the closure costs is as follows:

(Amounts in thousands)

	CHARGE TO OPERATIONS	AMOUNTS PAID AND REVERSED THROUGH DECEMBER 31, 2000	AMOUNTS PAID DURING 2001
Workforce related	$222	$222	$ --
Facility consolidations	542	491	51
Asset write down	31	31	--
Total	$795	$744	$ 51

NOTE 3 - BORROWING AGREEMENT

For the period April 30, 2001 through June 30, 2001, the Company was in default of the net worth covenant contained in its loan agreement with Congress Financial Corporation ("Congress"). Congress has waived the default by executing the first amendment to the loan agreement. The amendment provides that effective July 1, 2001, borrowings will bear interest at either 1.5% above the prime rate or 4% in excess of the Eurodollar rate, at the Company's option.

On July 30, 2001, the Company entered into a second amendment to the loan agreement. The amendment provides for a lower net worth covenant threshold for periods ending after July 30, 2001.

NOTE 4 - STOCK OPTION TENDER OFFER

On July 5, 2001, the Company commenced a tender offer for all outstanding options under the 1995 Stock Plan having an exercise price in excess of $4.00 per share. Under the terms of the offer, tendered options would be cancelled and exchanged for new options to be granted on or about the first business day which is six months and one day after the option cancellation date. The number of options to be granted would be equal to one half of the tendered options for those grants with an exercise price between $4.00 and $6.00 and one third of the tendered options for those grants greater than $6.00. The tender offer expired on August 2, 2001. Of the options to purchase 116,576 shares available to be tendered, options to purchase 69,176 shares were tendered and have been cancelled. Options which were not tendered continue with their original terms and conditions. The Company's Chief Executive Officer and Chief Financial Officer did not have outstanding options eligible for the tender offer. In addition, the Directors Stock Option Plan was not included in the tender offer.

NOTE 5 - RELATED PARTY TRANSACTION

During the second quarter of 2001, the Board of Directors authorized the issuance of 30,175 shares of treasury stock and the payment of $96,565 to the Chairman of the Board as compensation for serving as interim President of the Company.

NOTE 6 - (LOSS) INCOME PER SHARE

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

(in thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000
Numerator:		
Loss from continuing operations	$(1,031)	$(1,620)
Less: preferred stock dividend	(37)	(30)
Loss from continuing operations attributable to common stockholders - basic and diluted	(1,068)	(1,650)
Income from discontinued operation, net of tax	--	--
Gain on sale of discontinued operation, net of tax	--	187
Loss on debt extinguishment, net of tax	--	--
Net (loss) income (attributable) available to common stockholders - basic and diluted	$(1,068)	$(1,463)
Denominator:		
Weighted average common shares	6,609	6,597
Non-vested restricted stock	--	(22)
Adjusted weighted average common shares - basic and diluted	6,609	6,575
Basic and diluted (loss) income per common share:		
Continuing operations	$ (0.16)	$ (0.25)
Discontinued operation	--	--
Gain on sale of discontinued operation	--	0.03
Loss on debt extinguishment	--	--
Net (loss) income per common share	$ (0.16)	$ (0.22)

The weighted average basic common shares outstanding was used in the calculation of the diluted loss per common share for the three and nine months ended September 30, 2001 and 2000 as the use of weighted average diluted common shares outstanding would have an anti-dilutive effect on loss per share from continuing operations for the periods.

Certain options to purchase common stock were outstanding during the three and nine months ended September 30, 2001 and 2000, but were not included in the computation of diluted loss per share because their exercise prices were greater than the average market price of common shares for the period. The anti-dilutive options outstanding and their exercise prices are as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	2001
Options outstanding	81,300	500,304	81,30
Range of exercise prices	$5.50 - $11.75	$5.50 - $11.75	$5.50 - $

NOTE 7 - SERIES B CONVERTIBLE PREFERRED STOCK

In connection with the acquisition of Evap, Inc., the Company issued 30,000 shares of TransPro, Inc. Series B Convertible Preferred Stock (the "Series B Preferred Stock"). The purchase agreement

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provides for a potential additional payout for the Evap acquisition based on the earnings performance of the business for the period January 1, 1999 through December 31, 2000 that would take the form of an increase in the liquidation preference of the Series B Preferred Stock. The holder of the Series B Preferred Stock has disputed the calculation of the payout amount and, the Company is attempting to resolve the differences in accordance with the provisions of the Evap stock purchase agreement.

NOTE 8 - SEGMENT AND BUSINESS INFORMATION

The table below sets forth information about reported segments:

(in thousands)	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000
Trade Sales:		
Aftermarket heating and cooling systems	$ 49,596	$ 45,237
OEM heat transfer systems	7,628	8,388
Inter-segment Sales:		
Aftermarket heating and cooling systems	1,159	1,196
OEM heat transfer systems	281	25
Eliminations	(1,440)	(1,221)
Consolidated Total	$ 57,224	$ 53,625
(Loss) Income from Continuing Operations Before Interest, Taxes and Extraordinary Item:		
Aftermarket heating and cooling systems	$ 4,430	$ 1,356
Restructuring and other special charges	(2,353)	--
Aftermarket total	2,077	1,356
OEM heat transfer systems	(617)	(862)
Restructuring and other special charges	(573)	--

OEM total	(1,190)	(862)
Corporate expenses	(1,478)	(1,195)
Restructuring and other special charges	--	(425)
Corporate total	(1,478)	(1,620)
Consolidated Total	$ (591)	$ (1,126)

NOTE 9 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141"), and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 deals with accounting for acquisitions while SFAS 142 will require that goodwill and certain intangibles no longer be amortized, but instead be tested for impairment at least annually. SFAS 141 is effective for all business combinations initiated after June 30, 2001, while SFAS 142 will be effective for years beginning after December 15, 2001. The adoption of SFAS 141 will not have a material impact on the Company's results of operations or financial position. The Company is currently assessing the impact of SFAS 142 on its operating results and financial condition. Annual goodwill amortization approximates $400 thousand.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred and is effective for years beginning after June 15, 2002. In August

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2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which provides guidance on the accounting for the impairment or disposal of long-lived assets and will be effective for years beginning after December 15, 2001. The Company is currently reviewing the provisions of SFAS 143 and 144 to determine their impact on its operating results and financial condition.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING RESULTS

QUARTER ENDED SEPTEMBER 30, 2001 VERSUS QUARTER ENDED SEPTEMBER 30, 2000

Net sales increased $3.6 million or 6.7% from a year ago. Sales in the Aftermarket Heating and Cooling Systems segment ("Aftermarket") increased 9.6% largely due to increased unit sales of radiators and air conditioning parts. Sales in the OEM Heat Transfer System Segment ("OEM") declined 9.1% as an 11.8% unit volume drop offset the favorable impact of price increases. The heavy-duty truck marketplace continues to be softer than a year ago. While the Company did experience a softening of sales during the remainder of the month, as a result of the terrorist attacks of September 11, October results did return to more normal levels.

Gross margins improved to 26.1% versus 22.5% a year ago, due largely to improvements within the Aftermarket segment. Aftermarket margins benefited from material cost and other spending reductions and higher production levels caused by an increase in unit sales, which generated increased overhead absorption. OEM segment margins were slightly lower than a year ago as the impact of lower production levels offset spending reductions which have been implemented. Last year's gross margin percentage reflects that the Company had begun to reduce production levels in an effort to lower inventories which resulted in lower levels of overhead absorption.

Selling, general and administrative expenses declined from a year ago by $178 thousand and as a percent of sales from 23.8% last year to 22.0%. Lower expense levels in 2001 were the result of cost reduction programs implemented during the quarter and offset the impact of a $328 thousand provision made for the write-off of a receivable from a customer which declared bankruptcy.

During the third quarter of 2001, the Company implemented a restructuring program designed around its previously announced business initiatives to improve operating performance. The program, which is expected to continue into 2002, includes the redesign of our distribution system, headcount reductions, the transfer of production between manufacturing facilities and a reevaluation of our product offering. As part of this program, the Company recorded restructuring and other special charges of $2.9 million. This represents $784 thousand to cover work force related costs, $312 thousand for facility consolidations and $1.8 million for the impairment of goodwill. The workforce-related charge reflects the elimination of 28 salaried and hourly positions within the OEM and Aftermarket segments during the quarter. Cash payments made during the quarter were $273 thousand and payments are expected to continue through the end of 2002. The facility consolidation charge represents inventory and machinery movement, lease termination and facility exit expenses associated with the transfer of several product lines between OEM segment manufacturing locations and the closure of five Aftermarket segment branch facilities as part of the redesign of the Company's distribution system. During the quarter, $77 thousand in cash payments was made, and we expect these to continue into 2002. Due to changes in product demand, the Company has decided to exit its copper brass condenser product line and close a California manufacturing facility, resulting in the impairment of $1.8 million of goodwill recorded as part of the Rahn Industries acquisition in 1996. The write-off of this goodwill is the result of a determination that the present value of estimated future cash flows is less than the carrying amount of the goodwill. We expect that pretax savings from these restructuring programs will be approximately $3 million on an annualized basis. Last year $425 thousand of severance was recorded as a result of the departure of the Company's former President and CEO.

Interest expense was 17.7% above a year ago as higher average debt levels offset the impact of lower interest rates.

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The income tax benefit in the quarter reflects the change in the expected effective tax rate for the year from 29.7% to 32%.

NINE MONTHS ENDED SEPTEMBER 30, 2001 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2000

Nine month sales are $2.2 million or 1.4% above a year ago. Aftermarket sales, which were 7.3% higher, benefited from increased radiator and heater volume. OEM sales declined 23.7% as lower volume exceeded the impact of favorable pricing actions implemented in the third quarter.

The gross margin percentage was 20.6% versus 22.8% a year ago. Margins were lowered by 1.2% due to adjustments recorded in the second quarter to reflect higher OEM warranty program costs and the settlement of a vendor dispute. Aftermarket margins have declined due to unabsorbed overhead caused by production cutbacks earlier in the year and lower average selling prices. The OEM segment reduced margins are caused by lower production for the weak heavy-duty truck market.

Operating expenses increased 3.9% to 23.5% of sales versus 23% a year ago. This increase reflects the write-off of a bankrupt customer's accounts receivable, higher self-insured health care costs and higher costs associated with the Company's computer upgrade project.

Restructuring and other special charges of $2.9 million were recorded during the third quarter of 2001. A year ago, the Company recorded $425 thousand for severance payments to the former President and CEO and $795 for closure costs.

Higher average debt levels caused the 4.4% increase in interest expense.

The income tax benefit includes $554 thousand resulting from the favorable settlement of an IRS audit during the second quarter of 2001 and the increase of the effective annual tax rate to 32% from the 29.7% rate used in the second quarter.

As a result of the pay down of the previous revolving credit agreement during the first quarter of 2001, an extraordinary charge of $380 thousand, net of tax, was recorded to reflect the write-off of unamortized debt issue costs.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company entered into a $65 million Loan and Security Agreement (the "Loan Agreement") on January 4, 2001 with Congress Financial Corporation (New England) ("Congress"), an affiliate of First Union National Bank. The Loan Agreement replaces a $52 million revolving credit arrangement with five banking institutions.

The Loan Agreement provides for collateralized borrowings or the issuance of letters of credit in an aggregate amount not to exceed $65 million and is comprised of a $60 million Revolving Credit Facility and a $5 million Term Loan. The initial term of the Loan Agreement expires on January 5, 2004, with annual extensions thereafter at the option of Congress.

The Loan Agreement is collateralized by a blanket first security interest in substantially all of the Company's assets plus a pledge of the stock of the Company's subsidiaries. Available borrowings under the Revolving Credit Facility are determined by a borrowing base consisting of the Company's eligible accounts receivable and inventory, as adjusted by an advance rate. Borrowings under the Revolving

Credit Facility are classified as short term in the condensed consolidated balance sheet. The Term Loan is payable in 59 consecutive equal monthly installments of $75 thousand commencing February 1, 2001, with a balloon payment due on January 5, 2004.

Amounts borrowed under the Loan Agreement initially bore interest at variable rates based, at the Company's option, on either the Eurodollar rate plus a margin of 2.0%, 2.25% or 2.50% depending on the Company's pretax profit performance, or the First Union National Bank base lending rate. The Loan Agreement contains covenants regarding working capital and net worth and prohibits the payment of common stock dividends.

For the period April 30, 2001 through June 30, 2001, the Company was in default of the net worth covenant contained in the Loan Agreement. Congress waived the default by executing the first amendment to the Loan Agreement. The amendment provides that effective July 1, 2001, borrowings will bear interest at either 1.5% above the prime rate or 4% in excess of the Eurodollar rate at the Company's option.

On July 30, 2001, the Company entered into a second amendment to the Loan Agreement which provides for a lower net worth covenant threshold for periods ending after July 30, 2001.

Operations generated $4.2 million of cash in the first nine months of 2001 versus 2000 when $9.0 million was used. In 2001, the Company's inventory reduction plan, implemented in the second quarter, generated $16.5 million of cash while $6.6 million of cash was utilized to pay down trade accounts payable in order to bring outstanding balances in line with stated terms. A year ago inventories rose by $9.0 million due to increased purchases and higher production levels. As a result of the September 11 terrorist attacks, the bank lock box processing center used by the Company was forced to relocate resulting in a delay in processing customer receipts for the month. The Company estimates that $2 million to $2.5 million of remittances were not processed until early October resulting in a higher level of accounts receivable and debt at the end of the quarter than would otherwise have been achieved.

Capital expenditures are running below a year ago due to the Company's efforts to control spending levels. The Company expects that expenditures for the year will approximate depreciation expense.

Funds provided by the new Loan Agreement were utilized to pay off the previous revolver and provide funds for operating activities. During the third quarter, $5.4 million of the revolver was repaid utilizing funds generated by operations. During 2000, the Company utilized the proceeds from the sale of its discontinued operation to pay down $13.4 million of the old revolving credit agreement and fund operating needs. As of September 30, 2001, the Company had approximately $5 million available for future borrowings under the Loan Agreement.

The future liquidity and ordinary capital needs of the Company in the short term are expected to be met from operations. The Company's working capital requirements peak during the second and third quarters, reflecting the normal seasonality of the Aftermarket Heating and Cooling Systems business. The Company believes that, together with borrowings under its current Loan Agreement, its cash flow from operations will be adequate to meet its anticipated ordinary capital expenditure and working capital requirements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 deals with accounting for acquisitions while SFAS 142 will require that goodwill and certain intangibles no longer be amortized, but instead be tested for impairment at least annually. SFAS 141 is effective for all business combinations initiated after June 30, 2001, while SFAS 142 will be

effective for fiscal years beginning after December 15, 2001. The adoption of SFAS 141 will not have a material impact on the Company's results of operations or financial position. The Company is currently assessing the impact of SFAS 142. Annual goodwill amortization approximates $400 thousand.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred and is effective for years beginning after June 15, 2002. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which provides guidance on the accounting for the impairment or disposal of long-lived assets and will be effective for years beginning after December 15, 2001. The Company is currently reviewing the provisions of SFAS 143 and 144 to determine their impact on its operating results and financial condition.

FORWARD-LOOKING STATEMENTS AND CAUTIONARY FACTORS

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's Annual Report on Form 10-K contains certain detailed factors that could cause the Company's actual results to materially differ from the forward-looking statements made by the Company. In particular, statements relating to the future financial performance of the Company are subject to business conditions and growth in the general economy and automotive and truck business, the impact of competitive products and pricing, changes in customer product mix, failure to obtain new customers or retain old customers or changes in the financial stability of customers, changes in the cost of raw materials, components or finished products and changes in interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has exposures to market risk related to changes in interest rates, foreign currency exchange rates and commodities. There have been no material changes in market risk since the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

3.1 Amended and Restated By-Laws of TransPro, Inc.

b) Reports on Form 8-K

On October 24, 2001, the Company filed a Current Report on Form 8-K, which included the press release of October 23, 2001 announcing guidance on third quarter results and preliminary details on a restructuring charge to be taken between the third quarter of 2001 and the second quarter of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSPRO, INC.
(Registrant)

Date: November 9, 2001

By: \s\ Charles E. Johnson

Charles E. Johnson
President and Chief Executive Officer (Principal Executive Officer)

Date: November 9, 2001

By: \s\ Richard A. Wisot

Richard A. Wisot
Vice President, Treasurer, Secretary, and Chief Financial Officer (Principal Financial and Accounting Officer)