TRANSPRO INC
Form 10-Q
August 13, 2002

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 June 30, 2002

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 August 9, 2002 was 6,981,889.

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 JUNE 30,

	2002	2001	20
Sales	$ 62,472	$ 55,370	$113
Cost of sales	49,814	48,767	91
Gross margin	12,658	6,603	22
Selling, general and administrative expenses	9,951	10,327	18
Restructuring and other special charges	116	--	
Operating income (loss)	2,591	(3,724)	3
Interest expense	869	1,223	1
Income (loss) before taxes, cumulative effect of accounting change and extraordinary item	1,722	(4,947)	1
Income tax expense (benefit)	177	(2,098)	(3
Income (loss) before cumulative effect of accounting change and extraordinary item	1,545	(2,849)	5
Cumulative effect of accounting change, net of tax	--	--	(4
Loss on debt extinguishment, net of tax	--	--	
Net income (loss)	$ 1,545	$ (2,849)	$
Basic income (loss) per common share:			
Before cumulative effect of accounting change and extraordinary item	$ .21	$ (.44)	$
Cumulative effect of accounting change	--	--	(
Loss on debt extinguishment	--	--	
Net income (loss) per common share	$ .21	$ (.44)	$
Diluted income (loss) per common share:			
Before cumulative effect of accounting change and extraordinary item	$ .21	$ (.44)	$
Cumulative effect of accounting change	--	--	(
Loss on debt extinguishment	--	--	
Net income (loss) per common share	$ .21	$ (.44)	$
Weighed average common shares-- basic	6,982	6,586	6
-- diluted	7,230	6,586	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) Jun

ASSETS 2

(Una

Current assets:
Cash and cash equivalents $
Accounts receivable (less allowances of $3,403 and $2,805)
Inventories:
Raw materials
Work in process
Finished goods

Total inventories

Deferred income taxes
Other current assets

Total current assets

Property, plant and equipment
Accumulated depreciation and amortization

Net property, plant and equipment

Goodwill (net of amortization of $0 and $875)
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
Retirement and postretirement obligations
Deferred income taxes

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 June 30, 2002 and December 31, 2001
Series B convertible preferred stock, $.01 par value: authorized 30,000 shares; issued and outstanding;--18,920 shares at June 30, 2002 and December 31, 2001 (liquidation preference $1,892)

Common Stock, $.01 par value: authorized 17,500,000 shares; 7,023,825 shares issued at June 30, 2002 and December 31, 2001; 6,981,889 shares outstanding at June 30, 2002 and December 31, 2001
Paid-in capital
Retained deficit
Accumulated other comprehensive loss
Treasury stock, at cost - 41,936 shares at June 30, 2002 and December 31, 2001

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)	SIX ENDED 2002
Cash flows from operating activities:	
Net income (loss)	$ 630
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	2,430
Cumulative effect of accounting change	4,671
Provision for uncollectible accounts receivable	765
Loss on extinguishment of debt	--
Changes in operating assets and liabilities:	
Accounts receivable	(24,036)
Inventories	(1,507)
Accounts payable	6,981
Accrued expenses	3,413
Other	1,447
Net cash used in operating activities	(5,206)
Cash flows from investing activities:	
Capital expenditures, net of sales and retirements	(3,385)
Net cash used in investing activities	(3,385)
Cash flows from financing activities:	
Dividends paid	(47)
Net borrowings under revolving credit facility	9,177
Borrowings under term loan	--
Repayments of term loan and capitalized lease obligations	(472)
Net repayments under previous revolving credit arrangement	--
Deferred debt costs	(82)
Net cash provided by financing activities	8,576
Decrease in cash and cash equivalents	(15)
Cash and cash equivalents at beginning of period	150
Cash and cash equivalents at end of period	$135

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, 2001 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 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 period amounts to conform to current year presentations.

NOTE 2 - COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2002 and 2001, comprehensive income (loss) was comprised of the reported net income (loss) for the period of $1.5 million and $0.6 million in 2002 and $(2.8) million and $(6.4) million in 2001, respectively.

NOTE 3 - 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 through 2002, includes the redesign of our distribution system, headcount reductions, the transfer of production between manufacturing facilities, a review of manufacturing locations and a reevaluation of our product offerings.

As a part of the program, the Company recorded restructuring and other special charges of $0.2 million during the first half of 2002. A summary of this charge is as follows:

	BALANCE REMAINING AT DECEMBER 31, 2001	CHARGE (CREDIT) TO OPERATIONS	CASH (PAYMENTS RECEIPTS
Workforce related	$397	$201	$(313)

Asset disposal	--	(100)	100
Facility consolidations	237	82	(149)
Total	$634	$183	$(362)

The workforce-related charge reflects the elimination of 119 salaried and hourly positions within the Heavy Duty and Auto and Light Truck segments during 2001, and earned stay-pay bonuses within the Heavy Duty Segment in 2002. Cash payments are expected to continue through the first quarter of 2003.

During the second quarter of 2002, the Company received proceeds of $0.1 million from the sale of assets which had been written off during the fourth quarter of 2001 in connection with the closure of a California manufacturing facility.

The facility consolidation charges represent inventory and machinery movement, lease termination and facility exit expenses associated with the closure of nine, including one during 2002, Aftermarket

segment branch facilities as part of the redesign of the Company's distribution system. Cash payments are expected to continue through 2002 as a result of costs associated with idle facilities.

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires 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. As this statement is effective for fiscal years beginning after December 15, 2001, the Company has adopted SFAS 142 in the first quarter of 2002. As a result of applying the tests included in SFAS 142, the Company has determined that there was a transitional impairment loss as the carrying value of the goodwill recorded by its Auto and Light Truck segment exceeds the fair value of the business, based on an allocation of the quoted market price of the Company's common stock. The cumulative effect of this change in accounting principle, in the amount of $4.7 million, has been expensed in the consolidated results of operations in the first quarter of 2002. This write-off has no impact on cash flow from operations. In the second quarter of 2001, goodwill amortization was $0.1 million before and $.06 million after tax, while for the first six months of 2001, goodwill amortization was $0.2 million, or $0.1 million after tax. Loss per share before the cumulative effect of accounting change and extraordinary item for the second quarter and first six months of 2001, basic and diluted, would have been $(0.43) and $(0.91) respectively, excluding this amortization. The net loss per share, basic and diluted, for the second quarter and six months ended June 30, 2001 would have been $(0.43) and $(0.97), respectively, excluding the amortization of goodwill.

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 is effective for the Company on January 1, 2003. The adoption of SFAS 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS 142. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to dispose, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. Effective January 1, 2002, the Company adopted SFAS 144, which did not have any impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. The adoption of this statement will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 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 activities and is effective for the Company on January 1, 2003. The Company is currently reviewing the provisions of SFAS 146 to determine the standard's impact upon adoption.

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NOTE 5 - INCOME (LOSS) 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 JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001
Numerator:		
Income (loss) before cumulative effect of accounting change and extraordinary item	$ 1,545	$(2,849)
Deduct preferred stock dividend	(24)	(39)
Income (loss) before cumulative effect of accounting change and extraordinary item available (attributable) to common stockholders - basic	1,521	(2,888)
Cumulative effect of accounting change, net of tax	--	--
Loss on debt extinguishment, net of tax	--	--
Net income (loss) available (attributable) to common stockholders - basic	$ 1,521	$(2,888)

	=======	=======
Income (loss) before cumulative effect of accounting change and extraordinary item available (attributable) to common stockholders - basic	$ 1,521	$(2,888)
Add back preferred stock dividend	24	--
	-------	-------
Income (loss) before cumulative effect of accounting change and extraordinary item	1,545	(2,888)
Cumulative effect of accounting change, net of tax	--	--
Loss on debt extinguishment, net of tax	--	--
	-------	-------
Net income (loss) available (attributable) to common stockholders - diluted	$ 1,545	$(2,888)
	=======	=======
Denominator:		
Weighted average common shares	6,982	6,588
Non-vested restricted stock	--	(2)
	-------	-------
Adjusted weighted average common shares - basic	6,982	6,586
Dilutive effect of Series B preferred stock	159	--
Dilutive effect of stock options	89	--
	-------	-------
Adjusted weighted average common shares and equivalents - diluted	7,230	6,586
	=======	=======
Basic income (loss) per common share:		
Before cumulative effect of accounting change and extraordinary item	$ .21	$ (.44)
Cumulative effect of accounting change	--	--
Loss on debt extinguishment	--	--
	-------	-------
Net income (loss) per common share	$ .21	$ (.44)
	=======	=======
Diluted income (loss) per common share:		
Before cumulative effect of accounting change and extraordinary item	$ .21	$ (.44)
Cumulative effect of accounting change	--	--
Loss on debt extinguishment	--	--
	-------	-------
Net income (loss) per common share	$ .21	$ (.44)
	=======	=======

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The weighted average basic common shares outstanding was used in the calculation of the diluted loss per common share for the three and six months ended June 30, 2001 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 six months ended June 30, 2002 and 2001, 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 JUNE 30,		SI
	2002	2001	2002
Options outstanding	91,300	334,776	317,00
Range of exercise prices	$5.50-$11.75	$3.20-$11.75	$4.72-$11

NOTE 6 - BUSINESS SEGMENT DATA

Early in 2002, the Company was reorganized into two strategic business groups based on the type of customer served -- Automotive and Light Truck, and Heavy Duty. The Automotive and Light Truck Group is comprised of a heat exchange unit and a temperature control products unit, both serving the aftermarket. The Heavy Duty Group consists of an OEM and Aftermarket unit, both serving the heavy duty marketplace. This new structure is designed to improve customer focus.

Prior year results have been restated to reflect this new structure. The table below sets forth information about the reported segments:

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Trade sales:		
Automotive and Light Truck	$ 44,047	$ 38,347
Heavy Duty	18,425	17,023
	62,472	55,370
Intersegment transfers:		
Automotive and Light Truck	744	768
Heavy Duty	--	--
Eliminations	(744)	(768
Total sales	$ 62,472	$ 55,370
Operating income (loss):		
Automotive and Light Truck	$ 3,846	$ 958
Restructuring and other special charges	34	--
Automotive and Light Truck total	3,880	958
Heavy Duty	489	(2,875
Restructuring and other special charges	(150)	--
Heavy Duty total	339	(2,875
Corporate expenses	(1,628)	(1,807
Total operating income (loss)	$ 2,591	$ (3,724

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

OPERATING RESULTS

QUARTER ENDED JUNE 30, 2002 VERSUS QUARTER ENDED JUNE 30, 2001

Net sales increased 12.8% to $62.5 million in the second quarter of 2002, compared with $55.4 million in the same period a year ago. Automotive and Light Truck Group revenue increased 14.9% to $44.0 million from $38.3 million in the second quarter of 2001. Heat Exchanger product sales were 7.5% above last year primarily as a result of product line expansions by several of our major customers and the start-up late in the quarter of a previously announced new customer program. Revenue from the Temperature Control business unit was up 55.4% reflecting the addition of several new customers announced during the first quarter. Heavy Duty Group revenue in the quarter increased 8.2% to $18.4 million from $17.0 million in the comparable period last year. Despite continued market pressure, Heavy Duty OEM sales grew 7.8%, reflecting the impact of actions taken in 2001 as well as some minor strengthening of customer volumes. These higher volumes reflect customer purchases in anticipation of heavy truck engine changes as a result of new emission regulations, which will become effective in the fourth quarter of 2002. Heavy Duty Aftermarket sales increased 8.6% despite softness in all markets served by this unit.

Gross margin, as a percentage of sales, was 20.3% in the second quarter of 2002, compared with 11.9% in the comparable period last year. Margins benefited from the Company's multi-phased margin improvement activities which began in the second quarter of 2001 and continue today. These include actions within both the Automotive and Light Truck and Heavy Duty Groups designed to improve labor efficiency and utilization, lower spending levels and reduce product costs. While the results of these programs have taken time to work their way through inventories, they are now beginning to be reflected in additional profit. Margins also benefited from production levels more aligned with changes in customer demand. A year ago production levels were lowered in order to reduce inventory levels. Margins in the Heavy Duty Group also benefited from lower warranty costs than were recorded a year ago. The higher claims incurred last year were related to a customer warranty program, which had commenced during the fourth quarter of 2000. Warranty claims have now returned to historical levels.

While operating expense levels declined $0.4 million or 3.6% from a year ago, they were also lower as a percentage of sales, 15.9% versus 18.7% in 2001. These improvements primarily reflect benefits generated by the branch closure actions taken in 2001. Expense levels last year also reflected higher self-insured medical costs associated with the occurrence of several major claims.

Restructuring charges during the quarter reflected stay pay bonus provisions earned in the Heavy Duty segment and closing costs associated with the consolidation of Automotive and Light Truck distribution centers. During the period, $0.1 million was also received as proceeds from the sale of Automotive and Light Truck assets which had been written off during the fourth quarter of 2001 in connection with the closure of a California manufacturing facility.

Operating income was $2.6 million in the second quarter of 2002 versus an operating loss of $3.7 million in the comparable period last year, an improvement of $6.3 million. The Automotive and Light Truck Group operating income improved $2.9 million over 2001, resulting from increased sales and the benefits of the initiative programs implemented during the second half of 2001. The Heavy Duty Group reported operating income of $0.3 million versus an operating loss of $2.9 million last year. Improved

factory utilization, lower warranty costs, cost reductions and price changes accounted for the year-over-year improvement.

Interest costs are 28.9% below the second quarter last year due to lower average debt levels and lower interest rates. During the second quarter of 2002, interest rates under our Loan Agreement and IRB were 6.25% and 1.48% respectively, while a year ago they were 7.49% and 3.2% respectively.

The Company's effective income tax rate during the second quarter of 2002 was 10.3%, versus 42.4% last year, as the federal income tax provision was offset by the reversal of a portion of the valuation allowance on the Company's deferred tax asset which was recorded in the fourth quarter of 2001. The income tax benefit in 2001 included $0.6 million due to the settlement of an Internal Revenue Service audit.

Net income for the second quarter of 2002 was $1.5 million, or $0.21 per basic and diluted share, compared with a net loss of $2.8 million, or $0.44 per basic and diluted share, a year ago. Excluding goodwill amortization in 2001, the net loss would have been $2.8 million, or $0.43 per basic and diluted share.

SIX MONTHS ENDED JUNE 30, 2002 VERSUS SIX MONTHS ENDED JUNE 30, 2001

Sales for the six months ended June 30, 2002 increased 12.2% over last year's levels. Automotive and Light Truck Group sales were 17.4% above the year ago period, reflecting the line expansions and new customer business that impacted the second quarter as well as the initiation in the first quarter of several major customer programs which had been postponed in the fourth quarter of 2001. Heavy Duty Group sales for the six months ended June 30, 2002 were 1.3% higher as the effect of pricing actions offset the impact of lower volume experienced as a result of the sluggish heavy duty marketplace.

Gross margin for the first six months of 2002, as a percentage of sales, increased to 19.6% from 11.9% a year ago. Improved margins within both the Automotive and Light Truck and Heavy Duty Business Groups reflect the results of the Company's initiative programs, higher levels of production and lower warranty costs within the Heavy Duty Group.

Operating expenses declined 2.3% and were lower as a percentage of sales than a year ago, 16.4% versus 18.8%. Lower expense levels primarily reflect the impact of the Automotive and Light Truck branch closure actions taken in 2001.

Interest costs were 29.5% lower than last year, reflecting lower average debt levels and lower interest rates.

During March 2002, tax legislation was enacted which included a provision that allows 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 reflects a reduction in the deferred tax valuation allowance. The first quarter tax benefit, along with the $1.3 million refundable income tax at December 31, 2001, was received in cash during the second quarter of 2002.

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other

Intangible Assets" ("SFAS 142"), which requires 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. As this statement was effective for years beginning after December 15, 2001, the Company adopted SFAS 142 in the first quarter of 2002.

As a result of applying the tests included in SFAS 142, the Company has determined that there was a transitional impairment loss relating to the valuation of the goodwill recorded by its Auto and Light Truck Group. The cumulative effect of this change in accounting principle of $4.7 million was expensed in the consolidated results of operations in the first quarter of 2002. This write-off has no impact on cash flow from operations. Goodwill amortization for the second quarter and the first six months of 2001 was $0.1 million or $0.06 million after tax and $0.2 million or $0.1 million after tax, respectively.

Income before the cumulative effect of the accounting change and extraordinary item was $5.3 million, or $0.75 per basic share ($0.74 per diluted share), in 2002 compared to a loss of $6.1 million, or $0.93 per basic and diluted share, in the comparable period in 2001. Net income for the first six months of 2002 was $0.6 million, or $0.08 per basic share ($0.09 per diluted share), while in the comparable period in 2001 the net loss was $6.4 million, or $0.99 per basic and diluted share. Excluding the amortization of goodwill, loss before the cumulative effect of accounting change and extraordinary item for the six months ended June 30, 2001 would have been $5.9 million, or $0.91 per basic and diluted share. The net loss for the six months ended June 30, 2001 would have been $6.3 million, or $0.97 per basic and diluted share, excluding this charge.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 2002, operations used $5.2 million of cash. Accounts receivable have grown by $24.0 million during the period due to higher sales levels, extended terms on the new business, initial stocking orders and an ongoing shift in receivables mix toward longer payment cycles with "blue chip customers". Although past due balances as a percentage of total receivables has declined from year-end, the Company expects that its days outstanding will continue to be greater than our historic norms due to the previously mentioned shift in payment cycles. Net inventories rose $1.5 million due to seasonal stocking of various products in advance of the active summer selling season and startup of new business programs. The inventory levels reflect the Company's efforts to increase inventory turnover and manage balances closely with demand. These outflows were partially offset by funds provided from operations and an increase in accounts payable and accrued liabilities. During the first six months of 2001, operating activities used $2.3 million of cash. While the Company's inventory reduction programs generated $10.9 million of cash during the first half of 2001, this was more than offset by an increase in receivables and funds utilized for operations as well as to improve the aging of accounts payable.

Net capital expenditures were $3.4 million for the first half of 2002, compared with $1.3 million last year. The higher level of expenditures this year reflects the purchase of an existing aluminum tube mill that the Company will be relocating to its Laredo, Texas facility during the third quarter, the purchase of tooling at the Company's Mexican facility to accommodate the "in-house" production of product previously purchased on the outside, and expenditures to support the Company's information systems initiatives. Capital expenditures are expected to approximate depreciation expense for the year.

Total debt at the end of the 2002 second quarter was $46.4 million, $8.7 million above levels at the beginning of the year. These funds were utilized to meet seasonal working capital needs. A year ago debt levels were $48.4 million. At June 30, 2002, the Company had available $9.4 million for future borrowings under its Loan Agreement with Congress Financial Corporation.

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.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. A company's critical accounting policies, as set forth by the U.S. Securities and Exchange Commission, are those which are most important to the portrayal of it's financial condition and results of operation and often require the utilization of estimates or subjective judgment. Based upon this definition, we have identified the critical accounting policies addressed below. Although we believe that our estimates and assumptions are reasonable, they are based upon information presently available. Actual results may differ from these estimates under different assumptions or conditions. The Company also has other key accounting policies, which involve the use of estimates, which are further described in Note 2, "Summary of Significant Accounting Policies", in Item 8 of our Annual Report on Form 10-K.

Revenue Recognition. Sales are recognized at the time products are shipped to the customer. Accruals for warranty costs, sales returns and allowances are provided at the time of shipment based upon historical experience or agreements currently in place with customers. The Company will also accrue for unusual warranty exposures at the time the exposure is identified and quantifiable based upon analyses of expected product failure rates and engineering cost estimates. The Company also establishes reserves for uncollectible trade accounts receivable based upon historical experience, anticipated business trends and the current economic conditions. Changes in our customers' financial condition or other factors could cause our estimates of uncollectible accounts receivable to vary.

Inventory Valuation. Inventories are valued at the lower of cost (first-in, first-out method) or market. This requires the Company to make judgments about the likely method of disposition of its inventory and expected recoverable value upon disposition. Inventories are reviewed on a continuing basis, and provisions are also made for slow moving and obsolete inventory based upon estimates of historical or expected usage as well as the expected recoverable value upon disposition.

Impairment of Long-Lived Assets. In the event that facts and circumstances indicate that the carrying amounts of a business unit's long -lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows of the business unit, associated with the long-lived assets, would be compared to the asset's carrying amount to determine if a write-down is required. If this review indicates that the assets will not be recoverable, the carrying value of the Company's assets would be reduced to their estimated fair value. The estimates used in determining whether an impairment exists involve future cash flows of each business unit which are based upon expected revenue trends, cost of production and operating expenses.

Income Taxes. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that those such assets will not be realized. Changes to the valuation allowance are based on the evaluation of all available evidence supporting the Company's ability to utilize tax benefits prior to their expiration.

Pension Plans. The Company establishes and periodically reviews the assumptions used in the measurement of its retirement plans. The discount rate will change in relation to increases or decreases in applicable published bond indices. The return on assets reflects the long-term rate of return on plan assets

expected to be realized over a five to ten year period. As such, it will normally not be adjusted for short-term trends in the stock or bond markets. The Company's pension assumptions currently include a 9% long-term annual rate of return. Differences between actual and assumed portfolio performance are actuarially calculated into the Company's accrued pension costs based upon input from a third-party actuary. As the performance of the pension portfolio during 2001 was below the actuarial assumption, the unrecognized component of accrued pension costs changed from a gain of $4.8 million at December 31, 2000 to a loss of $1.3 million at December 31, 2001. In the future, changes in any of the underlying pension assumptions, along with the ongoing performance of the plan assets, will impact future funding requirements, minimum pension liability adjustments and net pension cost amounts.

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 is effective for the Company on January 1, 2003. The adoption of SFAS 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS 142. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to dispose, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business.

Effective January 1, 2002, the Company adopted SFAS 144, which did not have any impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. The adoption of this statement will not have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

In June 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 activities and is effective for the Corporation on January 1, 2003. The Corporation is currently reviewing the provisions of SFAS 146 to determine the standard's impact upon adoption.

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 certain 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, 2001.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders of the Company held on May 2, 2002, two proposals were voted upon by the Company's stockholders. A brief discussion of each proposal voted upon at the Annual Meeting and the number of votes cast for, against and withheld, as well as the number of abstentions to each proposal are set forth below.

A vote was taken for the election of seven Directors of the Company to hold office until the next Annual Meeting of Stockholders of the Company and until their respective successors shall have been duly elected. The aggregate numbers of shares of Common Stock voted in person or by proxy for each nominee were as follows:

NOMINEE	FOR	WITHHELD
Barry R. Banducci	6,069,046	22,296
William J. Abraham, Jr.	6,069,946	21,396
Philip Wm. Colburn	6,074,363	16,979
Charles E. Johnson	6,059,931	31,411
Paul R. Lederer	6,075,126	16,216
Sharon M. Oster	6,075,126	16,216
F. Alan Smith	6,074,466	16,876

A vote was taken on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as auditors for the Company for the fiscal year ending December 31, 2002. The aggregate numbers of shares of Common Stock voted in person or by proxy were as follows:

FOR	AGAINST	ABSTAIN
6,077,587	9,483	4,272

The foregoing proposals are described more fully in the Company's definitive proxy statement dated March 28, 2002, filed with the Securities and Exchange Commission pursuant to Section 14 (a) of the Securities Act of 1934, as amended, and the rules and regulations promulgated thereunder.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits
None.

b) Reports on Form 8-K
No reports on Form 8-K were filed during the quarter ended June 30, 2002. A Form 8-K was filed on August 2, 2002 containing as an exhibit the press release issued by the company on July 30, 2002.

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: August 13, 2002 By: /s/ Charles E. Johnson

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

Date: August 13, 2002 By: /s/ Richard A. Wisot

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