

TENNANT CO  
Form 10-Q/A  
March 25, 2003

## FORM 10-Q/A

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934

For Quarter Ended June 30, 2002

Commission File No. 04804

## TENNANT COMPANY

Incorporated in Minnesota

IRS Emp Id No. 410572550

701 North Lilac Drive  
P.O. Box 1452  
Minneapolis, Minnesota 55440  
Telephone No. 763-540-1200

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  No

The number of shares outstanding of Registrant's common stock, par value \$.375, on June 30, 2002, was 8,971,164.

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## TENNANT COMPANY

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Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company's attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions includes a revision in previously reported net earnings of \$25,000 and (\$320,000) and net earnings per share diluted of \$0.00 and (\$0.03) for the quarters ended June 30, 2002 and 2001, respectively and a revision in previously reported net earnings of (\$83,000) and (\$31,000) and net earnings per share diluted of \$0.00 for both six month periods ended June 30, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and June 30, 2002 and for the three and six month periods ended June 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition.

On February 4, 2003, the Company amended the agreement with the third party lessor to eliminate the retained ownership risk provisions for operating leases which will result in revenue recognition for future operating lease transactions at the time of shipment. The amendment to the agreement is retroactive to the beginning of the agreement, therefore, the Company expects to recognize the remaining unrecognized revenue and earnings for past operating lease transactions in the first quarter of 2003.

This amendment to the Company's Annual Report on Form 10-Q for the quarter ended June 30, 2002 amends and restates those items of the Form 10-Q originally filed on August 13, 2002 (the Original Filing) which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to update any disclosures not impacted by the restatement. Except as required to reflect the effects of the restatement, all information contained in this amendment is stated as of the date of the Original Filing. For additional information regarding the restatement, see Notes to Consolidated Financial Statements Restated included in the Form 10-Q/A.

CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

(in thousands, except per share amounts)

|                                     | Three Months<br>Ended June 30 |               | Six Months<br>Ended June 30 |               |
|-------------------------------------|-------------------------------|---------------|-----------------------------|---------------|
|                                     | 2002 Restated                 | 2001 Restated | 2002 Restated               | 2001 Restated |
| Net sales                           | \$ 106,099                    | \$ 109,667    | \$ 202,518                  | \$ 214,295    |
| Less:                               |                               |               |                             |               |
| Cost of sales                       | 67,182                        | 69,738        | 128,653                     | 134,121       |
| Selling and administrative expenses | 33,788                        | 33,897        | 66,235                      | 68,717        |
| Restructuring charges               |                               | 4,802         | 4,004                       | 9,962         |
| Profit from operations              | 5,129                         | 1,230         | 3,626                       | 1,495         |

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|                                    |          |          |          |          |
|------------------------------------|----------|----------|----------|----------|
| Interest income, net               | 11       | 122      | 63       | 289      |
| Other income (expense)             | (113)    | (114)    | (134)    | 173      |
| Earnings before income taxes       | 5,027    | 1,238    | 3,555    | 1,957    |
| Income tax expense                 | 2,073    | 215      | 2,044    | 495      |
| Net earnings                       | \$ 2,954 | \$ 1,023 | \$ 1,511 | \$ 1,462 |
| Per share:                         |          |          |          |          |
| Basic earnings                     | \$ 0.33  | \$ 0.11  | \$ 0.17  | \$ 0.16  |
| Diluted earnings                   | \$ 0.32  | \$ 0.11  | \$ 0.17  | \$ 0.16  |
| Dividends                          | \$ 0.20  | \$ 0.20  | \$ 0.40  | \$ 0.40  |
| Weighted average number of shares: |          |          |          |          |
| Basic                              | 8,984    | 9,078    | 9,004    | 9,089    |
| Diluted                            | 9,151    | 9,230    | 9,066    | 9,234    |

See accompanying notes to consolidated financial statements.

## TENNANT COMPANY

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CONSOLIDATED BALANCE SHEETS

(In thousands)

|                                                         | (Unaudited)<br>June 30, 2002<br>Restated | (Unaudited)<br>December 31, 2001<br>Restated |
|---------------------------------------------------------|------------------------------------------|----------------------------------------------|
| <b>ASSETS</b>                                           |                                          |                                              |
| Cash and cash equivalents                               | \$ 11,000                                | \$ 23,783                                    |
| Receivables                                             | 83,327                                   | 76,952                                       |
| Less allowance for doubtful accounts                    | (5,388)                                  | (4,701)                                      |
| Net receivables                                         | 77,939                                   | 72,251                                       |
| Inventories                                             | 55,619                                   | 48,288                                       |
| Prepaid expenses                                        | 2,598                                    | 2,394                                        |
| Deferred income taxes, current portion                  | 6,879                                    | 6,879                                        |
| Total current assets                                    | 154,035                                  | 153,595                                      |
| Property, plant and equipment                           | 207,336                                  | 200,825                                      |
| Less accumulated depreciation                           | (134,097)                                | (127,729)                                    |
| Net property, plant and equipment                       | 73,239                                   | 73,096                                       |
| Deferred income taxes, long-term portion                | 5,496                                    | 5,496                                        |
| Goodwill, net                                           | 16,765                                   | 16,373                                       |
| Other assets                                            | 3,197                                    | 3,999                                        |
| Total assets                                            | \$ 252,732                               | \$ 252,559                                   |
| <b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>            |                                          |                                              |
| <b>LIABILITIES</b>                                      |                                          |                                              |
| Current debt                                            | \$ 12,828                                | \$ 13,418                                    |
| Accounts payable, accrued expenses and deferred revenue | 56,401                                   | 48,031                                       |
| Total current liabilities                               | 69,229                                   | 61,449                                       |
| Long-term debt                                          | 7,496                                    | 12,496                                       |
| Long-term employee-related benefits                     | 26,906                                   | 26,643                                       |
| Total liabilities                                       | 103,631                                  | 100,588                                      |
| <b>SHAREHOLDERS EQUITY</b>                              |                                          |                                              |
| Common stock                                            | 3,364                                    | 3,389                                        |

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|                                                                                            |            |            |
|--------------------------------------------------------------------------------------------|------------|------------|
| Additional paid-in capital                                                                 |            | 383        |
| Unearned restricted shares                                                                 | (288)      | (278)      |
| Retained earnings                                                                          | 157,582    | 161,945    |
| Accumulated other comprehensive loss (equity adjustment from foreign currency translation) | (4,304)    | (6,247)    |
| Receivable from ESOP                                                                       | (7,253)    | (7,221)    |
| Total shareholders' equity                                                                 | 149,101    | 151,971    |
| Total liabilities and shareholders' equity                                                 | \$ 252,732 | \$ 252,559 |

See accompanying notes to consolidated financial statements.

TENNANT COMPANY

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

|                                                                | Six Months Ended June 30 |               |
|----------------------------------------------------------------|--------------------------|---------------|
|                                                                | 2002 Restated            | 2001 Restated |
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES:</b>             |                          |               |
| Net earnings                                                   | \$ 1,511                 | \$ 1,462      |
| Adjustments to net earnings to arrive at operating cash flows: |                          |               |
| Depreciation and amortization                                  | 8,431                    | 10,552        |
| Deferred tax expense (benefit)                                 |                          | (2,434)       |
| Changes in operating assets and liabilities                    | (3,976)                  | (3,786)       |
| Other, net                                                     | 523                      | 1,640         |
| Net cash flows related to operating activities                 | 6,489                    | 7,434         |
| <b>CASH FLOWS RELATED TO INVESTING ACTIVITIES:</b>             |                          |               |
| Acquisition of property, plant and equipment                   | (7,889)                  | (11,761)      |
| Proceeds from disposals of property, plant and equipment       | 1,009                    | 635           |
| Net cash flows related to investing activities                 | (6,880)                  | (11,126)      |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES:</b>             |                          |               |
| Net changes in short-term borrowings                           | (6,218)                  | 1,125         |
| Proceeds from issuance of common stock                         | 217                      | 994           |
| Purchases of common stock                                      | (2,869)                  | (1,678)       |
| Dividends paid                                                 | (3,597)                  | (3,628)       |
| Principal payment from ESOP                                    |                          | 799           |
| Net cash flows related to financing activities                 | (12,467)                 | (2,388)       |
| Effect of exchange rate changes on cash                        | 75                       | (14)          |
| Net decrease in cash and cash equivalents                      | (12,783)                 | (6,094)       |
| Cash and cash equivalents at beginning of year                 | 23,783                   | 21,512        |
| Cash and cash equivalents at end of period                     | \$ 11,000                | \$ 15,418     |

## SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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|                                                                  |    |     |    |     |
|------------------------------------------------------------------|----|-----|----|-----|
| Collateralized borrowings incurred for operating lease equipment | \$ | 388 | \$ | 630 |
|------------------------------------------------------------------|----|-----|----|-----|

See accompanying notes to consolidated financial statements.

TENNANT COMPANY

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – RESTATED (Unaudited)

(In thousands, except per share data)

(1) Basis of Presentation

In the Company's opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated financial statements) necessary to present fairly its financial position as of June 30, 2002 and the results of its operations for the three and six-months ended June 30, 2002 and 2001, and cash flows for the six-months ended June 30, 2002 and 2001. These statements are condensed and, therefore, do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. The statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for the three and six-months ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year.

(2) Restatement

Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company's attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions includes a revision in previously reported net earnings of \$25,000 and (\$320,000) and net earnings per share diluted of \$0.00 and (\$0.03) for the quarters ended June 30, 2002 and 2001, respectively and a revision in previously reported net earnings of (\$83,000) and (\$31,000) and net earnings per share diluted of \$0.00 for both six month periods ended June 30, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and June 30, 2002 and for the three and six month periods ended June 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition. Impacted financial statement line items were sales, cost of sales, interest expense, income tax expense, inventory, machinery and equipment, accumulated depreciation, deferred taxes, accrued expenses, deferred revenue and debt. There was no impact on cash flows or cash and cash equivalents. The consolidated financial statements as of December 31, 2001 and June 30, 2002 and for the periods ended June 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition, as follows:

Quarter Ended June 30, 2002  
Restated

Quarter Ended June 30, 2001  
Restated



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| CONSOLIDATED STATEMENTS OF EARNINGS | As Previously Reported |            | As Previously Reported |            |
|-------------------------------------|------------------------|------------|------------------------|------------|
|                                     |                        |            |                        |            |
| Net sales                           | \$ 105,783             | \$ 106,099 | \$ 110,783             | \$ 109,667 |
| Cost of sales                       | 66,985                 | 67,182     | 70,446                 | 69,738     |
| Interest income, net                | 90                     | 11         | 210                    | 122        |
| Earnings before income taxes        | 4,988                  | 5,027      | 1,734                  | 1,238      |
| Income tax expense                  | 2,059                  | 2,073      | 391                    | 215        |
| Net earnings                        | 2,929                  | 2,954      | 1,343                  | 1,023      |
| Net earnings per common share       |                        |            |                        |            |
| - Basic                             | \$ 0.33                | \$ 0.33    | \$ 0.14                | \$ 0.11    |
| - Diluted                           | \$ 0.32                | \$ 0.32    | \$ 0.14                | \$ 0.11    |

| CONSOLIDATED STATEMENTS OF EARNINGS | Six Months Ended June 30, 2002 |            | Six Months Ended June 30, 2001 |            |
|-------------------------------------|--------------------------------|------------|--------------------------------|------------|
|                                     | As Previously Reported         | Restated   | As Previously Reported         | Restated   |
| Net sales                           | \$ 202,381                     | \$ 202,518 | \$ 214,436                     | \$ 214,295 |
| Cost of sales                       | 128,553                        | 128,653    | 134,379                        | 134,121    |
| Interest income, net                | 224                            | 63         | 454                            | 289        |
| Earnings before income taxes        | 3,680                          | 3,555      | 2,006                          | 1,957      |
| Income tax expense                  | 2,086                          | 2,044      | 513                            | 495        |
| Net earnings                        | 1,594                          | 1,511      | 1,493                          | 1,462      |
| Net earnings per common share       |                                |            |                                |            |
| Basic                               | \$ 0.18                        | \$ 0.17    | \$ 0.16                        | \$ 0.16    |
| Diluted                             | \$ 0.17                        | \$ 0.17    | \$ 0.16                        | \$ 0.16    |

| CONSOLIDATED BALANCE SHEETS                             | June 30, 2002          |           | December 31, 2001      |           |
|---------------------------------------------------------|------------------------|-----------|------------------------|-----------|
|                                                         | As Previously Reported | Restated  | As Previously Reported | Restated  |
| Inventories                                             | \$ 54,656              | \$ 55,619 | \$ 47,080              | \$ 48,288 |
| Total current assets                                    | 153,072                | 154,035   | 152,387                | 153,595   |
| Net property, plant and equipment                       | 69,790                 | 73,239    | 69,792                 | 73,096    |
| Total assets                                            | 246,892                | 252,732   | 246,619                | 252,559   |
| Current debt                                            | 8,831                  | 12,828    | 9,765                  | 13,418    |
| Accounts payable, accrued expenses and deferred revenue | 54,614                 | 56,401    | 45,883                 | 48,031    |
| Total current liabilities                               | 63,445                 | 69,229    | 55,648                 | 61,449    |
| Long-term debt                                          | 5,000                  | 7,496     | 10,000                 | 12,496    |
| Total liabilities                                       | 95,351                 | 103,631   | 92,291                 | 100,588   |
| Retained earnings                                       | 160,022                | 157,582   | 164,302                | 161,945   |
| Total shareholders equity                               | 151,541                | 149,101   | 154,328                | 151,971   |

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|                                            |         |         |         |         |
|--------------------------------------------|---------|---------|---------|---------|
| Total liabilities and shareholders' equity | 246,892 | 252,732 | 246,619 | 252,559 |
|--------------------------------------------|---------|---------|---------|---------|

|                                              | Six Months Ended<br>June 30, 2002 |          | Six Months Ended<br>June 30, 2001 |          |
|----------------------------------------------|-----------------------------------|----------|-----------------------------------|----------|
|                                              | As Previously<br>Reported         | Restated | As Previously<br>Reported         | Restated |
| <b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b> |                                   |          |                                   |          |
| Net earnings                                 | \$ 1,594                          | \$ 1,511 | \$ 1,493                          | \$ 1,462 |
| Depreciation and amortization                | 7,842                             | 8,431    | 10,043                            | 10,552   |
| Changes in operating assets and liabilities  | (3,860)                           | (3,976)  | (3,195)                           | (3,786)  |
| Other, net                                   | 913                               | 523      | 1,527                             | 1,640    |

(3) Inventories

Inventories are valued at the lower of cost (principally on a last-in, first-out basis) or market. Inventories at June 30, 2002, and December 31, 2001, consist of the following:

|                                          | June 30,<br>2002 Restated | December 31,<br>2001 Restated |
|------------------------------------------|---------------------------|-------------------------------|
| <b>FIFO Inventories:</b>                 |                           |                               |
| Finished goods                           | \$ 38,660                 | \$ 34,271                     |
| Raw materials, parts and work-in-process | 37,723                    | 34,487                        |
| Total FIFO Inventories                   | 76,383                    | 68,758                        |
| LIFO reserve                             | (20,764)                  | (20,470)                      |
| LIFO inventories                         | \$ 55,619                 | \$ 48,288                     |

The LIFO reserve approximates the difference between LIFO carrying cost and replacement cost.

(4) Supplemental Cash Flow Information

Income taxes paid during the six-months ended June 30, 2002 and 2001 were \$966 and \$6,556 respectively. Interest costs paid during the six-months ended June 30, 2002 and 2001 were \$528 and \$734, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – RESTATED (Unaudited)

(In thousands, except per share data)

## (5) Comprehensive Income

The Company reports accumulated other comprehensive income (loss) as a separate item in the shareholders' equity section of the balance sheet. Comprehensive income (loss) is comprised of net earnings and other comprehensive income (loss). Other comprehensive income (loss) consists solely of foreign currency translation adjustments. The reconciliations of net earnings to comprehensive income (loss) are as follows:

|                                          | Three Months<br>Ended June 30 |                  | Six Months<br>Ended June 30 |                  |
|------------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                          | 2002<br>Restated              | 2001<br>Restated | 2002<br>Restated            | 2001<br>Restated |
| Net earnings                             | \$ 2,954                      | \$ 1,023         | \$ 1,511                    | \$ 1,462         |
| Foreign currency translation adjustments | 2,274                         | (2,028)          | 1,943                       | (461)            |
| Comprehensive income (loss)              | \$ 5,228                      | \$ (1,005)       | \$ 3,454                    | \$ 1,001         |

## (6) Earnings Per Share Computation

|                                     | Three Months<br>Ended June 30 |               | Six Months<br>Ended June 30 |               |
|-------------------------------------|-------------------------------|---------------|-----------------------------|---------------|
|                                     | 2002 Restated                 | 2001 Restated | 2002 Restated               | 2001 Restated |
| Weighted average shares outstanding |                               |               |                             |               |
| Basic                               | 8,984                         | 9,078         | 9,004                       | 9,089         |
| Dilutive share equivalents          | 167                           | 152           | 62                          | 145           |
| Weighted average shares outstanding |                               |               |                             |               |
| Diluted                             | 9,151                         | 9,230         | 9,066                       | 9,234         |
| Net earnings                        | \$ 2,954                      | \$ 1,023      | \$ 1,511                    | \$ 1,462      |
| Earnings per share - Basic          | \$ 0.33                       | \$ 0.11       | \$ 0.17                     | \$ 0.16       |

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|                    |         |    |      |    |      |    |      |    |      |
|--------------------|---------|----|------|----|------|----|------|----|------|
| Earnings per share | Diluted | \$ | 0.32 | \$ | 0.11 | \$ | 0.17 | \$ | 0.16 |
|--------------------|---------|----|------|----|------|----|------|----|------|

TENNANT COMPANY

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – RESTATED (Unaudited)

(In thousands, except per share data)

## (7) Segment Reporting

The Company operates in one industry segment which consists of the design, manufacture and sale of products used primarily in the maintenance of nonresidential floors. The following sets forth net sales by geographic area:

|                            | Three Months<br>Ended June 30 |                  | Six Months<br>Ended June 30 |                  |
|----------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                            | 2002<br>Restated              | 2001<br>Restated | 2002<br>Restated            | 2001<br>Restated |
| Geographical Net Sales (a) |                               |                  |                             |                  |
| North America              | \$ 78,946                     | \$ 78,248        | \$ 149,449                  | \$ 153,466       |
| Europe                     | 16,670                        | 20,892           | 34,286                      | 39,125           |
| Other International        | 10,483                        | 10,527           | 18,783                      | 21,704           |
| Total                      | \$ 106,099                    | \$ 109,667       | \$ 202,518                  | \$ 214,295       |

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(a) Net of intercompany sales.

|                            | Three Months<br>Ended June 30     |                                   | Six Months<br>Ended June 30       |                                   |
|----------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                            | 2002 As<br>Originally<br>Reported | 2001 As<br>Originally<br>Reported | 2002 As<br>Originally<br>Reported | 2001 As<br>Originally<br>Reported |
| Geographical Net Sales (a) |                                   |                                   |                                   |                                   |
| North America              | \$ 78,630                         | \$ 79,364                         | \$ 149,312                        | \$ 153,607                        |
| Europe                     | 16,670                            | 20,892                            | 34,286                            | 39,125                            |
| Other International        | 10,483                            | 10,527                            | 18,783                            | 21,704                            |
| Total                      | \$ 105,783                        | \$ 110,783                        | \$ 202,381                        | \$ 214,436                        |

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(a) Net of intercompany sales.

(8) Restructuring and Other Unusual Charges

During the first quarter of 2002, the Company announced its plan to consolidate its North American distribution operations from a current network of seven distribution centers into two new facilities that will be under the ownership and management of a third-party logistics services provider. The Company also announced plans to consolidate its European customer service function and take other streamlining actions in Europe and North America. The Company recorded a restructuring charge of \$4,004 and an inventory write-down of \$500 related to these actions. The restructuring charge consists primarily of severance, building lease costs and write-down of certain fixed assets. The inventory write-down is classified in cost of sales.

In connection with these activities, the Company will terminate a total of approximately 140 employees. These restructuring actions are expected to be substantially completed by March 31, 2003.

During the second quarter of 2002, the Company recorded an unusual charge of \$500 for severance pertaining to the departure from the Company of its Chief Operating Officer. This amount has been classified in selling and administrative expenses.

## TENNANT COMPANY

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – RESTATED (Unaudited)

(In thousands, except per share data)

During the first six-months of 2001, the Company recorded pre-tax charges of \$9,962 for restructuring and \$1,007 for a write-down of inventory. The restructuring charges related to a workforce reduction and the closure of a leased plant in Germany and the transfer of its production to a contract manufacturer in the Czech Republic. Approximately 150 employees were terminated as a result of these actions. The restructuring charges primarily consisted of severance payments, building lease costs and write-downs of certain fixed assets. The inventory write-down related to the closing of the leased plant in Germany and has been classified in cost of sales. The majority of these actions were completed during 2001.

The components of the 2002 and 2001 unusual charges and the cash and noncash utilizations against the charges during the six-month period ended June 30, 2002 were as follows:

|                                     | <b>Severance,<br/>Early<br/>Retirement and<br/>Related Costs</b> | <b>Noncancelable<br/>Contractual<br/>Obligations and<br/>Other</b> | <b>Total</b> |
|-------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------|--------------|
| <b>2002 Restructuring Charges:</b>  |                                                                  |                                                                    |              |
| Initial charges                     | \$ 3,588                                                         | \$ 416                                                             | \$ 4,004     |
| <b>Utilization:</b>                 |                                                                  |                                                                    |              |
| Cash                                | (470)                                                            | (37)                                                               | (507)        |
| Other (a)                           | 156                                                              | 30                                                                 | 186          |
| June 30, 2002 liability balance     | \$ 3,274                                                         | \$ 409                                                             | \$ 3,683     |
| <b>2001 Restructuring Charges:</b>  |                                                                  |                                                                    |              |
| December 31, 2001 liability Balance | \$ 961                                                           | \$ 819                                                             | \$ 1,780     |
| <b>Utilization:</b>                 |                                                                  |                                                                    |              |
| Cash                                | (816)                                                            | (265)                                                              | (1,081)      |
| Other (a)                           | (2)                                                              | 36                                                                 | 34           |
| June 30, 2002 liability balance     | \$ 143                                                           | \$ 590                                                             | \$ 733       |

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(a) Primarily foreign currency translation effects

The above liabilities are included in accrued expenses.

(9) Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives.



TENNANT COMPANY

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – RESTATED (Unaudited)

(In thousands, except per share data)

The Company adopted SFAS 142 effective January 1, 2002. Had this statement been effective January 1, 2001, net earnings and diluted earnings per share for the three month period ended June 30, 2001 would have approximated \$1,146 and \$0.12 and \$1,718 and \$0.19 for the first six-months of 2001. During the first quarter, the Company completed its initial impairment test of goodwill. As of January 1, 2002, there was no impairment.

Intangible assets consist entirely of purchased technology and are included in other assets on the consolidated balance sheet. The balances at June 30, 2002 and December 31, 2001 were as follows:

|                          | June 30, 2002 | December 31, 2001 |
|--------------------------|---------------|-------------------|
| Original Cost            | \$ 1,075      | \$ 1,075          |
| Accumulated amortization | (300)         | (250)             |
| Carrying value           | \$ 775        | \$ 825            |

Amortization expense will approximate \$100 per year for each of the five succeeding years.

(10) New Accounting Pronouncements

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in October 2001. SFAS 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. The Company adopted the provisions of this statement on January 1, 2002. The adoption of SFAS 144 did not have an impact on the consolidated results of operations or financial position.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The Management's Discussion and Analysis of Financial Condition and Results of Operations presented below reflects the impact of the restatements to our previously reported consolidated financial statements as of June 30, 2002 and for the quarter then ended.

Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company's attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions includes a revision in previously reported net earnings of \$25,000 and (\$320,000) and net earnings per share - diluted of \$0.00 and (\$0.03) for the quarters ended June 30, 2002 and 2001, respectively and a revision in previously reported net earnings of (\$83,000) and (\$31,000) and net earnings per share - diluted of \$0.00 for both six month periods ended June 30, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and June 30, 2002 and for the three and six month periods ended June 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition.

On February 4, 2003, the Company amended the agreement with the third party lessor to eliminate the retained ownership risk provisions for operating leases which will result in revenue recognition for future operating lease transactions at the time of shipment. The amendment to the agreement is retroactive to the beginning of the agreement, therefore, the Company expects to recognize the remaining unrecognized revenue and earnings for past operating lease transactions in the first quarter of 2003. \_

Results of Operations

Net earnings for the second quarter ended June 30, 2002, were \$3.0 million or \$0.32 per diluted share, on net sales of \$106.1 million. In the comparable 2001 period, the Company reported net earnings of \$1.0 million or \$0.11 per diluted share, on net sales of \$109.7 million. For the six-months ended June 30, 2002, net earnings were \$1.5 million or \$0.17 per diluted share, on net sales of \$202.5 million. In the comparable 2001 period, the Company reported net earnings of \$1.5 million, or \$0.16 per diluted share, on net sales of \$214.3 million. Foreign currency translation effects reduced diluted earnings per share in 2002 by approximately \$0.02 and \$0.07 for the three and six-month periods, respectively. This unfavorable translation effect resulted primarily from the strength of the U. S. dollar compared to the Euro, Japanese yen, Australian and Canadian dollars, although the effect decreased during the second quarter as the U.S. dollar weakened.

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The Company adopted Statement of Financial Accounting Standard 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Had this statement been effective January 1, 2001, net earnings and diluted earnings per share for the 2001 second quarter would have approximated \$1.1 million and \$0.12 and \$1.7 million and \$0.19 for the six-month period ended June 30, 2001.

As discussed in note 8 to the consolidated financial statements, restructuring and other unusual charges of \$3.3 million after tax (\$4.5 million pretax) or \$0.37 per diluted share were recorded during the first quarter of 2002. Restructuring charges of \$4.0 million pretax consisted primarily of severance costs, including severance related to a decision to close several North American distribution centers and transfer these distribution operations to a third-party logistics provider. In addition, management approved plans in the first quarter to consolidate and centralize customer service operations in Europe and to streamline other operations in North America. Inventory write-downs related to the consolidation of the distribution operations account for the remaining \$.5 million of the unusual charges and are classified as cost of sales in the consolidated statement of earnings. These 2002 restructuring actions are expected to provide an annualized pre-tax benefit of up to \$3 million beginning late in 2002.

During the second quarter of 2002, the Company recorded an unusual charge of \$0.3 million after tax (\$0.5 million pretax) or \$0.03 per diluted share for severance pertaining to the departure from the Company of its Chief Operating Officer. This amount has been classified in selling and administrative expenses.

Restructuring and unusual charges of \$6.9 million after tax (\$11.0 million pretax) or \$0.75 per diluted share were recorded during the six-month period ended June 30, 2001. The restructuring charges of \$10 million pretax related to a workforce reduction and the closure of a leased plant in Germany and the transfer of its production to a contract manufacturer in the Czech Republic. Approximately 150 employees were terminated as a result of these actions. The charges primarily consisted of severance payments, building lease costs and write-downs of certain fixed assets and are classified as restructuring charges. The inventory write-down of \$1 million pretax related to the closing of the leased plant in Germany and has been classified in cost of sales.

Excluding the effects of the restructuring and other unusual charges, net earnings for the 2002 second quarter were \$3.3 million or \$0.35 per diluted share compared to \$4.6 million or \$0.50 per diluted share for the 2001 second quarter. For the first six-months of 2002, results excluding the effects of restructuring and other unusual charges were \$5.1 million or \$0.56 per diluted share and \$8.4 million or \$0.91 per diluted share for the comparable 2001 period.

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Consolidated net sales of \$106.1 million for the 2002 second quarter decreased 3.3% compared to 2001 second quarter sales of \$109.7 million. Price increases benefited consolidated net sales in the 2002 second quarter by approximately 2.5%. For the six-month period, 2002 consolidated net sales declined 5.5% to \$202.5 million versus 2001. The impact of foreign currency translation effects on sales during the second quarter and the first six-months of 2002 were not significant. The year-over-year declines in consolidated net sales for the three and six-month periods ended June 30, 2002 resulted primarily from lower sales in North America and Europe.

North American sales for the 2002 second quarter increased 0.9% to \$78.9 million compared with the second quarter of 2001. For the first six-months of 2002, sales of \$149.4 million were down 2.6% versus the comparable 2001 period. The decrease for the six-month period was primarily due to lower sales of industrial floor maintenance equipment. Sales of industrial floor maintenance equipment are down because of weak economic conditions in North America compared to a year ago. Sales declines also occurred in commercial products and floor coatings, offset by increased service revenues.

In Europe, net sales for the 2002 second quarter decreased 20.1% to \$16.7 million versus the comparable 2001 period. For the first six-months, sales were \$34.3 million, down 12.3% versus the first six-months of 2001. Beginning in 2002, Europe's fiscal year and quarterly sales correspond with the calendar year as a result of a change in fiscal year-end from November to December that was effective December 31, 2001. Had Europe's 2001 second quarter ended June 30 2001, sales for the 2002 second quarter would have decreased 13.0% versus the comparable 2001 quarter. The 13.0% decline resulted primarily from weakness in European industrial markets, where recovery appears to be lagging the North American recovery. In addition, the Company encountered aggressive price competition, primarily in Germany, which Tennant chose not to match.

In Other International, 2002 second quarter sales of \$10.5 million were flat with 2001. The 2002 second quarter benefited from the shipment of several orders that were received late in the preceding quarter that were reflected in the 2002 first quarter-end backlog. For the six-months ended June 30, 2002, sales to other international markets totaled \$18.8 million, down 13.5% from \$21.7 million in the comparable 2001 period. Weak economic conditions in the global economy, particularly in Latin America and Japan, contributed to the 13.5% decline.

Order backlog at June 30, 2002, totaled \$12 million compared with \$10 million at March 31, 2002, and \$9 million at June 30, 2001.

Gross profit margin was 36.7% for the 2002 second quarter and 36.4% for the 2001 second quarter. For the six-month periods ended June 30, gross profit margins were 36.5% in 2002 and 37.4% in 2001. Adjusted to exclude unfavorable foreign currency translation effects and the impact of unusual charges, gross profit margin for the 2002 second quarter was 37.0% and 37.5% for the 2001 second quarter. For the six-month periods ended June 30, gross profit margins excluding foreign currency translation effects and unusual charges were 36.8% in 2002 and 37.9% in 2001. The declines in adjusted 2002 second quarter and year-to-date gross profit margins resulted primarily from the lower sales volumes, including the related sales mix effects. Sales of North American industrial equipment products, which have a higher gross margin than both North American commercial products and service revenues, decreased on a relative percentage basis in 2002. Sales volume declines in Europe also contributed to the decrease in second quarter and year-to-date gross margins. These effects were partially offset by the impact of selling price increases.



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Second quarter selling and administrative (S&A) expenses including unusual charges decreased from \$33.9 million in 2001 to \$33.8 million in 2002. For the first six months of 2002, S&A expenses including unusual charges were \$66.2 million, down 3.6% versus the first six months of 2001. Excluding the impact of unusual charges, S&A expenses decreased due to the decline in 2002 sales, savings from various cost reduction measures initiated during 2001, offset by higher incentive compensation expenses. For the second quarter, S&A expense as a percentage of sales increased from 30.9% in 2001 to 31.8% in 2002. For the six-month period, S&A expenses represented 32.1% of sales in 2001 compared to 32.7% in 2002.

Net interest income for the three and six-month periods ended June 30, 2002 decreased \$0.1 million and \$0.2 million, respectively, primarily because of lower interest rates in 2002. Other income (expense) was flat for the second quarter of 2002 compared to the second quarter of 2001, but decreased \$0.3 million on a year-to-date basis. The year-to-date decrease was primarily because of currency translation losses during 2002.

Income tax expense for the three and six-month periods ended June 30, 2002 was \$2.1 million and \$2.0 million, versus \$0.2 million and \$0.5 million for the comparable periods in 2001. Income tax expense in 2001 was lower in both the three and six-month periods primarily as a result of the tax effects of the restructuring and other unusual charges described in note 7 to the consolidated financial statements. The first quarter expenses from European restructuring initiatives were not tax benefited. Excluding restructuring and other unusual charges, the effective tax rate for the six-month periods ended June 30, 2002 and 2001 were 40% and 35.5%, respectively. The increase in the effective rate is primarily because of a change in the mix of U.S. and foreign earnings.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$11.0 million at June 30, 2002, compared with \$15.4 million at June 30, 2001. The Company generated \$6.5 million of operating cash flows during the first six-months of 2002 compared with \$7.4 million in the comparable 2001 period. Net cash outflows from capital expenditures decreased to \$6.9 million in 2002 from \$11.1 million in 2001. Capital expenditures in 2001 were greater because of spending on projects intended to improve financial performance through new business systems or cost savings, including investments in design systems software. Cash outflows from financing activities increased to \$12.5 million in 2002 from \$2.4 million during 2001 primarily because of the paydown of short-term debt at foreign subsidiaries in 2002. The debt-to-total-capitalization ratio was 12.0% at June 30, 2002 versus 16.2% at June 30, 2001. The Company believes that the combination of internally generated funds and available financing sources are more than sufficient to meet the Company's cash requirements for the next year.

Management regularly reviews the Company's business operations with the objective of improving financial performance and maximizing its return on investment. In this regard, the Company continues to consider actions to improve financial performance which, if taken, could result in material nonrecurring charges.



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Market Risk

The Company's market risk includes the risk of adverse changes in foreign currency exchange rates. Foreign currency translation effects reduced diluted earnings per share by approximately \$0.02 for the second quarter of 2002 and \$0.07 for the year to date versus the comparable 2001 periods. If foreign exchange rates at the end of the second quarter prevailed for the balance of 2002, the foreign exchange effects would be favorable for the remainder of 2002 compared with prior year results. The Company uses forward exchange contracts to hedge net exposed assets in Australia, Canada, Japan and Europe. Additional information on market risk is included in the Management Discussion and Analysis section of the Company's Form 10-K filing for the year ended December 31, 2001.

Cautionary Statement Relevant to Forward-Looking Information

Certain statements contained in this document as well as other written and oral statements made from time to time by the Company are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements do not relate to strictly historical or current facts and provide current expectations or forecasts of future events. These include factors that affect all businesses operating in a global market as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties presently facing the Company include: the ability to implement its plan to increase worldwide operational efficiencies; the success of new products; political and economic uncertainty throughout the world; inflationary pressures; the potential for increased competition in the Company's businesses from competitors that have substantial financial resources; the potential for soft markets in certain regions including North America, Asia, Latin America and Europe; the relative strength of the U.S. dollar, which affects the cost of the Company's products sold internationally; and the Company's plan for growth. The Company cautions that forward-looking statements must be considered carefully and that actual results may differ in material ways due to risks and uncertainties both known and unknown. Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

The Company does not undertake to update any forward-looking statement, and investors are advised to consult any further disclosures by the Company on this matter in its filings with the Securities and Exchange Commission and in other written statements made from time to time by the Company. It is not possible to anticipate or foresee all risk factors, and investors should not consider that any list of such factors to be an exhaustive or complete list of all risks or uncertainties.



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PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

| Item # | Description                                                       | Method of Filing                                                                                                                  |
|--------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| 3i     | Articles of Incorporation                                         | Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement No. 33-62003, Form S-8, dated August 22, 1995.   |
| 3ii    | By-Laws                                                           | Incorporated by reference to Exhibit 3ii to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999. |
| 99.1   | Certification under Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically.                                                                                                    |

(b) Reports on Form 8-K

Form 8-K, dated June 28, 2002, regarding an announcement that James Moar, Chief Operating Officer, left the Company effective June 30, 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.

TENNANT COMPANY

Date: s/March 25, 2003

/s/ Janet M. Dolan  
Janet M. Dolan  
President and Chief Executive Officer

Date: s/March 25, 2003

/s/ Anthony T. Brausen  
Anthony T. Brausen  
Vice President, Chief Financial Officer, and  
Treasurer

Date: s/March 25, 2003

/s/ Gregory M. Siedschlag  
Gregory M. Siedschlag  
Corporate Controller and Principal Accounting  
Officer

**CERTIFICATIONS**

I, Janet M. Dolan, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Tennant Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: /s/ March 25, 2003

/s/ Janet M. Dolan  
Janet M. Dolan  
President and Chief Executive Officer

I, Anthony T. Brausen, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Tennant Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: /s/ March 25, 2003

/s/ Anthony T. Brausen  
Anthony T. Brausen  
Vice President, Chief Financial Officer  
Treasurer

