TRANSPRO INC
Form 10-Q
November 12, 2003

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, 2003

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 [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The number of shares of common stock, $.01 par value, outstanding as of November 3, 2003 was 7,106,023. Exhibit Index is on page 16 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,	
	2003	2002
Net sales	$ 65,629	$ 65,
Cost of sales	52,415	51,
Gross margin	13,214	14,
Selling, general and administrative expenses	9,071	10,
Restructuring and other special charges	302	
Operating income (loss)	3,841	3,

Interest expense	942	1,
Income (loss) before taxes and cumulative effect of accounting change	2,899	2,
Income tax provision (benefit)	938	
Income (loss) before cumulative effect of accounting change	1,961	1,
Cumulative effect of accounting change, net of tax	--	
Net income (loss)	$ 1,961	$ 1,
Basic income (loss) per common share:		
Before cumulative effect of accounting change	$ 0.27	$ 0
Cumulative effect of accounting change	--	
Net income (loss) per common share	$ 0.27	$ 0
Diluted income (loss) per common share:		
Before cumulative effect of accounting change	$ 0.27	$ 0
Cumulative effect of accounting change	--	
Net income (loss) per common share	$ 0.27	$ 0
Weighed average common shares-- basic	7,106	6,
-- diluted	7,185	7,

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

Current assets:
Cash and cash equivalents
Accounts receivable (less allowances of $2,753 and $2,996)
Inventories:
Raw material and component parts
Work in process
Finished goods

Total inventories

Other current assets

Total current assets

Property, plant and equipment

Accumulated depreciation and amortization

Net property, plant and equipment

Other assets

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
Revolving credit debt and current portion of long-term debt
Accounts payable
Accrued liabilities

Total current liabilities

Long-term liabilities:
Long-term debt
Other long-term liabilities

Total long-term liabilities

Commitments and contingent liabilities

Stockholders' equity:
Preferred stock, $.01 par value: authorized 2,500,000 shares;
issued and outstanding as follows:
Series A junior participating preferred stock, $.01 par value:
authorized 200,000 shares; issued and outstanding -- none at
September 30, 2003 and December 31, 2002
Series B convertible preferred stock, $.01 par value: authorized
30,000 shares; issued and outstanding-- 12,781 shares at
September 30, 2003 and December 31, 2002 (liquidation preference $1,278)

Common Stock, $.01 par value: authorized 17,500,000 shares; 7,147,959
shares issued at September 30, 2003 and December 31, 2002; 7,106,023
shares outstanding at September 30, 2003 and December 31, 2002
Paid-in capital
Accumulated deficit
Accumulated other comprehensive loss
Treasury stock, at cost, 41,936 shares at September 30, 2003 and December 31, 2002

Total stockholders' equity

Total liabilities and stockholders' equity

The accompanying notes are an integral part of these statements.

TRANSPRO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Amounts in thousands)

Cash flows from operating activities:
Net (loss) income
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:
Depreciation and amortization
Cumulative effect of accounting change
Provision for uncollectible accounts receivable
Non-cash restructuring charges
Gain on sale of building
Changes in operating assets and liabilities:
Accounts receivable
Inventories
Accounts payable
Accrued expenses
Other

Net cash provided by (used for) operating activities

Cash flows from investing activities:
Capital expenditures, net of sales and retirements
Net proceeds from sale of building

Net cash provided by (used for) investing activities

Cash flows from financing activities:
Dividends paid
Net (repayments) borrowings under revolving credit facility
Repayment of Industrial Revenue Bond
Repayments of term loan and capitalized lease obligations
Deferred debt issuance costs

Net cash (used for) provided by financing activities

Increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

The accompanying notes are an integral part of these statements.

TRANSPRO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2002 including the audited financial statements and notes thereto included therein.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of consolidated financial position, consolidated results of operations and consolidated cash flows have been included in the accompanying unaudited condensed consolidated financial statements. All such adjustments are of a normal recurring nature. Certain reclassifications have been made to prior amounts to conform to the current year presentations.

NOTE 2 - STOCK COMPENSATION COSTS

The Company applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the financial statements. Had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards under the plans, consistent with Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure", the pro forma net income (loss) and income (loss) per share would have been as follows:

	Three Months Ended September 30,		Nine Month Ended Septembe
(in thousands, except per share amounts)	2003	2002	2003
Net income (loss):			
As reported	$1,961	$1,700	$(2,981)
Pro forma	$1,884	$1,606	$(3,160)
Basic net income (loss) per common share:			
As reported	$0.27	$0.24	$(0.43)
Pro forma	$0.26	$0.23	$(0.45)
Diluted net income (loss) per common share:			
As reported	$0.27	$0.24	$(0.43)
Pro forma	$0.26	$0.22	$(0.45)

NOTE 3 - COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2003 and 2002, other comprehensive income (loss) was comprised of the reported net income (loss) for the period of $2.0 million and $(3.0) million in 2003 and $1.7 million and $2.3 million in 2002, respectively.

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NOTE 4 - 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 was completed during the second quarter of 2003, included the redesign of our distribution system, headcount reductions, the transfer of production between manufacturing facilities and a re-evaluation of our product offerings and manufacturing capacity. During the second and third quarter of 2003, the Company incurred costs at its existing Mexican facility as a result of the relocation of copper/brass heater production equipment acquired in the acquisition of Fedco Automotive Components Company ("Fedco") in December, 2002. In addition, the Company commenced a new program of cost reduction actions which included the elimination of salaried positions across all strategic business groups ("SBG"). Costs under these programs are expected to continue through the end of 2003.

During the first nine months of 2003, the Company recorded restructuring and other special charges of $1.3 million. A summary of these charges is as follows:

	Balance at December 31, 2002	Charge to Operations	Cash Payments	Non-Cash Write-off	Balance at September 30, 2003
Workforce related	$475	$ 783	$(1,004)	$ --	$254
Facility consolidations	162	409	(562)	--	9
Asset write-down	--	68	--	(68)	--
Total	$637	$1,260	$(1,566)	$(68)	$263

The workforce-related charge reflects the elimination of 65 salaried and hourly positions within the Heavy Duty and Automotive and Light Truck strategic business groups during 2003. Cash payments are expected to continue through the end of 2003.

The facility consolidation charges represent inventory and machinery movement, lease termination and facility exit expenses associated with the closure of one Automotive and Light Truck SBG branch facility as part of the redesign of the Company's distribution system and two Heavy Duty Aftermarket manufacturing plants. In addition, it reflects costs to move equipment acquired in the Fedco acquisition to our existing facility in Mexico. Cash payments are expected to continue through 2003.

NOTE 5 - SALE OF BUILDING

On May 1, 2003, the Company completed the sale of its headquarters facility in New Haven, Connecticut. In conjunction with the sale, the Company entered into a six-year lease for the office, test lab and tube mill space, which it currently occupies. The proceeds from the sale were used to repay the $5.0 million outstanding balance of the Industrial Revenue Bond ("IRB") on the facility. The gain on the sale of the building, of approximately $1.6 million, will be recognized as income equally over the six-year term of the lease. The minimum lease obligation under the lease agreement is $0.3 million per year or $2.0 million for the full term of the lease.

NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which provides the accounting requirements for retirement obligations associated with

tangible long-lived assets. This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This Statement was effective for the Company on January 1, 2003. The adoption of SFAS 143 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In September 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal and exit activities, including restructuring, and was effective for the Company on January 1, 2003. SFAS 146 requires that certain exit or disposal costs be recorded as operating expenses when incurred as opposed to being accrued at the time there is a commitment to an exit plan as required by EITF Issue 94-3. The restructuring activities initiated in 2003 have been accounted for in accordance with SFAS 146.

During December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") which amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods for determining compensation expense and amends quarterly and annual disclosure requirements. The Company has adopted the disclosure provisions of SFAS No. 148 in its year-end and interim reporting.

NOTE 7 - INCOME (LOSS) PER SHARE

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

(in thousands, except per share data)

	Three Months Ended September 30,		E
	2003	2002	20
Numerator:			
Income (loss) before cumulative effect of accounting change	$1,961	$ 1,700	$
Deduct preferred stock dividend	(16)	(24)	
Income (loss) before cumulative effect of accounting change available (attributable) to common stockholders - basic	1,945	1,676	
Cumulative effect of accounting change, net of tax	--	--	
Net income (loss) available (attributable) to common stockholders - basic	$1,945	$ 1,676	$
Income (loss) before cumulative effect of accounting change available (attributable) to common stockholders - basic	$1,945	$ 1,676	$
Add back preferred stock dividend	16	24	

Income (loss) before cumulative effect of accounting change	1,961	1,700	
Cumulative effect of accounting change, net of tax	--	--	
Net income (loss) available (attributable) to common stockholders - diluted	$1,961	$ 1,700	$
Denominator:			
Weighted average common shares-- basic	7,106	6,982	
Dilutive effect of Series B preferred stock	40	159	
Dilutive effect of stock options	39	88	
Adjusted weighted average common shares and equivalents -- diluted	7,185	7,229	
Basic income (loss) per common share:			
Before cumulative effect of accounting change	$ 0.27	$ 0.24	
Cumulative effect of accounting change	--	--	
Net income (loss) per common share	$ 0.27	$ 0.24	
Diluted income (loss) per common share:			
Before cumulative effect of accounting change	$ 0.27	$ 0.24	
Cumulative effect of accounting change	--	--	
Net income (loss) per common share	$ 0.27	$ 0.24	

The weighted average basic common shares outstanding were used in the calculation of the diluted loss per common share for the nine months ended September 30, 2003 as the use of weighted average diluted common shares outstanding would have an anti-dilutive effect on loss per share from operations for the period.

Certain options to purchase common stock were outstanding during the three and nine months ended September 30, 2003 and 2002, but were not included in the computation of diluted income (loss) per share because their exercise prices were greater than the average market price of common shares for the periods. The anti-dilutive options outstanding and their exercise prices are as follows:

	Three Months Ended September 30,		Nin
	2003	2002	2
Options outstanding	301,000	91,300	3
Range of exercise prices	$4.72 - $11.75	$5.50 - $11.75	$4.72

NOTE 8 - BUSINESS SEGMENT DATA

The Company is organized into two segments, also referred to herein as strategic business groups ("SBG"), based on the type of customer served -- Automotive and Light Truck, and Heavy Duty. The Automotive and Light Truck SBG is comprised of a heat exchange unit and a temperature control products unit,

both serving the aftermarket. The Heavy Duty SBG consists of an OEM and Aftermarket unit, both serving the heavy duty marketplace. Prior year results have been reclassified to reflect the current year classification of expenses. The table below sets forth information about the reported segments:

	Three Months Ended September 30,		N Ended
	2003	2002	2003
Trade sales:			
Automotive and Light Truck	$48,906	$46,924	$13
Heavy Duty	16,723	18,998	4
Intersegment transfers:			
Automotive and Light Truck	993	602	
Heavy Duty	--	--	
Eliminations	(993)	(602)	(
Total net sales	$65,629	$65,922	$17
Operating income (loss):			
Automotive and Light Truck	$4,435	$5,860	$
Restructuring and other special charges	(302)	(118)	
Automotive and Light Truck total	4,133	5,742	
Heavy Duty	625	(122)	
Restructuring and other special charges	--	(856)	
Heavy Duty total	625	(978)	(
Corporate expenses	(917)	(1,526)	(
Total operating income (loss)	$3,841	$3,238	$ (

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

OPERATING RESULTS

QUARTER ENDED SEPTEMBER 30, 2003 VERSUS QUARTER ENDED SEPTEMBER 30, 2002

Sales for the third quarter of 2003 of $65.6 million were $0.3 million or 0.4% below last year. The Automotive and Light Truck segment had sales of $48.9 million, which were $2.0 million or 4.2% above 2002. Heat exchange product sales were 4.3% above last year, while temperature control product sales were 3.7% higher than a year ago. New sales programs introduced since last year and the acquisition of Fedco Automotive Components Company ("Fedco"), together generated revenues of approximately $5.3 million during the third quarter of 2003. These positive contributions were partially offset by a decline in demand from existing customers for the Company's heat exchange and temperature control

products due to a continued customer realignment of inventory levels and a shorter and weaker than anticipated peak selling season reflecting milder than usual weather. In addition, these products continued to experience competitive pricing pressures. Heavy Duty segment sales in the third quarter of 2003 were $16.7 million, $2.3 million or 12.0% below last year. Sales in the Heavy Duty OEM unit were down 12.4% or $1.2 million as expected, due to the phase out in late 2002 of certain customer programs. New customer programs to replace those phased out, including the recently announced Monaco Coach and Cummins Power Generation programs, will begin to generate sales revenue during the fourth quarter of 2003. In addition, sales in 2002 benefited from higher volumes reflecting customer purchases in anticipation of heavy truck engine changes caused by new emission regulations, which became effective in the fourth quarter of 2002. Both weather and a weak general industrial market contributed to the 11.5% decline of Heavy Duty Aftermarket unit sales during the period.

Gross margin, as a percentage of net sales, was 20.1% versus 21.8% in the third quarter last year. A year ago gross margin included approximately $0.5 million in restructuring charges associated with the closure of our Maquoketa, Iowa Heavy Duty manufacturing plant. The impacts of lower sales volumes due to the current soft market, competitive pricing pressures and changes in customer mix continued to mask or delay the benefits of the Company's cost reduction programs. As expected, start-up delays at the Company's new aluminum tube mill operation were successfully addressed early in the third quarter, and will lead to lower tube and radiator core manufacturing costs in future periods after outside purchased tube is consumed. Gross margin for the third quarter increased over the 15.4% in the second quarter of 2003 reflecting higher production levels and the benefits of the Company's cost reduction activities.

Selling, general and administrative expenses decreased as a percentage of net sales to 13.8% from 16.1% in the third quarter of 2002. The decrease in expenses primarily reflects the impacts of the Company's cost reduction programs as well as incentive and other accrual adjustments to reflect current business conditions.

The Company recorded $0.3 million in restructuring and special charges during the third quarter of 2003. These charges primarily reflect severance costs due to headcount reductions taken during the third quarter, along with costs related to the integration of the Fedco copper/brass heater core production into our existing Mexico facility. In the third quarter of 2002, the Company recorded restructuring charges of $1.0 million, of which $0.5 million was included in cost of sales, primarily as a result of the closure of the Maquoketa, Iowa production facility.

Interest costs were $0.1 million below last year's levels as lower interest rates offset the impact of higher average debt levels. Average rates on our revolving credit facility were 4.00% for the third quarter of 2003 versus 6.25% for the same period last year, while average borrowings for the quarter were $57.7 million

in 2003 compared with $47.6 million a year ago. Discounting charges associated with the customer-sponsored vendor program administered by a financial institution are included in interest expense.

During the third quarter of 2003, the Company recorded a tax benefit of $0.6 million, which represents additional refundable income taxes as a result of filing the Company's 2002 Federal Income Tax return. The income tax provision for the third quarter of 2003 also includes an adjustment to the effective tax rate to reflect the expected rate at year-end. The effective tax rate in both

2003 and 2002 reflects only a state and foreign provision, as the reversal of the deferred tax valuation allowance will offset any federal tax provision.

Net income for the third quarter was $2.0 million, or $0.27 per basic and diluted share in 2003 versus $1.7 million or $0.24 per basic and diluted share in 2002.

NINE MONTHS ENDED SEPTEMBER 30, 2003 VERSUS SEPTEMBER 30, 2002

For the nine months ended September 30, 2003, net sales of $176.6 million were 1.5% below a year ago. Automotive and Light Truck segment sales were up 3.2% as the gains in both heat exchange and temperature control units resulting from new customer program introductions and the acquisition of Fedco offset second and third quarter unit volume declines reflecting customer reactions to weather and their own inventory reduction efforts along with ongoing competitive pricing pressures. Heavy Duty segment sales were 13.0% below 2002 reflecting lower OEM sales caused by the phase out in 2002 of customer programs, which will not be replaced until the fourth quarter of 2003, and higher than normal sales in 2002 reflecting customer purchases in anticipation of changes in engine emission regulations. Heavy Duty Aftermarket unit sales were adversely impacted by weather and soft market conditions.

Gross margins, as a percentage of net sales for the nine months of 2003, were 16.6% compared with 21.0% a year ago. Included in the 2002 gross margin were $0.5 million of restructuring charges. The year-over-year decline in the gross margin percentage was primarily the result of production cutbacks instituted in the Automotive and Light Truck SBG in the fourth quarter of 2002. These cutbacks resulted in higher actual inventory costs at the end of 2002, which translated into lower gross margins in 2003 as the product was sold. Start-up problems with our aluminum tube mill during the first half of 2003 and an increase in price competition and change in customer mix also adversely impacted margins. These items offset the favorable impacts of the Company's cost reduction programs.

Selling, general and administrative expenses were $29.4 million, or 16.7% of net sales versus $30.2 million or 16.8% of net sales for the first nine months a year ago. Expenses of Fedco incurred during the first quarter prior to the completion of the integration program and higher levels of costs for major system improvements have been offset by benefits of the Company's cost reduction initiatives along with incentive and other accrual reductions reflecting the current soft market conditions.

Restructuring and other special charges of $1.3 million for the first nine months of 2003 represent costs associated with the closure of two regional Heavy Duty Aftermarket plants in North Kansas City, Missouri and Phoenix, Arizona and the closure of the Charlotte, North Carolina branch, the movement of Fedco copper/brass inventory and machinery to Mexico and a cost reduction program of salaried headcount reductions. The salaried headcount reduction actions taken during the second and third quarter of 2003 are expected to lower spending levels by approximately $2.4 million on an annualized basis. Restructuring costs in 2002 were $1.2 million, including $0.5 million, which was classified in cost of sales. These costs were primarily associated with the shutdown of a Heavy Duty Aftermarket unit manufacturing facility in Maquoketa, Iowa.

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Interest costs were $0.1 million above last year for the first nine months of 2003, as higher average debt levels offset the impact of lower average interest rates. Average interest rates on our revolving credit facility were

4.17% in 2003 and 6.25% in 2002, while average debt levels were $56.3 million in 2003 compared with $41.2 million last year.

The effective tax rate in both 2003 and 2002 reflects only a state and foreign provision, as the reversal of the deferred tax valuation allowance will offset any federal tax provision. The tax provision in 2003 also includes a $1.3 million benefit, reflecting additional refundable income taxes recorded during the second and third quarters, as a result of filing the Company's 2002 Federal Income Tax return. During March 2002, tax legislation was enacted, which included a provision that allowed pre-tax losses incurred in 2001 and 2002 to be carried back for a period of five years instead of two years. As a result, the Company recorded a tax benefit in the first quarter of 2002 of $3.8 million, which reflected a reduction in the deferred tax valuation allowance.

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which required that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definitive lives will continue to be amortized over their useful lives. The Company adopted SFAS 142 in the first quarter of 2002. As a result of applying the tests included in SFAS 142, the Company determined that there was a transitional impairment loss relating to the valuation of the goodwill recorded by its Automotive and Light Truck segment. The cumulative effect of this change in accounting principle, in the amount of $4.7 million, was expensed in the consolidated results of operations in the first quarter of 2002. This write-off had no impact on cash flow from operations.

Loss before the cumulative effect of the accounting change was $3.0 million, or $0.43 per basic and diluted share in 2003 versus income of $7.0 million or $0.99 per basic and $0.97 per diluted share in 2002. The net loss for the first nine months of 2003 was $3.0 million or $0.43 per basic and diluted share versus net income of $2.3 million or $0.32 per basic and diluted share in 2002.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities was $4.4 million in the first nine months of 2003. Accounts receivable levels decreased by $4.2 million as the Company accelerated the collection of customer receivables utilizing a cost effective customer-sponsored vendor program administered by a financial institution. This accelerated collection was done in an effort to offset the continuing trend towards longer customer payment terms by "blue chip" customers. Inventory levels grew $7.3 million due to the current soft market conditions, which included a shorter than normal peak selling season for heat exchange and air conditioning products. While the Company expects to reduce inventory levels by year-end from current levels, they are now expected to be $3.0 million to $5.0 million above a year ago due to the current soft market conditions. Accounts payable rose by $7.7 million as a result of the growth in inventory levels as well as our efforts to balance payables with the ongoing shift in customer receivables mix toward longer payment cycles. During the first nine months of 2002, operations used $8.1 million of cash. Accounts receivable in 2002 grew by $27.2 million due to the higher sales levels and a shift in receivable mix towards longer payment cycles. Inventories rose $8.0 million in order to meet higher sales levels, extra purchases of certain difficult to obtain inventory and changes in seasonal customer demand which required building inventory prior to year end. These impacts were partially offset by a $7.0 million increase in accounts payable and net income generated by operations.

The $3.2 million of capital spending during the first nine months of 2003 was primarily in the Automotive and Light Truck segment. The Company expects that expenditures for the year will be between $5.0 million and $6.0 million reflecting expenditures to increase our in-house production capabilities as well as to support expanded capacity at our Buffalo aluminum heater core facility and for computer system improvements.

On May 1, 2003, The Company completed the sale of its Gando Drive headquarters facility in New Haven, Connecticut and entered into a lease of its currently occupied space used for offices, test facility and tube mill operations. As a result, the Company repaid the $5.0 million Industrial Revenue Bond on the facility, created greater availability of funds under its credit agreement and eliminated an underutilized asset. The gain on the sale of the building, of approximately $1.6 million, will be recognized equally over the six-year initial term of the lease on the facility. In the 2003 second and third quarters, the Company recorded a gain of $113 thousand related to this transaction.

Borrowings under the Company's Loan Agreement with Congress Financial Corporation at September 30, 2003 were $53.4 million compared with $54.3 million at December 31, 2002. This $0.9 million reduction reflects the utilization of cash flow generated by operations. At September 30, 2003, the Company had $2.6 million available for future borrowings under its Loan Agreement.

The following table containing the Company's outstanding material contractual obligations, which appeared in the Company's Annual Report on Form 10-K, has been updated as of September 30, 2003, to reflect changes to the Industrial Revenue Bond repayment and the operating lease obligation on the New Haven, Connecticut facility. There were no other material changes in the Company's contractual obligations.

	Payments Due by Period			
Type of Obligation	2003	2004	2005	2006 and T
Revolving credit facility(1)	$51,013	$ --	$--	
Term loan	300	2,100	--	
Industrial revenue bond	--	--	--	
Capital lease obligations	38	167	--	
Operating leases	1,075	6,200	3,500	5
Total	$ 52,426	$8,467	$3,500	$5

(1) Borrowings classified as a current liability in the Consolidated Balance Sheet included in this Report.

The future liquidity and ordinary capital needs of the Company in the short term are expected to be met utilizing cash flow generated by operations. The Company's working capital requirements peak during the second and third quarters, reflecting the normal seasonality of the Automotive and Light Truck 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 for at least the next 12 months.

CRITICAL ACCOUNTING ESTIMATES

For interim reporting purposes, the Company calculates its effective income tax rate based upon the current estimate of pre-tax income for the year. The critical accounting estimates utilized by the Company remain unchanged from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This Statement was effective for the Company on January 1, 2003. The adoption of SFAS 143 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In September 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal and exit activities, including restructuring, and was effective for the Company on January 1, 2003. SFAS 146 requires that certain exit or disposal costs be recorded as operating expenses when incurred as opposed to being accrued at the time there is a commitment to an exit plan as required by EITF Issue 94-3. The restructuring activities during 2003 were recorded in accordance with SFAS No. 146.

During December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") which amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods for determining compensation expense and amends quarterly and annual disclosure requirements. The Company has adopted the disclosure provisions of SFAS No. 148 in its year-end and interim reporting.

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. The forward-looking statements contained in this 10-Q filing are made as of the date hereof, and the Company does not undertake any obligation to update any forward-looking statements, whether as a result of future events, new information or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has certain exposures to market risk related to changes in interest rates, foreign currency exchange rates and the price of commodities used in our manufacturing process. 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, 2002.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2003. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. FINANCIAL INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

- 31.1 Certification of CEO in accordance with Section 302 of the Sarbanes-Oxley Act.
- 31.2 Certification of CFO in accordance with Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of CEO in accordance with Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of CFO in accordance with Section 906 of the Sarbanes-Oxley Act.

b) Reports on Form 8-K

The following reports on Form 8-K were filed during the third quarter of 2003:

- -- On July 31, 2003, a Form 8-K was filed containing as an exhibit a press release announcing information regarding its results of operations and financial condition for the second quarter and first six months of 2003.
- -- On August 5, 2003, a Form 8-K was filed containing as an exhibit a press release announcing a revision of the results of operations and financial condition for the second quarter and first six months of 2003 which had been originally announced on July 31, 2003.

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 10, 2003

By: /s/ Charles E. Johnson

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

Date: November 10, 2003

By: /s/ Richard A. Wisot

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