

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 March 31, 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 March 31, 2002, was 8,990,842.



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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 \$(108,000) and \$289,000 and net earnings per share diluted of \$(0.01) and \$0.03 for the quarters ended March 31, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and March 31, 2002 and for the quarters ended March 31, 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 March 31, 2002 amends and restates those items of the Form 10-Q originally filed on May 14, 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 data)

|                                     | <b>Three Months Ended March 31</b> |                      |
|-------------------------------------|------------------------------------|----------------------|
|                                     | <b>2002 Restated</b>               | <b>2001 Restated</b> |
| Net sales                           | \$ 96,419                          | \$ 104,628           |
| Less:                               |                                    |                      |
| Cost of sales                       | 61,471                             | 64,383               |
| Selling and administrative expenses | 32,447                             | 34,820               |
| Restructuring charges               | 4,004                              | 5,160                |
| Profit (loss) from operations       | (1,503)                            | 265                  |

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|                                     |            |         |
|-------------------------------------|------------|---------|
| Interest income, net                | 52         | 167     |
| Other income (expense)              | (21)       | 287     |
| Earnings (loss) before income taxes | (1,472)    | 719     |
| Income tax expense (benefit)        | (29)       | 280     |
| Net earnings (loss)                 | \$ (1,443) | \$ 439  |
| Per share:                          |            |         |
| Basic earnings (loss)               | \$ (0.16)  | \$ 0.05 |
| Diluted earnings (loss)             | \$ (0.16)  | \$ 0.05 |
| Dividends                           | \$ 0.20    | \$ 0.20 |
| Weighted average number of shares:  |            |         |
| Basic                               | 9,022      | 9,101   |
| Diluted                             | 9,022      | 9,239   |

See accompanying notes to consolidated financial statements.

Tennant Company

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CONSOLIDATED BALANCE SHEETS

(In thousands)

|   | (Unaudited)<br>March 31,<br>2002 Restated | (Unaudited)<br>December 31,<br>2001 Restated |
|---|---|--|
| <b>ASSETS</b>   |   |  |
| Cash and cash equivalents                               | \$ 16,139                                 | \$ 23,783                                    |
| Receivables   | 80,734                                    | 76,952                                       |
| Less allowance for doubtful accounts                    | (5,031)                                   | (4,701)                                      |
| Net receivables   | 75,703                                    | 72,251                                       |
| Inventories   | 49,246                                    | 48,288                                       |
| Prepaid expenses  | 2,405                                     | 2,394  |
| Deferred income taxes, current portion                  | 6,862                                     | 6,879  |
| Total current assets                                    | 150,355                                   | 153,595                                      |
| Property, plant and equipment                           | 201,720                                   | 200,825                                      |
| Less accumulated depreciation                           | (129,883)                                 | (127,729)                                    |
| Net property, plant and equipment                       | 71,837                                    | 73,096                                       |
| Deferred income taxes, long-term portion                | 5,496                                     | 5,496  |
| Goodwill, net   | 16,295                                    | 16,373                                       |
| Other assets  | 3,822                                     | 3,999  |
| Total assets  | \$ 247,805                                | \$ 252,559                                   |
| <b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>            |   |  |
| <b>LIABILITIES</b>                                      |   |  |
| Current debt  | \$ 11,189                                 | \$ 13,418                                    |
| Accounts payable, accrued expenses and deferred revenue | 50,381                                    | 48,031                                       |
| Total current liabilities                               | 61,570                                    | 61,449                                       |
| Long-term debt  | 12,744                                    | 12,496                                       |
| Long-term employee-related benefits                     | 26,788                                    | 26,643                                       |
| Total liabilities                                       | 101,102                                   | 100,588                                      |
| <b>SHAREHOLDERS EQUITY</b>                              |   |  |

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|  |            |            |
|--|------------|------------|
| Common stock   | 3,372      | 3,389      |
| Additional paid-in capital   |            | 383        |
| Unearned restricted shares   | (280)      | (278)      |
| Retained earnings  | 157,426    | 161,945    |
| Accumulated other comprehensive loss (equity adjustment from foreign currency translation) | (6,578)    | (6,247)    |
| Receivable from ESOP   | (7,237)    | (7,221)    |
| Total shareholders' equity   | 146,703    | 151,971    |
| Total liabilities and shareholders' equity   | \$ 247,805 | \$ 252,559 |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

|  | Three Months Ended<br>March 31 |               |
|--|--------------------------------|---------------|
|  | 2002 Restated                  | 2001 Restated |
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES:</b>             |                                |               |
| Net earnings (loss)  | \$ (1,443)                     | \$ 439        |
| Adjustments to net earnings to arrive at operating cash flows: |                                |               |
| Depreciation and amortization                                  | 4,327                          | 5,514         |
| Deferred tax expense (benefit)                                 | 17                             | 299           |
| Changes in operating assets and liabilities                    | (2,760)                        | (4,047)       |
| Other, net   | 488                            | 481           |
| Net cash flows related to operating activities                 | 629                            | 2,686         |
| <b>CASH FLOWS RELATED TO INVESTING ACTIVITIES:</b>             |                                |               |
| Acquisition of property, plant and equipment                   | (2,974)                        | (7,008)       |
| Proceeds from disposals of property, plant and equipment       | 390                            | 320           |
| Net cash flows related to investing activities                 | (2,584)                        | (6,688)       |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES:</b>             |                                |               |
| Net changes in short-term borrowings                           | (2,295)                        | 1,052         |
| Proceeds from issuance of common stock                         | 9                              | 270           |
| Purchases of common stock                                      | (1,574)                        | (1,170)       |
| Dividends paid   | (1,801)                        | (1,813)       |
| Principal payment from ESOP                                    |                                | 799           |
| Net cash flows related to financing activities                 | (5,661)                        | (862)         |
| Effect of exchange rate changes on cash                        | (28)                           | 61            |
| Net decrease in cash and cash equivalents                      | (7,644)                        | (4,803)       |
| Cash and cash equivalents at beginning of year                 | 23,783                         | 21,512        |
| Cash and cash equivalents at end of period                     | \$ 16,139                      | \$ 16,709     |

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SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES

|  |    |     |    |     |
|--|----|-----|----|-----|
| Collateralized borrowings incurred for operating lease equipment | \$ | 604 | \$ | 533 |
|--|----|-----|----|-----|

See accompanying notes to consolidated financial statements.



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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 March 31, 2002 and the results of its operations and cash flows for the three months ended March 31, 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 months ended March 31, 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 \$(108,000) and \$289,000 and net earnings per share diluted of \$(0.01) and \$0.03 for the quarters ended March 31, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and March 31, 2002 and for the quarters ended March 31, 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 March 31, 2002 and for the quarters ended March 31, 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:

| Three Months Ended<br>March 31, 2002 |          | Three Months Ended<br>March 31, 2001 |          |
|--------------------------------------|----------|--------------------------------------|----------|
| As Previously<br>Reported            | Restated | As Previously<br>Reported            | Restated |

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CONSOLIDATED STATEMENTS OF EARNINGS

|                                       |    |         |    |         |    |         |    |         |
|---------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Net sales                             | \$ | 96,598  | \$ | 96,419  | \$ | 103,653 | \$ | 104,628 |
| Cost of sales                         |    | 61,568  |    | 61,471  |    | 63,933  |    | 64,383  |
| Interest income, net                  |    | 134     |    | 52      |    | 244     |    | 167     |
| Earnings (loss) before income taxes   |    | (1,308) |    | (1,472) |    | 272     |    | 719     |
| Income tax expense (benefit)          |    | 27      |    | (29)    |    | 122     |    | 280     |
| Net earnings (loss)                   |    | (1,335) |    | (1,443) |    | 150     |    | 439     |
| Net earnings (loss) per common share: |    |         |    |         |    |         |    |         |
| - Basic                               | \$ | (0.15)  | \$ | (0.16)  | \$ | 0.02    | \$ | 0.05    |
| - Diluted                             | \$ | (0.15)  | \$ | (0.16)  | \$ | 0.02    | \$ | 0.05    |

|   | March 31, 2002         |          | December 31, 2001      |          |    |         |    |         |
|---|------------------------|----------|------------------------|----------|----|---------|----|---------|
|   | As Previously Reported | Restated | As Previously Reported | Restated |    |         |    |         |
| <b>CONSOLIDATED BALANCE SHEETS</b>                      |                        |          |                        |          |    |         |    |         |
| Inventories   | \$                     | 48,187   | \$                     | 49,246   | \$ | 47,080  | \$ | 48,288  |
| Total current assets                                    |                        | 149,296  |                        | 150,355  |    | 152,387 |    | 153,595 |
| Net property, plant and equipment                       |                        | 68,287   |                        | 71,837   |    | 69,792  |    | 73,096  |
| Total assets  |                        | 241,767  |                        | 247,805  |    | 246,619 |    | 252,559 |
| Current debt  |                        | 7,290    |                        | 11,189   |    | 9,765   |    | 13,418  |
| Accounts payable, accrued expenses and deferred revenue |                        | 48,521   |                        | 50,381   |    | 45,883  |    | 48,031  |
| Total current liabilities                               |                        | 55,811   |                        | 61,570   |    | 55,648  |    | 61,449  |
| Long-term debt  |                        | 10,000   |                        | 12,744   |    | 10,000  |    | 12,496  |
| Total liabilities                                       |                        | 92,599   |                        | 101,102  |    | 92,291  |    | 100,588 |
| Retained earnings                                       |                        | 159,891  |                        | 157,426  |    | 164,302 |    | 161,945 |
| Total shareholders equity                               |                        | 149,168  |                        | 146,703  |    | 154,328 |    | 151,971 |
| Total liabilities and shareholders equity               |                        | 241,767  |                        | 247,805  |    | 246,619 |    | 252,559 |

|  | Three Months Ended March 31, 2002 |          | Three Months Ended March 31, 2001 |          |    |         |    |         |
|--|-----------------------------------|----------|-----------------------------------|----------|----|---------|----|---------|
|  | As Previously Reported            | Restated | As Previously Reported            | Restated |    |         |    |         |
| <b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b> |                                   |          |                                   |          |    |         |    |         |
| Net earnings                                 | \$                                | (1,335)  | \$                                | (1,443)  | \$ | 150     | \$ | 439     |
| Depreciation and amortization                |                                   | 3,976    |                                   | 4,327    |    | 5,250   |    | 5,514   |
| Changes in operating assets and liabilities  |                                   | (2,620)  |                                   | (2,760)  |    | (3,460) |    | (4,047) |
| Other, net                                   |                                   | 591      |                                   | 488      |    | 447     |    | 481     |

(3) Inventories

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

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|  | March 31, 2002<br>Restated | December 31,<br>2001 Restated |
|--|----------------------------|-------------------------------|
| FIFO Inventories:                        |                            |                               |
| Finished goods                           | \$ 34,752                  | \$ 34,271                     |
| Raw materials, parts and work-in-process | 35,266                     | 34,487                        |
| Total FIFO Inventories                   | 70,018                     | 68,758                        |
| LIFO reserve                             | (20,772)                   | (20,470)                      |
| LIFO inventories                         | \$ 49,246                  | \$ 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 three months ended March 31, 2002, and 2001 were \$404 and \$1,450, respectively. Interest costs paid during the three months ended March 31, 2002 and 2001 were \$309 and \$298, 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 the net earnings (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists solely of foreign currency translation adjustments. The reconciliations of net earnings (loss) to comprehensive income (loss) are as follows:

|  | Three Months Ended March 31 |               |
|--|-----------------------------|---------------|
|  | 2002 Restated               | 2001 Restated |
| Net earnings (loss)                      | \$ (1,443)                  | \$ 439        |
| Foreign currency translation adjustments | (331)                       | 1,567         |
| Comprehensive income (loss)              | \$ (1,774)                  | \$ 2,006      |

## (6) Earnings Per Share Computation

|   | Three Months Ended March 31 |               |
|---|-----------------------------|---------------|
|   | 2002 Restated               | 2001 Restated |
| Weighted average shares outstanding Basic   | 9,022                       | 9,101         |
| Dilutive share equivalents                  |                             | 138           |
| Weighted average shares outstanding Diluted | 9,022                       | 9,239         |
| Net earnings (loss)                         | \$ (1,443)                  | \$ 439        |
| Earnings per share Basic                    | \$ (0.16)                   | \$ 0.05       |
| Earnings per share Diluted                  | \$ (0.16)                   | \$ 0.05       |

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Dilutive share equivalents have not been included for the three-month period ended March 31, 2002 because the impact is anti-dilutive.

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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 that 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 Ended March 31, |               |
|----------------------------|------------------------------|---------------|
|                            | 2002 Restated                | 2001 Restated |
| Geographical Net Sales (1) |                              |               |
| North America              | \$ 70,503                    | \$ 75,218     |
| Europe                     | 17,615                       | 18,233        |
| Other International        | 8,301                        | 11,177        |
| Total                      | \$ 96,419                    | \$ 104,628    |

|                            | Three Months Ended March 31, |                             |
|----------------------------|------------------------------|-----------------------------|
|                            | 2002 As Originally Reported  | 2001 As Originally Reported |
| Geographical Net Sales (1) |                              |                             |
| North America              | \$ 70,682                    | \$ 74,243                   |
| Europe                     | 17,615                       | 18,233                      |
| Other International        | 8,301                        | 11,177                      |
| Total                      | \$ 96,598                    | \$ 103,653                  |

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(1) 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.

The Company recorded a restructuring charge of \$5,100 in the first quarter of 2001, related to the closing of a leased plant in Germany and transfer of production to a contract manufacturer in the Czech Republic. The restructuring charge includes severance payments, building lease costs and write-down of certain fixed assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - RESTATED (Unaudited)

(In thousands, except per share data)

The components of the 2002 and 2001 restructuring charges and the cash and noncash utilizations against the charges during the three months ended March 31, 2002 were as follows:

|                                    | <b>Severance,<br/>Early<br/>Retirement<br/>and Related<br/>Costs</b> | <b>Noncancelable<br/>Contractual<br/>Obligations<br/>and Other</b> | <b>Total</b> |
|------------------------------------|--|--|--------------|
| <b>2002 Restructuring Charges:</b> |  |  |              |
| 2002 Initial charges               | \$ 3,588   | \$ 416   | \$ 4,004     |
| 2002 Cash outlays                  | (195)  |  | (195)        |
| March 31, 2002 liability balance   | \$ 3,393   | \$ 416   | \$ 3,809     |
| <b>2001 Restructuring Charges:</b> |  |  |              |
| <b>December 31, 2001 liability</b> |  |  |              |
| Balance                            | \$ 961   | \$ 819   | \$ 1,780     |
| <b>2002 Utilization:</b>           |  |  |              |
| Cash                               | (503)  | (119)  | (622)        |
| Non-cash                           | (18)   | (12)   | (30)         |
| March 31, 2002 liability balance   | \$ 440   | \$ 688   | \$ 1,128     |

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.



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The Company adopted SFAS 142 effective January 1, 2002. Had this statement been effective January 1, 2001, net earnings and earnings per share for the three months ended March 31, 2001 would have been \$572 and \$0.06, respectively. During the quarter, the Company completed its initial impairment test of goodwill. As of January 1, 2002, there was no impairment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - RESTATED (Unaudited)

(In thousands, except per share data)

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

|                          | March 31, 2002 | December 31,<br>2001 |
|--------------------------|----------------|----------------------|
| Original Cost            | \$ 1,075       | \$ 1,075             |
| Accumulated amortization | (275)          | (250)                |
| Carrying value           | \$ 800         | \$ 825               |

Aggregate 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 provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. 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.

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 March 31, 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 \$(108,000) and \$289,000 and net earnings per share diluted of \$(0.01) and \$0.03 for the quarters ended March 31, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and March 31, 2002 and for the quarters ended March 31, 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

The Company incurred a net loss of \$1.4 million or \$0.16 per diluted share for the first quarter ended March 31, 2002, on net sales of \$96.4 million. In the comparable 2001 period, the Company reported net earnings of \$0.4 million or \$0.05 per diluted share, on net sales of \$104.6 million. Negative foreign currency exchange fluctuations, resulting primarily from the strength of the U. S. dollar compared to the Euro, Japanese yen and Australian dollar reduced net sales in the 2002 first quarter by approximately \$1.3 million and diluted earnings per share by approximately \$0.05.

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 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 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.

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During first quarter 2001, the Company recorded a restructuring charge of \$3.3 million after-tax (\$5.2 million pre-tax) or \$0.36 per diluted share to close a leased plant in Germany and transfer production to a contract manufacturer in the Czech Republic. The charge included severance payments, building lease costs and write-down of certain fixed assets.

Excluding the effects of restructuring and other unusual charges, net earnings were \$1.9 million or \$0.21 per diluted share during the first quarter of 2002 and \$3.8 million or \$0.41 per diluted share for the comparable 2001 period.

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 earnings per share for the three months ended March 31, 2001 would have been \$572 and \$0.06, respectively.

Consolidated net sales of \$96.4 million for the first quarter 2002 decreased 8% compared to first quarter 2001 sales of \$104.6 million. The period-to-period declines in consolidated net sales for the quarter ended March 31, 2002 resulted primarily from continued difficult economic conditions in all geographic areas in which the Company operates. The Company expects the difficult economic conditions in the manufacturing sector of the economy to continue during 2002.

North American sales for the 2002 first quarter decreased 6% to \$70.5 million, compared with \$75.2 million in 2001. Declines in sales of industrial and commercial products and floor coating products were partially offset by an increase in North America service revenues compared to 2001. The declines resulted from the weak economic conditions compared with a year ago.

In Europe, net sales for the 2002 first quarter decreased 3% to \$17.6 million versus the comparable 2001 period. Europe's 2001 first quarter consisted of the three-month period ending February 28, 2001. Beginning in 2002, Europe's fiscal year and quarterly sales correspond with the calendar year. Had Europe's 2001 first quarter ended March 31 2001, and excluding the impact from foreign currency exchange fluctuations, sales for the 2002 first quarter would have decreased about 9% compared with the 2001 first quarter, primarily from the weak economic conditions throughout Europe.

In other international markets, sales for the first quarter of 2002 totaled \$8.3 million, down 26% from the 2001 first quarter. The decline reflects particular weakness in the Latin American and Japanese markets, as well as negative foreign currency exchange fluctuations resulting from the weakness of local currencies as compared with the U.S. dollar.

Order backlog at March 31, 2002, totaled \$10 million compared with \$5 million at December 31, 2001 and \$11 million at March 31, 2001.

First quarter 2002 gross profit margin was 36.2% compared with 38.5% reported in the first quarter of 2001. The decline in gross margin results primarily from declines in unit volume, including unfavorable sales mix effects and manufacturing overhead absorption. These unfavorable impacts were partially offset by the benefits of the restructuring actions the Company took during 2001.

First quarter selling and administrative (S&A) expenses in 2002 decreased nearly 7% to \$32.4 million from \$34.8 million in 2001, reflecting the impact of cost reduction measures taken during 2001. S&A expense as a percentage of sales of 33.6% was slightly unfavorable compared to the comparable quarter last year of 33.3%.

Net interest income was \$0.1 million in the first quarter of 2002 compared to \$0.2 million for the comparable 2001 period, resulting primarily from lower interest rates in the current quarter. Other income (expense) was minimal in the first quarter of 2002 compared to \$0.3 million in 2001, primarily because of currency transaction gains in 2001.

Income tax expense (benefit) for the first quarter of 2002 was \$(0.03) million, versus \$0.3 million in the first quarter of 2001. Excluding restructuring and other unusual charges, the effective tax rates for the first quarter were 38% for 2002 and 35.5% for 2001.

### **Liquidity and Capital Resources**

The Company generated \$0.6 million of operating cash flows for the quarter ended March 31, 2002 compared with \$2.7 million in the comparable 2001 period. This decrease was primarily attributable to the \$1.9 million decrease in net earnings between the comparable periods. Cash and cash equivalents totaled \$16.1 million at March 31, 2002, compared to \$23.8 million at December 31, 2001. Significant uses of cash in the first quarter of 2002 included \$2.6 million of net capital expenditures, \$1.8 million of dividends paid to shareholders, \$1.6 million of common stock repurchases and a \$2.3 million reduction in short-term debt.

The debt-to-total-capitalization ratio was 14.0% at March 31, 2002 versus 14.6% at December 31, 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.

**Market Risk**

The Company's market risk includes the risk of adverse changes in foreign currency exchange rates. Foreign currency exchange fluctuations from a strong U.S. dollar reduced diluted earnings per share by approximately \$0.05 for the first quarter of 2002 compared with the year-ago period. The Company could experience further unfavorable foreign exchange effects 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 U.S. dollar-denominated trade payables in 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; the ability to successfully implement the SAP enterprise resource planning system; 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.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

| <b>Item #</b> | <b>Description</b>   | <b>Method of Filing</b>  |
|---------------|--|--|
| 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.      |
| 10i.5         | Schedule of management parties                                     | Incorporated by reference to Exhibit 10i.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002. |
| 99.1          | Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically.   |

(b) Reports on Form 8-K

There were no reports filed on Form 8-K for the quarter ended March 31, 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.

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