

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K/A

### ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001. Commission File Number 0-4804

## TENNANT COMPANY

Incorporated in the State of **Minnesota**

Employer Identification Number **41-0572550**

**701 North Lilac Drive, P.O. Box 1452, Minneapolis, Minnesota 55440**

Telephone Number **763-540-1208**

Securities registered pursuant to Section 12 (b) of the Act:

Common Stock, par value \$.375 per share

and

Preferred Share Purchase Rights

Securities registered pursuant to Section 12 (g) of the Act: **NONE**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

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\$359,912,586.20 is aggregate market value of common stock held by non-affiliates as of March 15, 2002.

9,009,076 shares outstanding at March 15, 2002

DOCUMENTS INCORPORATED BY REFERENCE

2002 Proxy Part III (Partial)

**TENNANT COMPANY**

**2001**

**ANNUAL REPORT**

**Form 10-K/A**

**(Pursuant to Securities Exchange Act of 1934)**

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 in the 1999-2001 consolidated financial statements includes a reduction in previously reported net earnings of \$0.2 million and \$0.5 million and net earnings per share diluted of \$0.02 and \$0.05 for the years ended December 31, 2001 and 2000, respectively, and an increase in previously reported net earnings of \$0.1 million and net earnings per share diluted of \$0.01 for the year ended December 31, 1999. The consolidated financial statements as of December 31, 2001 and 2000 and for the three years ended December 31, 2001, 2000 and 1999 and notes thereto included in this Form 10-K/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-K for the fiscal year ended December 31, 2001 amends and restates those items of the Form 10-K originally filed on March 29, 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 Item 8.

**PART I**

**ITEM 1 Business**

## **General Development of Business**

Tennant Company, a Minnesota corporation incorporated in 1909, is a world leader in designing, manufacturing and marketing products used primarily in the maintenance of nonresidential floors. The Company's equipment is used to clean factories, office buildings, airports, hospitals, schools, warehouses, parks, streets and more. Customers include contract cleaners, distributors of cleaning equipment and supplies, corporations, health care facilities, schools and local, state and federal governments.

Tennant's shares are traded on the New York Stock Exchange (NYSE) under the symbol TNC.

## **Industry Segments, Foreign and Domestic Operations and Export Sales**

The Company, as described under General Development of Business, has one business segment. The Company sells its products domestically and internationally. Financial information on the Company's geographic areas are provided under Segment Reporting in Note 17 included in Item 8. Nearly all of the Company's foreign investment in assets reside within Australia, Canada, Japan, Spain, The Netherlands, the United Kingdom, France, and Germany. While subject to increases or decreases in value over time due to foreign exchange rate movements, these investments are considered to be of low business risk.

## **Principal Products, Markets and Distribution**

Products consisting mainly of motorized cleaning equipment and related products, including floor cleaning and preservation products, are sold through a direct sales organization and independent distributors in North America, primarily through a direct sales organization in Australia, France, Spain, The Netherlands, Germany, and the United Kingdom, and through independent distributors in more than 40 foreign countries. Tennant is headquartered in Minneapolis, Minnesota, and also has manufacturing operations in Holland, Michigan and Uden, The Netherlands.

## **Raw Materials and Purchased Components**

The Company has not experienced any significant or unusual problems in the purchase of raw materials or other product components and is not disproportionately dependent upon any single source or supply. The Company has some sole-source vendors for certain components, primarily for automotive and plastic parts. A disruption in supply from such vendors may cause a short-term disruption in the Company's operations. However, the Company believes that it can find alternate sources in the event there is a disruption in supply from such vendors.

## **Patents and Trademarks**

The Company applies for and is granted United States and foreign patents and trademarks in the ordinary course of business, no one of which is of material importance in relation to the business as a whole.

**Seasonality**

Although the Company's business is not seasonal in the traditional sense, historically revenues and earnings have been more concentrated in the fourth quarter of each year reflecting the tendency of customers to increase capital spending during such quarter, and the Company's efforts to close orders and reduce order backlogs.

**Major Customers**

The Company sells its products to a wide variety of customers, no one of which is of material importance in relation to the business as a whole.

**Backlog**

The Company routinely fills orders within 30 days on average. Consequently, order backlogs are generally not indicative of future sales levels.

**Competition**

While there is no industry association or industry data, the Company believes, through its own market research, that it is a world-leading manufacturer of floor maintenance equipment. Active competition exists in most geographic areas; however, it tends to originate from different sources in each area, and the Company's market share is believed to exceed that of the leading competitor in many areas. The Company competes primarily on the basis of offering a broad line of high-quality, innovative products supported by an extensive sales/service network in major markets.

**Product Research and Development**

The Company regularly commits what is believed to be an above-average amount of resources to product research and development. In 2001, 2000 and 1999, respectively, the Company spent \$16,578,000, \$15,466,000 and \$14,861,000 on research and development activities relating to the development of new products or improvements of existing products or manufacturing processes.

**Environmental Protection**

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

**Employment**

The Company employed 2,387 persons in worldwide operations as of December 31, 2001.

**ITEM 2 Properties**

The Company's corporate offices are owned by the Company and are located in the Minneapolis, Minnesota metropolitan area. Manufacturing facilities are located in Minnesota, Michigan and The Netherlands. Sales offices, warehouse and storage facilities are leased in various locations in North America, Europe, Japan, and Australia. The Company's facilities are in good operating condition, suitable for their respective uses and adequate for current needs. Notes 5 and 12 of the Notes to the Financial Statements included in Item 8 contain further information regarding the Company's property and lease commitments.

**ITEM 3 Legal Proceedings**

There are no material pending legal proceedings other than ordinary routine litigation incidental to the Company's business.

**ITEM 4 Submission of Matters to a Vote of Security Holders**

Not applicable.

**Executive Officers of the Registrant**

Janet M. Dolan, President and Chief Executive Officer

Janet M. Dolan (52) joined the Company in 1986. Ms. Dolan was appointed General Counsel and Secretary in 1987, Vice President in 1990, Senior Vice President in 1995, Executive Vice President in 1996, President and Chief Operating Officer and a director in 1998. Ms. Dolan was named Chief Executive Officer in 1999. She is a director of Tennant Sales and Service Company, Tennant Finance Company, and Tennant Sales and Service Finance Company. She is a member of the NYSE Listed Company Advisory Committee. She is also director of Donaldson Company, Inc. and The St. Paul Companies, Inc.

Richard M. Adams, Vice President

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Richard M. Adams (54) joined the Company in 1974. He became Assistant Controller in 1983 and was named Corporate Controller in 1986. Mr. Adams was named Vice President, Global Accounts in 1993 and Vice President, New Business Development in 1999. Mr. Adams is a Certified Public Accountant. Mr. Adams is a director of Tennant UK Limited, Tennant Holding B.V., Tennant Europe B.V., and Tennant Import B.V.

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

Anthony T. Brausen (42) joined the Company in March 2000 as Vice President and Chief Financial Officer. He was named also as Treasurer in February 2001. Mr. Brausen is a Certified Public Accountant. He is a director of Tennant N.V., Tennant Sales and Service Company, Tennant Finance Company, and Tennant Sales and Service Finance Company.

Rex L. Carter, Vice President, E-Solutions

Rex L. Carter (50) joined the Company in October 2001 as Vice President, E-Solutions.

Thomas J. Dybsky, Vice President

Thomas J. Dybsky (52) joined the Company in 1998 as Vice President of Human Resources. Mr. Dybsky is a director of Tennant N.V.

Anthony Lenders, Managing Director of Tennant N.V.

Anthony Lenders (56) joined the Company in 2000 as Managing Director of Tennant N.V.

James H. Moar, Chief Operating Officer

James H. Moar (53) joined the Company in 1998 as Senior Vice President of Industrial Markets. He was named Chief Operating Officer in 1999. Mr. Moar is a director of Tennant Sales and Service Company, Tennant Finance Company, and Tennant Sales and Service Finance Company.

James J. Seifert, Vice President, General Counsel and Secretary

James J. Seifert (45) joined the company in 1999 as Vice President, General Counsel and Secretary. Mr. Seifert is a director of Tennant UK Limited, Tennant Holding B.V., Tennant Europe B.V., Tennant Import B.V., Tennant N.V., Tennant Sales and Service Company, Tennant Finance Company, and Tennant Sales and Service Finance Company.

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Gregory M. Siedschlag, Corporate Controller and Principal Accounting Officer

Gregory M. Siedschlag (42) joined the Company in July 2001 as Corporate Controller and Principal Accounting Officer. Mr. Siedschlag is a Certified Public Accountant. He is a director of Tennant Company Far East Headquarters Pte Ltd.

Steven K. Weeks, Vice President

Steven K. Weeks (46) joined the Company in 1984. He was named Manager, Global New Business and Marketing Development in 1993; Director of Marketing in 1994; Vice President, Customer Solutions in 1996; and Vice President, Global Marketing in 1999.

### PART II

#### **ITEM 5 Market for Registrant's Common Equity and Related Stockholder Matters**

Investor Information

**STOCK MARKET INFORMATION** Tennant common stock is traded on the New York Stock Exchange, under the ticker symbol TNC. As of December 31, 2001, there were approximately 3,700 shareholders.

**QUARTERLY PRICE RANGE** The accompanying chart shows the quarterly price range of the Company's shares over the past five years:

|             | First          | Second         | Third          | Fourth         |
|-------------|----------------|----------------|----------------|----------------|
| <b>1997</b> | \$ 26.13-28.75 | \$ 26.75-33.25 | \$ 33.25-37.50 | \$ 36.00-39.63 |
| <b>1998</b> | \$ 34.75-41.13 | \$ 40.75-44.81 | \$ 37.00-44.50 | \$ 33.00-41.25 |
| <b>1999</b> | \$ 31.44-45.00 | \$ 32.00-38.50 | \$ 32.63-37.25 | \$ 32.00-35.63 |
| <b>2000</b> | \$ 28.25-34.50 | \$ 30.50-38.00 | \$ 33.75-44.25 | \$ 39.00-53.38 |
| <b>2001</b> | \$ 39.95-49.56 | \$ 39.85-45.60 | \$ 33.32-40.25 | \$ 32.80-38.40 |

**DIVIDEND INFORMATION** Cash dividends on Tennant's common stock have been paid for 58 consecutive years, and the Company has increased the dividend payout in each of the last 30 years. Dividends generally are declared each quarter. Following are the remaining record dates anticipated for 2002: May 31, 2002 August 30, 2002 November 29, 2002



**ITEM 6 Selected Financial Data****TENNANT COMPANY AND SUBSIDIARIES**

## Historical Financial Review

*(In thousands, except shares and per share data)*

| Years ended December 31                 | 2001<br>Restated | 2000<br>Restated | 1999<br>Restated | 1998<br>Restated | 1997    |
|---|------------------|------------------|------------------|------------------|---------|
| Net sales                               | \$ 422,425       | 452,176          | 429,739          | 383,765          | 372,428 |
| Cost of sales                           | \$ 268,500       | 269,658          | 255,528          | 223,369          | 217,570 |
| Gross margin %                          | 36.5             | 40.4             | 40.5             | 41.8             | 41.6    |
| Selling and administrative expenses     | \$ 136,440       | 139,665          | 136,076          | 125,806          | 118,770 |
| % of net sales                          | 32.3             | 30.9             | 31.7             | 32.8             | 31.9    |
| Profit from operations                  | \$ 13,451(1)     | 42,853           | 31,464(3)        | 34,590           | 36,088  |
| % of net sales                          | 3.2              | 9.5              | 7.3              | 9.0              | 9.7     |
| Other income (expense)                  | \$ (5)           | 359              | (770)            | 1,732            | 1,542   |
| Income tax expense                      | \$ 8,838         | 15,470           | 10,939           | 12,713           | 13,425  |
| % of earnings before income taxes       | 65.7             | 35.8             | 35.6             | 35.0             | 35.7    |
| Net earnings                            | \$ 4,608(1)(2)   | 27,742           | 19,755(3)        | 23,609           | 24,205  |
| % of net sales                          | 1.1              | 6.1              | 4.6              | 6.2              | 6.5     |
| Return on beginning shareholders equity |                  |                  |                  |                  |         |
| %                                       | 3.0              | 20.7             | 15.2             | 16.7             | 18.8    |

**PER SHARE DATA**

|                              |               |       |         |       |       |
|------------------------------|---------------|-------|---------|-------|-------|
| Basic net earnings           | \$ 0.51(1)(2) | 3.05  | 2.17(3) | 2.49  | 2.43  |
| Diluted net earnings         | \$ 0.50(1)(2) | 3.04  | 2.16(3) | 2.49  | 2.41  |
| Cash dividends               | \$ 0.80       | .78   | .76     | .74   | .72   |
| Shareholders equity (ending) | \$ 16.82      | 16.88 | 14.94   | 14.20 | 13.82 |

**YEAR-END FINANCIAL POSITION**

|  |            |         |         |         |         |
|--|------------|---------|---------|---------|---------|
| Cash and cash equivalents                      | \$ 23,783  | 21,512  | 14,928  | 17,693  | 16,279  |
| Total current assets                           | \$ 153,595 | 173,220 | 166,745 | 153,069 | 143,105 |
| Property, plant and equipment, net             | \$ 73,096  | 69,054  | 67,388  | 67,302  | 65,111  |
| Total assets                                   | \$ 252,559 | 268,472 | 261,269 | 243,000 | 233,870 |
| Current liabilities excluding current debt     | \$ 48,031  | 57,594  | 65,362  | 54,044  | 53,738  |
| Current ratio excluding current debt           | 3.2        | 3.0     | 2.6     | 2.8     | 2.7     |
| Long-term liabilities excluding long-term debt | \$ 26,643  | 31,081  | 30,616  | 27,802  | 22,801  |
| Debt:  |            |         |         |         |         |
| Current  | \$ 13,418  | 15,274  | 14,191  | 7,969   | 2,377   |
| Long-term                                      | \$ 12,496  | 11,736  | 16,839  | 23,635  | 20,678  |
| Total debt as% of total capital                | 14.6       | 15.0    | 18.8    | 19.6    | 14.7    |
| Shareholders equity                            | \$ 151,971 | 152,787 | 134,261 | 129,550 | 134,086 |

**CASH FLOW INCREASE  
(DECREASE)**

|                                 |    |                 |          |          |          |          |
|---------------------------------|----|-----------------|----------|----------|----------|----------|
| Related to operating activities | \$ | <b>34,141</b>   | 38,866   | 37,603   | 42,890   | 41,892   |
| Related to investing activities | \$ | <b>(20,544)</b> | (19,251) | (25,343) | (17,221) | (15,490) |
| Related to financing activities | \$ | <b>(11,633)</b> | (12,680) | (14,665) | (24,290) | (20,434) |

**OTHER DATA**

|  |    |                    |             |             |             |             |
|--|----|--------------------|-------------|-------------|-------------|-------------|
| Interest income                                    | \$ | <b>2,133</b>       | 2,532       | 2,847       | 3,771       | 4,699       |
| Interest expense                                   | \$ | <b>2,131</b>       | 1,886       | 2,665       | 2,303       | 2,021       |
| Depreciation and amortization expense              | \$ | <b>19,282</b>      | 18,766      | 19,028      | 17,590      | 17,468      |
| Net expenditures for property, plant and equipment | \$ | <b>20,544</b>      | 18,251      | 16,362      | 17,221      | 16,424      |
| Number of employees at year-end                    |    | <b>2,416</b>       | 2,471       | 2,266       | 2,127       | 2,019       |
| Diluted average shares outstanding(5)              |    | <b>9,203</b>       | 9,135       | 9,140       | 9,500       | 10,032      |
| Closing share price at year-end(5)                 | \$ | <b>37.10</b>       | 48.00       | 32.75       | 40.13       | 36.38       |
| Common stock price range during year(5)            | \$ | <b>32.80-49.56</b> | 28.25-53.38 | 31.44-45.00 | 33.00-44.81 | 26.13-39.63 |
| Closing price/earnings ratio                       |    | <b>74.2</b>        | 15.8        | 15.2        | 16.1        | 15.1        |

- 
- (1) 2001 includes unusual items of \$5,041 pre-tax (\$3,141 net of taxes or \$0.34 per diluted share)
- (2) Includes a charge of \$4,267 after-tax (or \$0.47 per diluted share) to record a deferred tax asset valuation allowance
- (3) 1999 includes pre-tax restructuring charges of \$6,671 (\$4,308 net of taxes or \$0.47 per diluted share)

**ITEM 7 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 December 31, 2001 and 2000 and for the three years ended December 31, 2001, 2000 and 1999.

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 in the 1999-2001 consolidated financial statements includes a reduction in previously reported net earnings of \$0.2 million and \$0.5 million and net earnings per share diluted of \$0.02 and \$0.05 for the years ended December 31, 2001 and 2000, respectively, and an increase in previously reported net earnings of \$0.1 million and net earnings per share diluted of \$0.01 for the year ended December 31, 1999. The consolidated financial statements as of December 31, 2001 and 2000 and for the three years ended December 31, 2001, 2000 and 1999 and notes thereto included in this Form 10-K/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

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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.

### *Overview*

Tennant Company is a world leader in designing, manufacturing and marketing products used primarily in the maintenance of nonresidential floors. The Company's equipment is used to clean factories, office buildings, airports, hospitals, schools, warehouses, parks, streets and more. Customers include contract cleaners, distributors of cleaning equipment and supplies, corporations, health care facilities, schools and local, state and federal governments.

Operating results for 2001 were adversely affected by the manufacturing sector recession in the North American economy, especially for industrial equipment products. A downturn in the North American industrial economy began late in 2000 and deepened into a recession in 2001. During 2001, the recession spread to the global economy, adversely affecting the Company's foreign sales and operating results as well.

In response to the economic conditions, management took several actions to reduce headcount, salaries, direct labor hours and discretionary spending. In addition, the Company launched major initiatives to permanently reduce costs and improve overall operating efficiency. Unusual charges totaling \$11 million pre-tax were recorded during 2001 as a result of these initiatives.

Consolidated net sales of \$422 million in 2001 decreased 6.6% from \$452 million in 2000. Foreign currency exchange fluctuations, resulting primarily from the strength of the U.S. dollar compared to the Euro, Japanese yen and Australian dollar, had an unfavorable impact of approximately \$5.5 million on revenues in 2001 compared to the prior year. Net sales for the fourth quarter and 2001 included an additional month of sales from the Company's European operations. This resulted from the Company's decision to adjust the fiscal year for its European operations from November to the calendar year. The extra month increased net sales for the 2001 fourth quarter and full year by \$5.6 million, but reduced 2001 net earnings in both periods by approximately \$0.06 per diluted share because, historically, the Company operates at a loss in Europe during the shortened holiday month of December.

In 2000, consolidated net sales of \$452 million increased 5.2% over 1999. The negative impact of foreign currency exchange fluctuations on net sales was approximately \$13 million in 2000 compared to 1999.

Net earnings for 2001 were \$4.6 million or \$0.50 per diluted share, compared to \$27.7 million or \$3.04 per diluted share in 2000. Unfavorable foreign currency exchange fluctuations reduced earnings per diluted share by approximately \$0.23 in 2001 and \$0.22 in 2000, compared with the respective prior year. Net earnings for 2001 included unusual charges of \$11 million pretax, as well as an unusual pension gain of \$5.9 million pre-tax. The unusual pre-tax charges included restructuring charges of \$10 million and an inventory writedown of \$1 million that was recorded in cost of sales. These charges related to a workforce reduction and the closure of the Company's plant in Germany and the transfer of its production to a contract manufacturer in the Czech Republic. The Company also recognized a non-cash income tax charge of \$4.3 million, to establish a valuation allowance against the Company's future benefits from European tax-loss carryforwards. The European tax losses resulted largely from restructuring actions taken in 2001 for which no loss carry-back is available. Excluding the effects of these unusual items, net earnings for 2001 were \$12.0 million or \$1.31 per diluted share.

Net earnings of \$27.7 million in 2000 or \$3.04 per diluted share increased 40% compared to \$19.8 million or \$2.16 per diluted share in 1999. Net earnings for 1999 included restructuring charges of \$6.7 million pre-tax. Excluding the effects of these restructuring charges, net earnings for 1999 were \$24.1 million or \$2.63 per diluted share.

### *Net Sales*

Sales in North America decreased 7.5% in 2001 to \$302 million compared with \$326 million in 2000. The North American manufacturing sector recession caused sales of industrial equipment and related products (including outdoor products) and floor coating products to decrease 18.1% and 8.9% in 2001, respectively. Sales growth of 6.2% in commercial equipment and related products and 11.6% in service revenues was not enough to offset the declines in industrial and floor coating products. During the fourth quarter, the slowdown in the North American economy impacted commercial sales as well, contributing to a decline on a period-to-period basis for the first time in 2001.

In 2000, North American sales of \$326 million increased 7.0% compared to 1999. Net sales increased 9%, adjusted for the divestiture of the Company's Eagle propane burnisher business in September 1999. Growth occurred in all product lines, with industrial products (including outdoor) increasing 7.1%, commercial products increasing 11.7% (adjusted for the impact of the Eagle divestiture) and floor coatings increasing 3.9%. Industrial, commercial and floor coatings growth was due primarily to unit volume growth.

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European sales of \$80.6 million in 2001 were flat compared to 2000 sales. During 2001, the Company's European operation changed its fiscal year-end from November to December because of the conversion of the European information system to the U.S. platform. This resulted in an additional month of sales in 2001 that increased revenues by \$5.6 million. Negative foreign currency exchange fluctuations decreased European revenues approximately \$2.8 million in 2001. Excluding the effects of negative foreign currency exchange and the additional month of sales, European sales decreased 3% as a result of weakening economic conditions in the latter part of 2001.

European sales in 2000 were \$80.6 million, down 1.9% from 1999 sales of \$82.2 million. Adjusted for the negative impact of foreign currency exchange and for the one additional month of revenue in 2000 from the acquired Paul Andra KG business, sales grew 10% primarily due to unit volume growth.

Other international sales in 2001 were \$40.3 million, a decrease of 11.2% compared to 2000 sales of \$45.4 million. Adjusted to exclude the negative impact of foreign currency exchange, other international sales decreased 7%, primarily reflecting the deteriorating global economic conditions, particularly in Japan and Latin America.

Other international sales in 2000 were \$45.4 million, an increase of 6.3% over 1999 sales of \$42.7 million. Adjusted to exclude the negative impact from foreign currency exchange, other international sales increased 8% compared with 1999 primarily due to unit volume growth in several geographies.

Consolidated order backlog at December 31, 2001 totaled \$5 million compared with \$7 million at the end of 2000 and \$9 million at the end of 1999.

### *Costs and Expenses*

The following is a summary of major operating costs and expenses as a percentage of net sales:

|                                     | 2001 Restated | 2000 Restated | 1999 Restated |
|-------------------------------------|---------------|---------------|---------------|
| Cost of sales                       | 63.5%         | 59.6%         | 59.5%         |
| Selling and administrative expenses | 32.3%         | 30.9%         | 31.7%         |
| Restructuring charges               | 2.4%          |               | 1.6%          |

Cost of sales as a percentage of sales increased by 3.9 percentage points in 2001 compared with 2000. The primary factor contributing to the increase in the cost of sales percentage was the 6.6% decline in consolidated net sales volume and unfavorable sales mix effects. A sales volume decline in the most profitable product line, industrial products, coupled with growth in sales of lower margin commercial products and service revenues contributed significantly to the unfavorable sales mix effect. Other factors contributing to the percentage increase in cost of sales were foreign currency exchange fluctuations and a \$1.0 million inventory write-down related to the closure of the plant in Germany.

Cost of sales as a percentage of sales increased 0.1 percentage points in 2000 compared with 1999. The primary factor contributing to the increase in the cost of sales percentage was the effect of foreign currency exchange fluctuations, principally the Euro.

Future gross margins could continue to be impacted by competitive market conditions, the mix of products both within and among product lines and geographies, and the effects of foreign currency exchange fluctuations.

Selling and administrative expenses as a percentage of sales increased 1.4 percentage points in 2001 compared with 2000. This increase was attributable to the decline in sales volume between 2001 and 2000. The increase was partially offset by the favorable impact of cost reduction measures taken during 2001 and lower profit-related expenses.

In 2000, selling and administrative expenses as a percentage of sales declined 0.8 percentage points compared with 1999. The decline was primarily attributable to the effects of restructuring activity process improvement initiatives.

### *Restructuring Charges*

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As discussed in Note 3 to the consolidated financial statements, the Company recorded \$10 million of pre-tax restructuring charges during 2001 related to a workforce reduction and the closure of the plant in Germany and the transfer of its production to a contract manufacturer in the Czech Republic. The majority of these actions were completed during 2001 with the remainder expected to be completed during 2002. The 2001 restructuring actions are expected to provide an annualized pre-tax benefit up to approximately \$3.5 million.

During 1999, the Company recorded pre-tax restructuring charges of \$6.7 million. The charges pertained to management initiatives to restructure the main manufacturing organizations in North America and Europe. The initiatives in North America and Europe were substantially completed in 2000 and 2001, respectively. These actions improved the efficiency and productivity of those organizations and reduced global infrastructure through the closure of several warehouses in North America and closure, or reduced activity in, several European sales and service facilities.

Management regularly reviews the Company's business operations with the objective of improving financial performance and maximizing its return on investment. As a result of this ongoing process, the Company has announced plans 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. This initiative, which is expected to result in the elimination of up to 80 positions, will enable the Company to reduce its operating, transportation and inventory carrying costs while further improving the level of customer service. In connection with these actions and other initiatives to streamline operations worldwide, Tennant expects to incur restructuring charges during 2002. The Company continually evaluates actions to improve financial performance which, if taken, could result in material charges.

### *Pension Settlement Gain*

As described in Note 10 to the consolidated financial statements, the Company approved enhancements to its defined benefit retirement program during 2000. Plan participants were given the choice of remaining in a modified defined benefit plan or receiving a lump-sum distribution that could be rolled over into the Company's 401(k) plan. As a result of these actions, the former plan was terminated during 2001 and the plan assets were distributed to the participants, resulting in a non-recurring, pre-tax pension settlement gain of \$5.9 million.

### *Other Income (Expense)*

In 2001, other income was minimal compared to \$0.4 million in 2000. The decrease is primarily attributable to a decrease in interest income and an increase in miscellaneous expense year over year, offset by an increase in net foreign currency transaction gains.

In 2000, other income was \$0.4 million compared with a net expense of \$0.8 million in 1999. The major factors causing the change were a reduction in interest expense, along with decreases in ESOP-related expense and the discretionary contribution made to the Tennant Foundation.

### *Income Taxes*

The Company's effective income tax rate was 65.7%, 35.8% and 35.6% for the years 2001, 2000 and 1999, respectively. The increase in the effective rate in 2001 is the result of a non-cash income tax charge of \$4.3 million to establish a valuation allowance against the Company's future benefits from European tax-loss carryforwards. The European tax losses resulted largely from restructuring actions taken in 2001 for which no loss carryback is available. In the future, the Company may experience changes in its effective tax rate based on its ability to utilize the net operating loss carryforwards.

### *Liquidity and Capital Resources*

Despite difficult economic conditions, the Company strengthened its financial position in 2001. At December 31, 2001, cash and cash equivalents totaled \$23.8 million, up 10.6% from the \$21.5 million as of December 31, 2000. The Company's current ratio was 2.5 at December 31, 2001, improving from 2.4 at December 31, 2000 based on working capital of \$92.1 million and \$100.4 million, respectively. At December 31, 2001, the Company's capital structure was comprised of \$13.4 million of current debt, \$12.5 million of long-term debt and \$152.0 million of shareholders' equity. Debt-to-total-capital ratio was 14.6% at December 31, 2001, compared with 15.0% at December 31, 2000. At December 31, 2001, the Company had sufficient cash to satisfy all outstanding debt obligations.

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The Company's contractual cash obligations at December 31, 2001, are summarized in the following table (in thousands):

|                                    | Total     | Payments Due by Period |           |           | After<br>5 years |
|------------------------------------|-----------|------------------------|-----------|-----------|------------------|
|                                    |           | Less<br>than<br>1 year | 1-3 years | 4-5 years |                  |
| Debt                               | \$ 19,765 | \$ 9,765               | \$ 10,000 | \$        | \$               |
| Operating leases                   | 7,808     | 2,964                  | 4,256     | 588       |                  |
| Total contractual cash obligations | \$ 27,573 | \$ 12,729              | \$ 14,256 | \$ 588    | \$               |

For 2002, the Company has available committed and uncommitted lines of credit totaling \$46 million, with terms generally one year or less. At December 31, 2001, \$9.2 million of related debt was outstanding. If the global economy continues to weaken during 2002, it could have an unfavorable impact on the demand for the Company's products and, as a result, operating cash flow. The Company believes that the combination of internally generated funds, present capital resources and available financing sources are more than sufficient to meet cash requirements for 2002.

### *Cash Flows*

Cash provided by operating activities was \$34.1 million in 2001, \$38.9 million in 2000 and \$37.6 million in 1999. The decrease in operating cash flows in 2001 compared to 2000 is primarily attributable to the \$23.1 million decrease in net earnings, including cash used for restructuring activities, and an \$8.7 million decrease in Accounts payable, accrued expenses and deferred revenue. These decreases were substantially offset by the \$14.1 million decrease in accounts receivable and \$5.6 million decrease in inventories. During 2000, the \$1.3 million increase in operating cash flows was due to an \$8.0 million increase in net earnings, offset by an increase in operating assets and liabilities.

Capital expenditures for property, plant and equipment totaled \$23.4 million in 2001, \$20.5 million in 2000 and \$18.3 million in 1999. Capital spending is expected to decrease in 2002 to approximately \$15 to \$20 million. Capital expenditures in 2001 were greater because of an increase in spending on projects intended to improve financial performance through new business or cost savings, including investments in design systems software, new product tooling and the purchase of a previously leased production facility. Expenditures for capital in 2002 are expected to be financed primarily with funds from operations. Other significant uses of cash in 2001 included \$5 million for repayment of debt.

### *Dividends and Share Repurchases*

The Company paid \$7.2 million in dividends to shareholders and \$3.2 million for net purchases of Tennant common stock during 2001. Cash dividends increased for the 30th consecutive year to \$0.80 per share in 2001, an increase of \$0.02 per share over 2000. Shares repurchased during 2001, 2000 and 1999 approximated 130,000, 90,000 and 283,000, respectively. The average repurchase price was \$38.69 during 2001, \$35.50 during 2000 and \$34.98 during 1999. During May 2001, the Board of Directors authorized a new share repurchase program to repurchase up to 400,000 shares of common stock. At December 31, 2001, approximately 308,000 shares were available for repurchase under this program.

### *Critical Accounting Policies*

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting policies. The following accounting policies are considered by management to be the most critical to the presentation of the consolidated financial statements because they require the most subjective and complex judgments.

**Allowance for Doubtful Accounts** The Company records a reserve for accounts receivable which are potentially uncollectible. The reserve is established by estimating the amounts that are potentially uncollectible based on a review of customer accounts, the age of the receivable, the customer's financial condition and industry, and general economic conditions. Results could be materially different if economic conditions worsened for the Company's customers.

**Inventory reserves** The Company records reserves for inventory shrinkage and for potentially excess, obsolete and slow moving inventory. The amounts of these reserves are based upon historical loss trends, inventory levels, historical physical inventory and cycle count adjustments, expected product lives and forecasted sales demand. Results could be materially different if demand for the Company's products decreased because of economic or competitive conditions, or if products became obsolete because of technological advancements in the industry or by the Company.

**Deferred tax assets** The Company recognizes deferred tax assets for the expected future tax impact of temporary differences between book and taxable income. A valuation allowance and income tax charge are recorded when, in management's judgment, realization of a specific deferred tax asset is uncertain. The deferred tax asset valuation allowance could be materially different from actual results because of changes in management's expectations regarding future taxable income, the relationship between book and taxable income and tax planning strategies employed by the Company.

**Warranty reserves** The Company records a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, anticipated releases of new products and other factors. Claims experience could be materially different from actual results because of the introduction of new, more complex products, a change in the Company's warranty policy in response to industry trends, competition or other external forces, or manufacturing changes that could impact product quality.

#### *New Accounting Standards*

In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that identifiable intangible assets acquired in a purchase method business combination must be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead 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.

The Company adopted SFAS 141 during 2001. SFAS 142 adoption will be effective January 1, 2002. The ceasing of goodwill amortization under SFAS 142 will benefit pre-tax earnings in 2002 by approximately \$750,000. The Company is evaluating whether any write-down of goodwill may be required as a result of implementing SFAS 142.

SFAS 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 will adopt the provisions of this statement on January 1, 2002 and does not expect adoption will have a material impact on its consolidated results of operations or financial position.

#### *Cautionary Factors Relevant to Forward-Looking Information*

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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 plans 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 business 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.

### **ITEM 7a Quantitative and Qualitative Disclosures About Market Risk**

Due to the global nature of its operations, the Company is subject to exposures resulting from foreign currency exchange fluctuations. Because the Company's products are manufactured or sourced primarily from the United States, a stronger dollar generally has a negative impact on results from operations outside the United States while a weaker dollar generally has a positive effect.

The Company's objective in managing its exposure to foreign currency fluctuations is to minimize the earnings effects associated with foreign exchange rate changes on certain of its foreign currency-denominated assets and liabilities. The Company periodically enters into various contracts, principally forward exchange contracts, to protect the value of certain of its foreign currency-denominated assets and liabilities. The gains and losses on these contracts generally approximate changes in the value of the related assets and liabilities. The Company had forward exchange contracts outstanding in the notional amounts of approximately \$22 million and \$5 million at the end of 2001 and 2000, respectively. The potential loss in fair value of foreign currency contracts outstanding and the related underlying exposures as of December 31, 2001 from a 10% adverse change are not material. The Company maintains the policy of entering into foreign currency contracts only to the extent that actual exposures exist and does not enter into transactions for speculative purposes.

It is not possible to estimate the full impact of foreign currency exchange rate changes; however, the direct impact on net sales and net earnings can be estimated. For 2001, the foreign currency exchange effect on sales compared with 2000 was a reduction of approximately \$5.5 million. The total effect on net earnings approximated \$2.1 million or \$0.23 per diluted share. The Company expects that its sales and net earnings will continue to be unfavorably affected by the effects of foreign currency exchange rates in 2002.

The Company expects the unfavorable economic conditions in the manufacturing sector of the global economy to continue into 2002. These continued unfavorable economic conditions will likely have a negative impact on sales and net earnings for 2002. This impact is likely to be most significant for the Company's industrial products, the Company's most profitable product line. Although the timing of any economic recovery is uncertain, the Company expects 2002 earnings before unusual items to be higher than 2001 earnings before unusual items, primarily because of the benefits from many of the cost-reduction initiatives taken during 2001 and the recent introduction of new products.



**ITEM 8 Financial Statements and Supplementary Data****TENNANT COMPANY AND SUBSIDIARIES**

## Consolidated Statements of Earnings

*(In thousands, except shares and per share data)*

| Years ended December 31                         | 2001<br>Restated | 2000<br>Restated | 1999<br>Restated |
|---|------------------|------------------|------------------|
| Net sales                                       | \$ 422,425       | \$ 452,176       | \$ 429,739       |
| Operating expense (income):                     |                  |                  |                  |
| Cost of sales                                   | 268,500          | 269,658          | 255,528          |
| Selling and administrative expenses             | 136,440          | 139,665          | 136,076          |
| Restructuring charges                           | 9,962            |                  | 6,671            |
| Pension settlement gain                         | (5,928)          |                  |                  |
| Profit from operations                          | 13,451           | 42,853           | 31,464           |
| Other income (expense):                         |                  |                  |                  |
| Interest income                                 | 2,133            | 2,532            | 2,847            |
| Interest expense                                | (2,131)          | (1,886)          | (2,665)          |
| Net foreign currency transaction gains (losses) | 241              | (517)            | (174)            |
| Miscellaneous income (expense), net             | (248)            | 230              | (778)            |
| Total other income (expense)                    | (5)              | 359              | (770)            |
| Profit before income taxes                      | 13,446           | 43,212           | 30,694           |
| Income tax expense                              | 8,838            | 15,470           | 10,939           |
| Net earnings                                    | \$ 4,608         | \$ 27,742        | \$ 19,755        |
| Basic earnings per share                        | \$ 0.51          | \$ 3.05          | \$ 2.17          |
| Diluted earnings per share                      | \$ 0.50          | \$ 3.04          | \$ 2.16          |

See accompanying notes to consolidated financial statements.

**TENNANT COMPANY AND SUBSIDIARIES**

## Consolidated Balance Sheets

*(In thousands, except shares and per share data)*

| December 31           | 2001<br>Restated | 2000<br>Restated |
|-----------------------|------------------|------------------|
| <b>Assets</b>         |                  |                  |
| <b>CURRENT ASSETS</b> |                  |                  |

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Cash and cash equivalents   | \$ | 23,783  | \$ | 21,512  |
| <b>Receivables:</b>   |    |         |    |         |
| Trade, less allowance for doubtful accounts (\$4,701 in 2001 and \$4,178 in 2000) |    | 70,855  |    | 83,984  |
| Other, net  |    | 1,396   |    | 4,277   |
| Net receivables   |    | 72,251  |    | 88,261  |
| Inventories   |    | 48,288  |    | 53,507  |
| Prepaid expenses  |    | 2,394   |    | 1,766   |
| Deferred income taxes, current portion  |    | 6,879   |    | 8,174   |
| Total current assets  |    | 153,595 |    | 173,220 |
| Property, plant and equipment, net  |    | 73,096  |    | 69,054  |
| Deferred income taxes, long-term portion  |    | 5,496   |    | 5,491   |
| Goodwill and intangible assets, net   |    | 17,198  |    | 17,700  |
| Other assets  |    | 3,174   |    | 3,007   |
| Total assets  | \$ | 252,559 | \$ | 268,472 |

**Liabilities and Shareholders Equity**

**CURRENT LIABILITIES**

|   |    |         |    |         |
|---|----|---------|----|---------|
| Current debt  | \$ | 13,418  | \$ | 15,274  |
| Accounts payable, accrued expenses and deferred revenue |    | 48,031  |    | 57,594  |
| Total current liabilities                               |    | 61,449  |    | 72,868  |
| <b>LONG-TERM DEBT</b>                                   |    | 12,496  |    | 11,736  |
| <b>LONG-TERM EMPLOYEE-RELATED BENEFITS</b>              |    | 26,643  |    | 31,081  |
| Total liabilities                                       |    | 100,588 |    | 115,685 |

**SHAREHOLDERS EQUITY**

|  |    |         |    |         |
|--|----|---------|----|---------|
| Preferred stock of \$0.02 par value per share, authorized 1,000,000; none issued   |    |         |    |         |
| Common stock of \$0.375 par value per share, authorized 30,000,000; 9,036,095 and 9,052,789 issued and outstanding, respectively |    | 3,389   |    | 3,395   |
| Additional paid-in capital   |    | 383     |    | 1,544   |
| Common stock subscribed  |    |         |    | 459     |
| Unearned restricted shares   |    | (278)   |    | (905)   |
| Retained earnings  |    | 161,945 |    | 164,113 |
| Accumulated other comprehensive income (loss)  |    | (6,247) |    | (6,886) |
| Receivable from ESOP   |    | (7,221) |    | (8,933) |
| Total shareholders equity  |    | 151,971 |    | 152,787 |
| Total liabilities and shareholders equity  | \$ | 252,559 | \$ | 268,472 |

See accompanying notes to consolidated financial statements.

**TENNANT COMPANY AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

*(In thousands, except shares and per share data)*

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| Years ended December 31  | 2001<br>Restated | 2000<br>Restated | 1999<br>Restated |
|--|------------------|------------------|------------------|
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                          |                  |                  |                  |
| Net earnings   | \$ 4,608         | \$ 27,742        | \$ 19,755        |
| Adjustments to net earnings to arrive at operating cash flow:              |                  |                  |                  |
| Depreciation and amortization  | 19,282           | 18,766           | 19,028           |
| Deferred tax expense (benefit)   | 1,247            | 4,287            | (1,730)          |
| Provision for bad debts  | 2,016            | 1,270            | 1,568            |
| Changes in operating assets and liabilities:                               |                  |                  |                  |
| Accounts receivable  | 14,103           | (1,944)          | (9,145)          |
| Inventories  | 5,622            | (6,427)          | 2,170            |
| Accounts payable, accrued expenses and deferred revenue                    | (8,746)          | (4,391)          | (967)            |
| Other current/noncurrent assets and liabilities                            | (4,931)          | (1,667)          | 5,090            |
| Other, net   | 940              | 1,230            | 1,834            |
| Net cash flows related to operating activities                             | 34,141           | 38,866           | 37,603           |
| <b>CASH FLOWS RELATED TO INVESTING ACTIVITIES</b>                          |                  |                  |                  |
| Acquisition of property, plant and equipment                               | (23,364)         | (20,531)         | (18,313)         |
| Acquisition of Paul Andra KG, net of cash received                         |                  |                  | (10,059)         |
| Proceeds from disposals of property, plant and equipment                   | 2,820            | 2,280            | 1,951            |
| Proceeds from divestiture of Eagle business                                |                  |                  | 1,078            |
| Other, net   |                  | (1,000)          |                  |
| Net cash flows related to investing activities                             | (20,544)         | (19,251)         | (25,343)         |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>                          |                  |                  |                  |
| Net changes in short-term borrowings                                       | 2,094            | (447)            | 1,434            |
| Payments of long-term debt   | (5,000)          | (5,000)          | (2,302)          |
| Proceeds from issuance of common stock                                     | 1,874            | 2,289            | 2,286            |
| Purchase of common stock   | (5,035)          | (3,203)          | (9,881)          |
| Dividends paid   | (7,244)          | (7,045)          | (6,862)          |
| Principal payment from ESOP  | 1,678            | 726              | 660              |
| Net cash flows related to financing activities                             | (11,633)         | (12,680)         | (14,665)         |
| Effect of exchange rate changes on cash and cash equivalents               | 307              | (351)            | (360)            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                |                  |                  |                  |
|  | 2,271            | 6,584            | (2,765)          |
| Cash and cash equivalents at beginning of year                             | 21,512           | 14,928           | 17,693           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                            | \$ 23,783        | \$ 21,512        | \$ 14,928        |
| <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b> |                  |                  |                  |
| Collateralized borrowings incurred for operating lease equipment           | \$ 1,979         | \$ 1,679         | \$ 747           |

See accompanying notes to consolidated financial statements.

**TENNANT COMPANY AND SUBSIDIARIES**

Consolidated Statements of Shareholders' Equity and Comprehensive Income

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(In thousands, except shares and per share data)

| Years ended December 31   | 2001 Restated |            | 2000 Restated |            | 1999 Restated |            |
|---|---------------|------------|---------------|------------|---------------|------------|
|   | Shares        | Amount     | Shares        | Amount     | Shares        | Amount     |
| <b>COMMON STOCK</b>   |               |            |               |            |               |            |
| Beginning balance   | 9,052,789     | \$ 3,395   | 8,989,480     | \$ 3,371   | 9,122,960     | \$ 3,421   |
| Issue stock for employee benefit plans and directors                      | 113,449       | 43         | 153,537       | 58         | 149,119       | 56         |
| Purchase of common stock  | (130,143)     | (49)       | (90,228)      | (34)       | (282,599)     | (106)      |
| Ending balance  | 9,036,095     | \$ 3,389   | 9,052,789     | \$ 3,395   | 8,989,480     | \$ 3,371   |
| <b>ADDITIONAL PAID-IN CAPITAL</b>   |               |            |               |            |               |            |
| Beginning balance   |               | \$ 1,544   |               | \$         |               | \$         |
| Issue stock for employee benefit plans and directors                      |               | 3,825      |               | 4,713      |               | 4,230      |
| Purchase of common stock  |               | (4,986)    |               | (3,169)    |               | (4,230)    |
| Ending balance  |               | \$ 383     |               | \$ 1,544   |               | \$         |
| <b>COMMON STOCK SUBSCRIBED</b>  |               |            |               |            |               |            |
| Beginning balance   | 9,575         | \$ 459     | 27,607        | \$ 904     | 10,605        | \$ 425     |
| Issue stock for employee benefit plans                                    | (9,575)       | (459)      | (27,607)      | (904)      | (10,605)      | (425)      |
| Subscribed stock for employee benefit plans                               |               |            | 9,575         | 459        | 27,607        | 904        |
| Ending balance  |               | \$         | 9,575         | \$ 459     | 27,607        | \$ 904     |
| <b>UNEARNED RESTRICTED SHARES</b>   |               |            |               |            |               |            |
| Beginning balance   |               | \$ (905)   |               | \$ (843)   |               | \$ (307)   |
| Restricted share activity, net  |               | 627        |               | (62)       |               | (536)      |
| Ending balance  |               | \$ (278)   |               | \$ (905)   |               | \$ (843)   |
| <b>RETAINED EARNINGS</b>  |               |            |               |            |               |            |
| Beginning balance   |               | \$ 164,113 |               | \$ 143,041 |               | \$ 135,014 |
| Net earnings  |               | 4,608      |               | 27,742     |               | 19,755     |
| Dividends paid, \$0.80, \$0.78 and \$0.76, respectively, per common share |               | (7,244)    |               | (7,045)    |               | (6,862)    |
| Purchase of common stock  |               |            |               |            |               | (5,545)    |
| Tax benefit on ESOP and other stock plans                                 |               | 468        |               | 375        |               | 679        |
| Ending balance  |               | \$ 161,945 |               | \$ 164,113 |               | \$ 143,041 |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)(1)</b>                   |               |            |               |            |               |            |
| Beginning balance   |               | \$ (6,886) |               | \$ (2,454) |               | \$ 1,586   |
| Foreign currency translation adjustments                                  |               | 639        |               | (4,432)    |               | (4,040)    |
| Ending balance  |               | \$ (6,247) |               | \$ (6,886) |               | \$ (2,454) |

| <b>RECEIVABLE FROM ESOP</b> |    |         |             |
|-----------------------------|----|---------|-------------|
| Beginning balance           | \$ | (8,933) | \$ (10,589) |
| Principal payments          |    | 1,678   | 660         |
| Shares allocated            |    | 34      | 171         |
| Ending balance              | \$ | (7,221) | \$ (9,758)  |
| Total shareholders equity   | \$ | 151,971 | \$ 134,261  |

(1) *Reconciliations of net earnings to comprehensive income are as follows:*

|  |    |       |           |           |
|--|----|-------|-----------|-----------|
| Net earnings                             | \$ | 4,608 | \$ 27,742 | \$ 19,755 |
| Foreign currency translation adjustments |    | 639   | (4,432)   | (4,040)   |
| Comprehensive income                     | \$ | 5,247 | \$ 23,310 | \$ 15,715 |

The Company had 30,000,000 authorized shares of common stock as of December 31, 2001, 2000 and 1999.

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements - Restated

*(In thousands, except shares and per share data)*

#### *1 Summary of Significant Accounting Policies and Other Related Data*

**Consolidation** The consolidated financial statements include the accounts of Tennant Company and its subsidiaries. All material intercompany transactions and balances have been eliminated.

**Fiscal year-end** During 2001, the Company changed the fiscal year-end of its European subsidiaries from November to December because of the conversion of the European information system to the U.S. platform. This resulted in the inclusion of an additional month of sales and net earnings, increasing sales by \$5,618 but decreasing net earnings by \$503, or \$0.06 per share. Tennant's European subsidiaries typically operate at a loss during the holiday-shortened month of December.

**Translation of non-U.S. currency** Foreign currency-denominated assets and liabilities have been translated to U.S. dollars at year-end exchange rates, while income and expense items are translated at exchange rates prevailing during the year. Gains or losses resulting from translation are included as a separate component of shareholders' equity. Transaction gains or losses are included in other income (expense).

**Use of estimates** The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Reclassifications** Certain prior years' amounts have been reclassified to conform with the current year presentation.

**Cash equivalents** The Company considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

**Inventories** Inventories are valued at the lower of cost (principally on a last-in, first-out basis) or market.

**Property, plant and equipment** Property, plant and equipment is carried at cost. The Company generally depreciates buildings and improvements by the straight-line method over a 30-year life. Other property, plant and equipment is generally depreciated using the straight-line method based on lives of three to ten years.

**Goodwill and intangible assets** Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. Intangible assets also includes purchased technology and patents. Goodwill and other intangible assets are amortized using the straight-line method over their estimated useful lives generally ranging from five to 30 years.

**Pension and profit sharing plans** The Company has pension and profit sharing plans covering substantially all of its employees. Pension plan costs are accrued based on actuarial estimates with the pension cost funded annually.

**Post-retirement benefits** The Company recognizes the cost of retiree health benefits over the employees' period of service.

**Warranty** The Company charges to current operations a provision, based on historical experience, for future warranty claims. Warranty terms on machines range from one to four years.

**Income taxes** Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the book and tax bases of existing assets and liabilities.

**Stock-based compensation** The Company accounts for stock-based compensation for employees under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB No. 25 requires compensation cost to be recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. Accordingly, no compensation cost has been recognized for stock option plans. The Company has adopted the disclosure-only provisions of SFAS 123, Accounting for Stock-Based Compensation.

**Revenue Recognition** The Company recognizes revenue when titles passes, which is generally upon shipment. Service revenue is recognized in the period the service is performed, or ratably over the period of the related service contract. Customers may obtain financing through a U.S. third party leasing company to assist in their acquisition of the Company's equipment products. Under the terms of the Company's agreement with the U.S. third party leasing company, transactions classified as operating leases result in recognition of revenue over the lease term and, for short-term rental transactions, at the time customers convert the short-term rental to an outright purchase or long-term capital lease of the equipment. As a result, we defer the sale on these transactions and record the sales proceeds as collateralized borrowings or deferred revenue. The underlying equipment relating to operating leases is depreciated on a straight-line basis over the lease term, which does not exceed the equipment's estimated useful life.

**Research and development** Research and development costs are expensed as incurred. Research and development costs were \$16,578, \$15,466 and \$14,861 in 2001, 2000 and 1999, respectively.

**Derivative financial instruments** The Company enters into forward foreign exchange contracts principally to hedge certain foreign currency-denominated net assets and liabilities (principally the Euro, British pound, Australian dollar, Canadian dollar and Japanese yen). Gains or losses on forward foreign exchange contracts to hedge foreign currency-denominated net assets and liabilities are recognized in net earnings on a current basis over the term of the contracts.

**Earnings per share** Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes conversion of potentially dilutive stock options and performance-related shares.

**Long-lived assets** The Company periodically reviews its long-lived assets for impairment and assesses whether events or circumstances indicate that the carrying amount of the asset may not be recoverable. The Company generally deems an asset to be impaired if an estimate of undiscounted future operating cash flows is less than its carrying amount.

**New accounting standards** In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that identifies intangible assets acquired in a purchase method business combination must be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead 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.

The Company adopted SFAS 141 during 2001. SFAS 142 adoption will be effective January 1, 2002. The ceasing of goodwill amortization under SFAS 142 will benefit pre-tax earnings in 2002 by approximately \$750. The Company is evaluating whether any write-down of goodwill may be required as a result of implementing this new standard.

SFAS 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 will adopt the provisions of this statement on January 1, 2002, and does not expect adoption will have a material impact on its consolidated results of operations or financial position.

## 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 in the 1999-2001 consolidated financial statements includes a reduction in previously reported net earnings of \$0.2 million and \$0.5 million and net earnings per share diluted of \$0.02 and \$0.05 for the years ended December 31, 2001 and 2000, respectively, and an increase in previously reported net earnings of \$0.1 million and net earnings per share diluted of \$0.01 for the year ended December 31, 1999. The consolidated financial statements as of December 31, 2001 and 2000 and for the three years ended December 31, 2001, 2000 and 1999 and notes thereto included in this Form 10-K/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 2000 and for the three years ended December 31, 2001, 2000 and 1999 and notes thereto included in this Form 10-K/A have been restated to include the effects of the correction to the timing of the revenue recognition, as follows:

| Years ended December 31                    | 2001                   |            | 2000                   |            | 1999                   |            |
|--|------------------------|------------|------------------------|------------|------------------------|------------|
|  | As Previously Reported | Restated   | As Previously Reported | Restated   | As Previously Reported | Restated   |
| <b>CONSOLIDATED STATEMENTS OF EARNINGS</b> |                        |            |                        |            |                        |            |
| Net sales                                  | \$ 422,970             | \$ 422,425 | \$ 454,044             | \$ 452,176 | \$ 429,407             | \$ 429,739 |
| Cost of sales                              | 269,080                | 268,500    | 270,855                | 269,658    | 255,398                | 255,528    |
| Interest income, net                       | 340                    | 2          | 807                    | 646        | 275                    | 182        |
| Earnings before income taxes               | 13,749                 | 13,446     | 44,044                 | 43,212     | 30,586                 | 30,694     |
| Income tax expense                         | 8,945                  | 8,838      | 15,794                 | 15,470     | 10,893                 | 10,939     |
| Net earnings                               | 4,804                  | 4,608      | 28,250                 | 27,742     | 19,693                 | 19,755     |
| Net earnings per common share              |                        |            |                        |            |                        |            |
| - Basic                                    | \$ 0.53                | \$ 0.51    | \$ 3.11                | \$ 3.05    | \$ 2.16                | \$ 2.17    |
| - Diluted                                  | \$ 0.52                | \$ 0.50    | \$ 3.09                | \$ 3.04    | \$ 2.15                | \$ 2.16    |

|                                    | December 31, 2001      |          | December 31, 2000      |          |
|------------------------------------|------------------------|----------|------------------------|----------|
|                                    | As Previously Reported | Restated | As Previously Reported | Restated |
| <b>CONSOLIDATED BALANCE SHEETS</b> |                        |          |                        |          |



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|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Inventories   | \$ | 47,080  | \$ | 48,288  | \$ | 51,915  | \$ | 53,507  |
| Total current assets                                    |    | 152,387 |    | 153,595 |    | 171,628 |    | 173,220 |
| Net property, plant and equipment                       |    | 69,792  |    | 73,096  |    | 66,713  |    | 69,054  |
| Deferred income taxes long-term                         |    | 4,068   |    | 5,496   |    | 4,236   |    | 5,491   |
| Total assets  |    | 246,619 |    | 252,559 |    | 263,285 |    | 268,472 |
| Current debt  |    | 9,765   |    | 13,418  |    | 12,572  |    | 15,274  |
| Accounts payable, accrued expenses and deferred revenue |    | 45,883  |    | 48,031  |    | 54,683  |    | 57,594  |
| Total current liabilities                               |    | 55,648  |    | 61,449  |    | 67,255  |    | 72,868  |
| Long-term debt  |    | 10,000  |    | 12,496  |    | 10,000  |    | 11,736  |
| Total liabilities                                       |    | 92,291  |    | 100,588 |    | 108,337 |    | 115,685 |
| Retained earning  |    | 164,302 |    | 161,945 |    | 166,274 |    | 164,113 |
| Total shareholders equity                               |    | 154,328 |    | 151,971 |    | 154,948 |    | 152,787 |
| Total liabilities and shareholders equity               |    | 246,619 |    | 252,559 |    | 263,285 |    | 268,472 |

| Years ended December 31  | 2001                   |          | 2000                   |          | 1999                   |          |
|--|------------------------|----------|------------------------|----------|------------------------|----------|
|  | As Previously Reported | Restated | As Previously Reported | Restated | As Previously Reported | Restated |
| <b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>                                   |                        |          |                        |          |                        |          |
| Net earnings   | 4,804                  | 4,608    | 28,250                 | 27,742   | 19,693                 | 19,755   |
| Depreciation and amortization  | 18,507                 | 19,282   | 18,391                 | 18,766   | 18,667                 | 19,028   |
| Deferred tax benefits  | 1,420                  | 1,247    | 4,540                  | 4,287    | (1,767)                | (1,730)  |
| Increase (decrease) in inventories   | 5,239                  | 5,622    | (6,488)                | (6,427)  | 1,620                  | 2,170    |
| Increase (decrease) in accounts payable, accrued expenses and deferred revenue | (7,985)                | (8,746)  | (4,036)                | (4,391)  | 123                    | (967)    |
| Other, net   | 968                    | 940      | 550                    | 1,230    | 1,754                  | 1,834    |

3 Restructuring and Other Unusual Charges

During 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 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 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 with the remainder expected to be completed during 2002.

The components of the 2001 restructuring charges and cash and noncash applications against these charges were as follows:

|                      | Severance, Early Retirement and Related Costs | Noncancelable Contractual Obligations and Other | Total    |
|----------------------|---|---|----------|
| 2001 Initial charges | \$ 6,159                                      | \$ 3,803  | \$ 9,962 |
| 2001 Utilization:    |   |   |          |
| Cash                 | (4,801)                                       | (708)   | (5,509)  |
| Noncash              | (397)   | (2,276)   | (2,673)  |

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|                                 |    |     |    |     |    |       |
|---------------------------------|----|-----|----|-----|----|-------|
| 2001 year-end liability balance | \$ | 961 | \$ | 819 | \$ | 1,780 |
|---------------------------------|----|-----|----|-----|----|-------|

The Company recorded pre-tax charges totaling \$6,671 during 1999. The charges pertained to management initiatives to restructure the main manufacturing organizations in North America and Europe. The actions were intended to improve the efficiency and productivity of those organizations and reduce global infrastructure. Actions included closing several warehouses in North America and closing, or reducing activities in, several of the European sales and service facilities. Severance and early retirements also contributed to the charges. The result was approximately 110 fewer positions in Europe and North America combined. This restructuring program was substantially complete by the end of 2001.

The components of the initial charges and cash and noncash applications against the 1999 charges were as follows:

|                                 | Severance,<br>Early<br>Retirement<br>and<br>Related Costs | Noncancelable<br>Contractual<br>Obligations<br>and Other | Total    |
|---------------------------------|---|--|----------|
| 1999 Initial charges            | \$ 4,593  | \$ 2,078   | \$ 6,671 |
| 1999 Utilization:               |   |  |          |
| Cash                            | (1,648)   |  | (1,648)  |
| Noncash                         |   | (234)  | (234)    |
| 1999 year-end liability balance | 2,945   | 1,844  | 4,789    |
| 2000 Utilization:               |   |  |          |
| Cash                            | (2,090)   | (311)  | (2,401)  |
| Noncash                         |   | (354)  | (354)    |
| 2000 year-end liability balance | 855   | 1,179  | 2,034    |
| 2001 Utilization:               |   |  |          |
| Cash                            | (633)   | (269)  | (902)    |
| Noncash                         | (222)   | (445)  | (667)    |
| 2001 year-end liability balance | \$ 465  | \$ 465   | \$ 465   |

The above liabilities are included in Accounts payable, accrued expenses and deferred revenue.

4 Inventories

The composition of inventories at December 31 was as follows:

|  | 2001 Restated | 2000 Restated |
|--|---------------|---------------|
| FIFO inventories:                        |               |               |
| Finished goods                           | \$ 34,271     | \$ 34,575     |
| Raw materials, parts and work-in-process | 34,487        | 37,735        |
| Total FIFO inventories                   | 68,758        | 72,310        |
| LIFO reserve                             | (20,470)      | (18,803)      |
| LIFO inventories                         | \$ 48,288     | \$ 53,507     |

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

### 5 Property, Plant and Equipment

**Property, plant and equipment and related accumulated depreciation at December 31 consisted of the following:**

|                                     | 2001 Restated | 2000 Restated |
|-------------------------------------|---------------|---------------|
| Land                                | \$ 3,756      | \$ 3,201      |
| Buildings and improvements          | 31,596        | 28,198        |
| Machinery and equipment             | 162,988       | 154,207       |
| Construction in progress            | 2,485         | 1,425         |
| Total property, plant and equipment | 200,825       | 187,031       |
| Less accumulated depreciation       | (127,729)     | (117,977)     |
| Net property, plant and equipment   | \$ 73,096     | \$ 69,054     |

### 6 Goodwill and Intangible Assets

**The gross and net amounts of goodwill and intangible assets at December 31 consisted of the following:**

|                                     | 2001      | 2000      |
|-------------------------------------|-----------|-----------|
| Goodwill gross                      | \$ 22,849 | \$ 23,538 |
| Less accumulated amortization       | (6,476)   | (6,786)   |
|                                     | \$ 16,373 | \$ 16,752 |
| Other intangibles gross             | \$ 1,075  | \$ 3,139  |
| Less accumulated amortization       | (250)     | (2,191)   |
|                                     | \$ 825    | \$ 948    |
| Total intangible assets gross       | \$ 23,924 | \$ 26,677 |
| Less accumulated amortization       | (6,726)   | (8,977)   |
| Goodwill and intangible assets, net | \$ 17,198 | \$ 17,700 |

### 7 Short- and Long-Term Debt

**Debt at December 31 consisted of the following:**

|                                   | 2001 Restated | 2000 Restated |
|-----------------------------------|---------------|---------------|
| <i>Short-term borrowings:</i>     |               |               |
| Short-term bank borrowings        | \$ 9,206      | \$ 7,013      |
| Current portion of long-term debt |               | 5,000         |
| Collateralized borrowings         | 4,212         | 3,261         |
| Total short-term borrowings       | \$ 13,418     | \$ 15,274     |

*Long-term debt:*

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|                            |    |        |    |        |
|----------------------------|----|--------|----|--------|
| Note at 7.21%, due in 2003 | \$ | 5,000  | \$ | 5,000  |
| Note at 7.84%, due in 2005 |    | 5,000  |    | 5,000  |
| Collateralized borrowings  |    | 2,496  |    | 1,736  |
| Total long-term debt       | \$ | 12,496 | \$ | 11,736 |

The weighted-average interest rates on the short-term bank borrowings at December 31, 2001 and 2000, were 6.4% and 5.8%, respectively. This interest rate represents the weighted-average rate for the respective period and is calculated using the actual interest costs, exclusive of commitment fees, and month-end average outstanding debt.

Collateralized borrowings primarily represent deferred sales proceeds on certain leasing transactions with our U.S. third party leasing company.

At December 31, 2001, the Company had available uncommitted lines of credit with banks in the amount of \$26,000.

Minimum principal payments are due as follows: \$5,000 in 2003 and \$5,000 in 2005.

Interest paid during 2001, 2000 and 1999, was \$1,788, \$1,766 and \$2,589, respectively.

8 *Accounts Payable, Accrued Expenses and Deferred Revenue*

**Accounts payable, accrued expenses and deferred revenue at December 31 consisted of the following:**

|                                | 2001 Restated | 2000 Restated |
|--------------------------------|---------------|---------------|
| Trade accounts payable         | \$ 19,294     | \$ 15,648     |
| Employee profit sharing        | 87            | 3,894         |
| Wages, bonuses and commissions | 11,786        | 19,162        |
| Taxes, other than income taxes | 3,368         | 3,683         |
| Restructuring reserves         | 2,245         | 2,034         |
| Warranty                       | 4,062         | 3,818         |
| Deferred revenue               | 2,161         | 2,988         |
| Other                          | 5,028         | 6,367         |
| Total                          | \$ 48,031     | \$ 57,594     |

9 *Fair Value of Financial Instruments*

The Company's short-term financial instruments are valued at their carrying amounts in the consolidated balance sheets, which are reasonable estimates of their fair value due to their short maturities. The Company's foreign currency forward exchange contracts are valued at fair market value, which is the amount the Company would receive or pay to terminate the contracts at the reporting date. The fair market value of the Company's long-term debt approximates cost, based on the borrowing rates currently available to the Company for bank loans with similar terms and remaining maturities.

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At December 31, 2001 and 2000, the notional amount of foreign currency forward exchange contracts outstanding was \$21,744 and \$4,980, respectively.

### 10 Retirement Benefit Plans

Substantially all U.S. employees are covered by various retirement benefit plans maintained by the Company. Retirement benefits for eligible employees in foreign locations are funded principally through annuity or government programs. The total cost of these benefits was \$4,962, \$5,257 and \$7,928 in 2001, 2000 and 1999, respectively.

The Company has a 401(k) plan that covers substantially all U.S. employees. Under this plan, Tennant matches employee contributions to the plan up to 4% in the form of Tennant stock. The Company also makes a profit sharing contribution to the plan to employees with more than one year of service in accordance with Tennant's Profit Sharing Plan. This contribution is also in the form of Tennant stock and is based upon Company financial performance, subject to a 2% minimum contribution. Both the matching and profit sharing contributions are funded primarily by the Company's ESOP Plan. Expenses under these plans were \$3,051, \$4,341 and \$4,152 during 2001, 2000 and 1999, respectively.

During 2000, the Company approved enhancements to the defined benefit retirement plan (the Former Plan) that also offered each plan member the choice of remaining in a modified defined benefit plan (the Tennant Company Pension Plan), or leaving the Former Plan and receiving a lump-sum distribution that could be rolled over into the 401(k) plan.

During 2001, assets and liabilities attributable to approximately 300 employees and all inactive participants were spun off into the Tennant Company Pension Plan. This plan received benefit enhancements increasing the projected benefit obligation approximately \$5,900 effective January 1, 2001. Plan benefits are based on the employee's years of service and compensation during the highest five consecutive years of service of the final ten years of employment.

The enhancements to the Former Plan increased the projected benefit obligation approximately \$10,600 for the remaining 900 participants that elected to leave and receive a lump-sum distribution. The Former Plan was terminated during 2001, and the Plan assets were distributed to the participants resulting in a non-recurring, pension settlement gain of \$5,928 before tax.

The Company also provides certain health-care benefits for substantially all of its U.S. retired employees. Eligibility for those benefits is based upon a combination of years of service with the Company and age upon retirement from the Company.

**Summaries related to changes in benefit obligations and plan assets and to the funded status of the defined benefit and postretirement medical benefit plans were as follows:**

|  | Pension Benefits |           | Postretirement<br>Medical Benefits |           |
|--|------------------|-----------|------------------------------------|-----------|
|  | 2001             | 2000      | 2001                               | 2000      |
| <i>Change in benefit obligation:</i>           |                  |           |                                    |           |
| Benefit obligation at beginning of year        | \$ 25,258        | \$ 26,782 | \$ 12,817                          | \$ 11,800 |
| Service cost                                   | 850              | 1,660     | 347                                | 317       |
| Interest cost                                  | 1,410            | 1,577     | 878                                | 855       |
| Amendments                                     | 16,515           | 831       |                                    |           |
| Actuarial loss/(gain)                          | 2,087            | (4,570)   | 150                                | 286       |
| Benefits paid                                  | (23,929)         | (1,022)   | (637)                              | (441)     |
| Benefit obligation at end of year              | \$ 22,191        | \$ 25,258 | \$ 13,555                          | \$ 12,817 |
| <i>Change in plan assets:</i>                  |                  |           |                                    |           |
| Fair value of plan assets at beginning of year | \$ 50,712        | \$ 54,937 | \$                                 | \$        |
| Actual return on plan assets                   | 922              | (3,310)   |                                    |           |
| Employer contributions                         | 108              | 107       | 637                                | 441       |

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|   |            |            |             |             |
|---|------------|------------|-------------|-------------|
| Benefits paid   | (23,929)   | (1,022)    | (637)       | (441)       |
| Fair value of plan assets at end of year                            | \$ 27,813  | \$ 50,712  | \$          | \$          |
| Funded status   | \$ 5,622   | \$ 25,454  | \$ (13,555) | \$ (12,817) |
| Unrecognized actuarial loss/(gain)                                  | (13,310)   | (34,114)   | 6           | (144)       |
| Unrecognized transition obligation/(asset)                          | (177)      | (404)      |             |             |
| Unrecognized prior service cost                                     | 5,996      | 999        |             |             |
| Net accrued liability   | \$ (1,869) | \$ (8,065) | \$ (13,549) | \$ (12,961) |
| Amounts recognized in the consolidated balance sheets consisted of: |            |            |             |             |
| Accrued benefit liability   | \$ (2,037) | \$ (8,150) | \$ (13,549) | \$ (12,961) |
| Intangible asset  | 168        | 85         |             |             |
| Net accrued liability   | \$ (1,869) | \$ (8,065) | \$ (13,549) | \$ (12,961) |
| <i>Weighted-average assumptions as of December 31:</i>              |            |            |             |             |
| Discount rate   | 7.00%      | 7.30%      | 7.00%       | 7.30%       |
| Expected return on plan assets                                      | 9.50%      | 9.50%      |             |             |
| Rate of compensation increase                                       | 4.00%      | 4.00%      |             |             |

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were \$1,956, \$1,619 and \$0, respectively, as of December 31, 2001, and \$1,638, \$1,387 and \$0, respectively, as of December 31, 2000.

For purposes of determining the December 31, 2001, accumulated post-retirement medical benefit obligations, the weighted-average assumed annual rate of future increases in the per-capita cost of covered health-care benefits was 10.0% for 2002, declining gradually to 5.75% in 2022 and after.

The health-care trend rate assumption does not have a large impact on the postretirement medical benefit obligations since the Company's obligations are largely fixed dollar amounts in future years. To illustrate, a one-percentage-point change in assumed health-care cost trends would have the following effects:

|   | 1-Percentage-Point Increase |     | 1-Percentage-Point Decrease |       |
|---|-----------------------------|-----|-----------------------------|-------|
| Effect on total of service and interest cost components | \$                          | 29  | \$                          | (33)  |
| Effect on postretirement benefit obligation             | \$                          | 253 | \$                          | (280) |

**Components of net periodic benefit cost:**

|   | Pension Benefits |          |          |
|---|------------------|----------|----------|
|   | 2001             | 2000     | 1999     |
| Service cost                                  | \$ 850           | \$ 1,660 | \$ 2,375 |
| Interest cost                                 | 1,410            | 1,577    | 1,609    |
| Expected return on plan assets                | (2,141)          | (3,195)  | (2,338)  |
| Recognized actuarial gain                     | (827)            | (1,307)  | (365)    |
| Amortization of transition obligation/(asset) | (22)             | (46)     | (46)     |

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|                                    |            |            |          |
|------------------------------------|------------|------------|----------|
| Amortization of prior service cost | 570        | 89         | 89       |
| Net periodic cost (benefit)        | (160)      | (1,222)    | 1,324    |
| Settlement gain                    | (5,928)    |            |          |
| Restructuring charge               |            |            | 767      |
| Total cost (benefit)               | \$ (6,088) | \$ (1,222) | \$ 2,091 |

Postretirement Medical Benefits

|                   | 2001     | 2000     | 1999     |
|-------------------|----------|----------|----------|
| Service cost      | \$ 347   | \$ 317   | \$ 399   |
| Interest cost     | 878      | 855      | 784      |
| Net periodic cost | \$ 1,225 | \$ 1,172 | \$ 1,183 |

For purposes of determining the 2001 postretirement medical net periodic benefit cost, the weighted-average assumed annual rate of future increase in the per-capita cost of covered health-care benefits was 9.1% for 2001, declining gradually to 6.0% in 2021 and after.

11 Common and Preferred Stock and Additional Paid-in Capital

The Company is authorized to issue an aggregate of 31,000,000 shares; 30,000,000 were designated as Common Stock, having a par value of \$0.375 per share, and 1,000,000 were designated as Preferred Stock, having a par value of \$0.02 per share. The Board of Directors is authorized to establish one or more series of Preferred Stock, setting forth the designation of each such series, and fixing the relative rights and preferences of each such series.

On November 19, 1996, the Board of Directors approved a Shareholder Rights Plan allowing a dividend of one preferred share purchase Right for each outstanding Common Share of the par value of \$0.375 per share of the Company. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a Series A Junior Participating Preferred Share of the par value of \$0.02 per share of the Company at a price of \$100 per one one-hundredth of a Preferred Share, subject to adjustment. The Rights are not exercisable or transferable apart from the common stock until the earlier of: (i) the close of business on the fifteenth day following a public announcement that a person or group of affiliated or associated persons has become an Acquiring Person (i.e., has become, subject to certain exceptions, the beneficial owner of 20% or more of the outstanding Common Shares), or (ii) the close of business on the fifteenth day following the commencement or public announcement of a tender offer or exchange offer the consummation of which would result in a person or group of affiliated or associated persons becoming, subject to certain exceptions, the beneficial owner of 20% or more of the outstanding Common Shares (or such later date as may be determined by the Board of Directors of the Company prior to a person or group of affiliated or associated persons becoming an Acquiring Person). At no time do the Rights have any voting power. The Rights may be redeemed by the Company for \$0.01 per right at any time prior to (and, in certain circumstances, within twenty days after) a person or group acquiring 20% or more of the common stock. The 20% thresholds do not apply to stock ownership by or on behalf of employee benefit plans. Under certain circumstances, the Board of Directors may exchange the Rights for the Company's common stock or reduce the 20% thresholds to not less than 10%. The Rights will expire on December 23, 2006, unless extended or earlier redeemed or exchanged by the Company.

12 Leases

The Company leases office and warehouse facilities, vehicles and office equipment under operating lease agreements which include both monthly and longer-term arrangements. Leases with initial terms of one year or more expire at various dates through 2006 and generally provide for extension options. Rent expense under the leasing agreements (exclusive of real estate taxes, insurance and other expenses payable under the leases) amounted to \$4,645, \$5,110 and \$4,065, in 2001, 2000 and 1999, respectively.

The aggregate lease commitments with an initial term of one year or more at December 31, 2001, were \$7,808 with minimum rentals for the periods as follows:

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|                 |    |       |
|-----------------|----|-------|
| 2002            | \$ | 2,964 |
| 2003            |    | 2,160 |
| 2004            |    | 1,297 |
| 2005            |    | 799   |
| 2006 and beyond |    | 588   |
| Total           | \$ | 7,808 |

13 Income Taxes

In 2001, 2000 and 1999, the Company recognized tax benefits directly to shareholders equity of \$468, \$375 and \$679, respectively, relating to the Company's ESOP and stock plans.

Income tax expense (benefit) for the three years ended December 31, 2001, was as follows:

|                      | Current   | Deferred   | Total     |
|----------------------|-----------|------------|-----------|
| <i>2001 Restated</i> |           |            |           |
| Federal              | \$ 6,894  | \$ 1,436   | \$ 8,330  |
| Foreign              | 25        | (524)      | (499)     |
| State                | 606       | 401        | 1,007     |
|                      | \$ 7,525  | \$ 1,313   | \$ 8,838  |
| <i>2000 Restated</i> |           |            |           |
| Federal              | \$ 9,056  | \$ 3,601   | \$ 12,657 |
| Foreign              | 416       | 564        | 980       |
| State                | 1,782     | 51         | 1,833     |
|                      | \$ 11,254 | \$ 4,216   | \$ 15,470 |
| <i>1999 Restated</i> |           |            |           |
| Federal              | \$ 11,065 | \$ (1,574) | \$ 9,491  |
| Foreign              | 21        | 477        | 498       |
| State                | 1,299     | (349)      | 950       |
|                      | \$ 12,385 | \$ (1,446) | \$ 10,939 |

The Company's effective income tax rate varied from the U.S. federal statutory tax rate for the three years ended December 31, 2001 as follows:

|   | 2001 Restated | 2000 Restated | 1999 Restated |
|---|---------------|---------------|---------------|
| Tax at statutory rate                         | 35.0%         | 35.0%         | 35.0%         |
| Increases (decreases) in the tax rate from:   |               |               |               |
| State and local taxes, net of federal benefit | 4.9           | 2.8           | 2.0           |
| Effect of foreign taxes                       | (1.2)         | 1.0           | 0.3           |
| Valuation allowance                           | 31.7          |               |               |
| Effect of foreign sales corporation           | (4.6)         | (2.5)         | (2.1)         |
| Other, net                                    | (0.1)         | (0.5)         | 0.4           |
| Effective income tax rate                     | 65.7%         | 35.8%         | 35.6%         |



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Deferred tax assets and liabilities were comprised of the following as of December 31, 2001 and 2000:

|  | 2001 Restated | 2000 Restated |
|--|---------------|---------------|
| Deferred tax assets:   |               |               |
| Inventories, principally due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986 and changes in inventory reserves | \$ 1,234      | \$ 1,623      |
| Employee wages and benefits, principally due to accruals for financial reporting purposes  | 11,459        | 14,082        |
| Warranty reserves accrued for financial reporting purposes   | 1,323         | 1,195         |
| Accounts receivable, principally due to allowance for doubtful accounts and tax accounting method for equipment rentals                                | 2,566         | 2,211         |
| European tax loss carryforward   | 4,267         |               |
| Valuation allowance  | (4,267)       |               |
| Other  | 890           | 83            |
| Total deferred tax assets  | \$ 17,472     | \$ 19,194     |
| Deferred tax liabilities:  |               |               |
| Property, plant and equipment, principally due to differences in depreciation and related gains  | \$ 3,595      | \$ 4,358      |
| Goodwill   | 1,502         | 1,171         |
| Total deferred tax liabilities   | \$ 5,097      | \$ 5,529      |
| Net deferred tax assets  | \$ 12,375     | \$ 13,665     |

A tax loss carryforward of \$14,345 is primarily attributable to 2001 losses from European restructuring initiatives. Because of the uncertainty regarding realizability of this asset, a valuation allowance was established against this loss carryforward. A valuation allowance for the remaining deferred tax assets is not required since it is likely that they will be realized through carryback to taxable income in prior years, future reversals of existing taxable temporary differences and future taxable income.

Income taxes paid were \$10,390, \$15,420 and \$12,944, in 2001, 2000 and 1999, respectively.

U.S. income taxes are not provided on undistributed earnings of international subsidiaries which are permanently reinvested. At December 31, 2001, earnings permanently reinvested in international subsidiaries not subject to a U.S. income tax provision were \$3,251. If ever remitted to the Company in a taxable distribution, U.S. income taxes would be substantially offset by available foreign tax credits.

#### 14 Stock Award Plans

The Company has six plans under which stock-based compensation grants are provided annually. The 1992 Stock Incentive Plan ( 1992 Plan ), 1995 Stock Incentive Plan ( 1995 Plan ), 1998 Management Incentive Plan ( 1998 Plan ) and 1999 Stock Incentive Plan ( 1999 Plan ) provide for stock-based compensation grants to executives and key employees of the Company. The 1993 Directors Restricted Plan ( 1993 Plan ) provides for the annual retainer in the form of restricted shares to the non-employee Directors of the Company. The 1997 Directors Option Plan ( 1997 Plan ) provides for stock option grants to non-employee Directors of the Company. A maximum of 1,875,000 shares can be awarded under these plans; 577,000 shares were available for award as of December 31, 2001. The grant size under all plans is determined by the Compensation Committee of the Board of Directors.

Restricted shares are granted annually and typically have a two- or three-year restriction period from the effective date of the grant. During the restricted period, the restricted shares may not be sold or transferred, but the shares entitle the participants to dividends and voting rights. In 2001, 2000 and 1999, respectively, 9,100, 39,000 and 37,000 restricted shares were granted. The weighted-average fair values of stock on the grant date were \$43.64, \$34.43 and \$36.97 per share in 2001, 2000 and 1999, respectively.

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Under the 1998 Plan, performance-related compensation grants were made and are payable in cash or shares. The awards earned are based on achievement of certain financial performance goals and payout is over a three-year period following the award year. In 2001, 2000 and 1999, respectively, \$662, \$649 and \$1,501 in grants were made.

In 2001, 2000 and 1999, respectively, expenses of \$1,021, \$2,585 and \$2,523 were charged to operations for the above-described restricted and performance-related award programs.

Under the 1995 Plan, the 1997 Plan and the 1999 Plan, 10-year fixed stock options are granted annually at a price equal to the stock's fair market value on the date of the grant. Options generally become exercisable on a cumulative basis at a rate of 25% per year.

**A summary of the status of the Company's stock option transactions during 2001, 2000 and 1999 is shown below:**

|                                  | Shares          | Weighted-Average<br>Exercise Price |
|----------------------------------|-----------------|------------------------------------|
| <i>1999</i>                      |                 |                                    |
| Outstanding at beginning of year | 452,600         | \$ 31.50                           |
| Granted                          | 234,100         | 35.02                              |
| Exercised                        | (81,800)        | 24.55                              |
| Forfeited                        | (15,100)        | 34.30                              |
| Outstanding at end of year       | 589,800         | \$ 33.79                           |
| Exercisable at end of year       | 310,200         | \$ 33.13                           |
| <i>2000</i>                      |                 |                                    |
| Outstanding at beginning of year | 589,800         | \$ 33.79                           |
| Granted                          | 271,800         | 33.94                              |
| Exercised                        | (59,800)        | 32.22                              |
| Forfeited                        |                 |                                    |
| Outstanding at end of year       | 801,800         | \$ 33.96                           |
| Exercisable at end of year       | 460,400         | \$ 33.96                           |
| <i>2001</i>                      |                 |                                    |
| Outstanding at beginning of year | <b>801,800</b>  | <b>\$ 33.96</b>                    |
| Granted                          | <b>210,200</b>  | <b>43.66</b>                       |
| Exercised                        | <b>(80,300)</b> | <b>32.38</b>                       |
| Forfeited                        | <b>(43,800)</b> | <b>36.53</b>                       |
| Outstanding at end of year       | <b>887,900</b>  | <b>\$ 36.25</b>                    |
| Exercisable at end of year       | <b>523,500</b>  | <b>\$ 34.64</b>                    |

At December 31, 2001, outstanding options had exercise prices between \$22.00 and \$49.63 per share and a weighted-average contractual life of 6.9 years.

The Company has adopted the disclosure-only provisions of SFAS 123, Accounting for Stock-Based Compensation. In accordance with SFAS 123, the fair value of options at the date of grant is estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used for the 2001, 2000 and 1999 grants, respectively: dividend yield of 1.8%, 2.3% and 2.2%; expected volatility of 21%, 20% and 39%; risk-free interest rates of 4.9%, 6.4% and 5.2%; and expected life of option of five years. The weighted-average fair value of each option granted was \$8.60, \$8.20 and \$11.62 in 2001, 2000 and 1999, respectively.

Had stock-based compensation cost been determined consistent with the provisions of SFAS 123, net earnings per share would have been reduced to the pro forma amounts indicated below:

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|  | 2001 Restated | 2000 Restated | 1999 Restated |
|--|---------------|---------------|---------------|
| Net earnings as reported               | \$ 4,608      | \$ 27,742     | \$ 19,755     |
| Net earnings pro forma                 | \$ 3,593      | \$ 26,487     | \$ 18,235     |
| Diluted earnings per share as reported | \$ 0.50       | \$ 3.04       | \$ 2.16       |
| Diluted earnings per share pro forma   | \$ 0.39       | \$ 2.90       | \$ 2.00       |

15 Employee Stock Ownership Plan

The Company established a leveraged Employee Stock Ownership Plan (ESOP) in 1990. The ESOP covers substantially all domestic employees. The shares required for the Company's 401(k) matching contribution program, as well as the Company's Profit Sharing Plan, are provided principally by the Company's ESOP, supplemented as needed by newly issued shares. The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends and Company match contributions received by the ESOP. All dividends received by the ESOP are used to pay debt service. The ESOP shares initially were pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to employees who made 401(k) contributions that year, as well as to profit sharing participants, based on the proportion of debt service paid in the year. The Company accounts for the ESOP in accordance with EITF Issue 89-8, Expense Recognition for Employee Stock Ownership Plans. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. As shares are released from collateral, the Company reports compensation expense equal to the cost of the shares to the ESOP. All ESOP shares are considered outstanding in EPS computations, and dividends on allocated and unallocated shares are recorded as a reduction of retained earnings.

The Company's cash contributions to the ESOP during 2001, 2000 and 1999 were \$1,239, \$1,203 and \$1,225, respectively.

Expenses in excess of (less than) benefits provided to employees through the ESOP, which were recorded in miscellaneous expense (income), were \$110, \$(402) and \$469 in 2001, 2000 and 1999, respectively. Interest earned and received on the Company loan to the ESOP was \$1,222, \$1,301 and \$1,372, in 2001, 2000 and 1999, respectively. Dividends on the Company shares held by the ESOP used for debt service were \$813, \$818 and \$799, in 2001, 2000 and 1999, respectively. At December 31, 2001, the

ESOP indebtedness to the Company, which bears an interest rate of 10.05% and is due December 31, 2009, was \$11,087.

The ESOP shares as of December 31 were as follows:

|                                | 2001    | 2000    | 1999    |
|--------------------------------|---------|---------|---------|
| Allocated shares               | 569,221 | 479,660 | 430,923 |
| Shares released for allocation |         | 38,987  | 37,988  |
| Unreleased shares              | 399,845 | 450,419 | 500,155 |
| Total ESOP shares              | 969,066 | 969,066 | 969,066 |

16 Earnings Per Share Computations

The computations of basic and diluted earnings per share for the years ended December 31 were as follows:

|                            | Net Earnings<br>(Numerator) | Shares<br>(Denominator) | Per-Share<br>Amount |
|----------------------------|-----------------------------|-------------------------|---------------------|
| <i>2001 Restated</i>       |                             |                         |                     |
| Basic earnings per share   | \$ 4,608                    | 9,070,000               | \$ 0.51             |
| Dilutive share equivalents |                             | 133,000                 |                     |
| Diluted earnings per share | \$ 4,608                    | 9,203,000               | \$ 0.50             |
| <i>2000 Restated</i>       |                             |                         |                     |

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|                            |    |        |           |    |      |
|----------------------------|----|--------|-----------|----|------|
| Basic earnings per share   | \$ | 27,742 | 9,082,000 | \$ | 3.05 |
| Dilutive share equivalents |    |        | 53,000    |    |      |
| Diluted earnings per share | \$ | 27,742 | 9,135,000 | \$ | 3.04 |
| <i>1999 Restated</i>       |    |        |           |    |      |
| Basic earnings per share   | \$ | 19,755 | 9,097,000 | \$ | 2.17 |
| Dilutive share equivalents |    |        | 43,000    |    |      |
| Diluted earnings per share | \$ | 19,755 | 9,140,000 | \$ | 2.16 |

17 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 and long-lived assets by geographic area:

|                     | 2001 Restated | 2000 Restated | 1999 Restated |
|---------------------|---------------|---------------|---------------|
| Net sales:          |               |               |               |
| North America       | \$ 301,529    | \$ 326,083    | \$ 304,779    |
| Europe              | 80,605        | 80,668        | 82,234        |
| Other international | 40,291        | 45,425        | 42,726        |
| Total               | \$ 422,425    | \$ 452,176    | \$ 429,739    |

|                     | 2001 Restated | 2000 Restated |
|---------------------|---------------|---------------|
| Long-lived assets:  |               |               |
| North America       | \$ 81,178     | \$ 76,426     |
| Europe              | 11,026        | 11,971        |
| Other international | 1,264         | 1,364         |
| Total               | \$ 93,468     | \$ 89,761     |

|                     | 2001 As Originally Reported | 2000 As Originally Reported | 1999 As Originally Reported |
|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Net sales:          |                             |                             |                             |
| North America       | \$ 302,074                  | \$ 327,951                  | \$ 304,447                  |
| Europe              | 80,605                      | 80,668                      | 82,234                      |
| Other international | 40,291                      | 45,425                      | 42,726                      |
| Total               | \$ 422,970                  | \$ 454,044                  | \$ 429,407                  |

|                     | 2001 As Originally Reported | 2000 As Originally Reported |
|---------------------|-----------------------------|-----------------------------|
| Long-lived assets:  |                             |                             |
| North America       | \$ 77,874                   | \$ 74,086                   |
| Europe              | 11,026                      | 11,971                      |
| Other international | 1,264                       | 1,364                       |
| Total               | \$ 90,164                   | \$ 87,421                   |

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Net sales by geographic area are net of intercompany sales. North America sales include sales in the United States and Canada. Sales in Canada comprise less than 10% of consolidated sales and are interrelated with the Company's U.S. operations. No single customer represents more than 10% of the Company's consolidated sales.

### 18 Acquisition

On January 4, 1999, the Company acquired the shares and holdings in associated businesses of Paul Andra KG, a privately owned manufacturer of commercial floor maintenance equipment in Germany, for an aggregate consideration of \$10,059. Consolidated net sales in 1999 include 11 months as European entities were consolidated based on a November 30 year-end.

The purchase price was allocated to the acquired assets and assumed obligations based on their fair market values. The purchase price and related acquisition costs exceeded fair market values by approximately \$4,500. This amount has been recorded as goodwill and is being amortized on a straight-line basis over 20 years. The transaction has been accounted for using the purchase method of accounting, and as such, the Company's results of operations include PaulAndra KG business results since the acquisition date.

### 19 Consolidated Quarterly Data (Unaudited)

| Quarter | Net Sales     |               | Gross Profit  |               |
|---------|---------------|---------------|---------------|---------------|
|         | 2001 Restated | 2000 Restated | 2001 Restated | 2000 Restated |
| First   | \$ 104,628    | \$ 108,629    | \$ 40,245     | \$ 44,117     |
| Second  | 109,667       | 114,537       | 39,929        | 46,456        |
| Third   | 105,129       | 115,478       | 37,971        | 45,774        |
| Fourth  | 103,001       | 113,532       | 35,780        | 46,171        |
| Year    | \$ 422,425    | \$ 452,176    | \$ 153,925    | \$ 182,518    |

| Quarter | Net Earnings  |               | Diluted Earnings per Share |               |
|---------|---------------|---------------|----------------------------|---------------|
|         | 2001 Restated | 2000 Restated | 2001 Restated              | 2000 Restated |
| First   | \$ 439(1)     | \$ 5,545      | \$ 0.05(1)                 | \$ 0.61       |
| Second  | 1,023(1)      | 7,455         | 0.11(1)                    | 0.82          |
| Third   | 2,936         | 7,327         | 0.32                       | 0.80          |
| Fourth  | 210(1)        | 7,415         | 0.02(1)                    | 0.81          |
| Year    | \$ 4,608(1)   | \$ 27,742     | \$ 0.50(1)                 | \$ 3.04       |

(1) Includes after-tax restructuring charges of \$3,354 (\$0.36 per diluted share) and \$3,522 (\$0.39 per diluted share) in the first and second quarters, respectively, as well as the after-tax pension settlement gain of \$3,735 (\$0.41 per diluted share) and the deferred tax asset valuation allowance of \$4,267 (\$0.47 per diluted share) in the fourth quarter.

Regular quarterly dividends aggregated \$0.80 per share in 2001, or \$0.20 per share for all quarters, and \$0.78 per share in 2000 (\$0.19 per share in the first and second quarters; \$0.20 in the third and fourth quarters).

## Management's Report

The Company's management is responsible for the integrity and accuracy of the financial statements. Management believes that the financial statements for the three years ended December 31, 2001, have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. In preparing the financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed.

In meeting its responsibility for the reliability of the financial statements, management relies on a system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The design of this system recognizes that errors or irregularities may occur and that estimates and judgments are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable, but not absolute, assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, which is comprised solely of Directors who are not employees of the Company, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets periodically with management and the independent auditors to discuss internal accounting controls, auditing and financial reporting matters.

## Independent Auditors' Report

The Board of Directors and Shareholders  
Tennant Company:

We have audited the accompanying consolidated balance sheets of Tennant Company and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, cash flows, and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tennant Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, the accompanying consolidated balance sheets as of December 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for the three years ended December 31, 2001, 2000 and 1999 have been restated.

/s/ KPMG LLP

Minneapolis, Minnesota

February 5, 2002, except as to note 2,  
which is as of March 25, 2003

**ITEM 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**PART III**

Part III is included in the Tennant Company 2002 Proxy (to the extent specific pages are referred to on the Cross Reference Sheet) and is incorporated in this Form 10-K/A Annual Report by reference, except Item 13 Certain Relationships and Related Transactions, of which there were none, and Item 10 Directors and Executive Officers of the Registrant as it relates to executive officers. Identification of executive officers is included in Part I of this Form 10-K/A Annual Report.

**PART IV**

**ITEM 14 Exhibits, Financial Statement Schedule, and Reports on Form 8-K**

A. The following documents are filed as a part of this report:

1. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

(Dollars in Thousands)

|                                 | Balance at<br>beginning of<br>year | Additions<br>charged to<br>costs and<br>expenses | Deductions<br>from<br>reserves (1) | Balance at<br>end of year |
|---------------------------------|------------------------------------|--|------------------------------------|---------------------------|
| Allowance for doubtful accounts |                                    |  |                                    |                           |
| Year ended December 31, 2001    | \$ 4,178                           | \$ 2,016   | \$ 1,493                           | \$ 4,701                  |
| Year ended December 31, 2000    | \$ 4,393                           | \$ 1,270   | \$ 1,485                           | \$ 4,178                  |
| Year ended December 31, 1999    | \$ 2,956                           | \$ 1,568   | \$ 131                             | \$ 4,393                  |

(1) Accounts determined to be uncollectible and charged against reserve, net of collections on accounts previously charged against reserves.

|                              | Balance at<br>beginning of<br>year | Additions<br>charged to<br>costs and<br>expenses | Deductions<br>from<br>reserves | Balance at<br>end of year |
|------------------------------|------------------------------------|--|--------------------------------|---------------------------|
| <b>Warranty reserves</b>     |                                    |  |                                |                           |
| Year ended December 31, 2001 | \$ 3,818                           | \$ 6,909   | \$ 6,665                       | \$ 4,062                  |
| Year ended December 31, 2000 | \$ 3,222                           | \$ 6,185   | \$ 5,589                       | \$ 3,818                  |
| Year ended December 31, 1999 | \$ 2,903                           | \$ 5,516   | \$ 5,197                       | \$ 3,222                  |

|                              | Balance at<br>beginning of<br>year | Additions<br>charged to<br>costs and<br>expenses | Deductions<br>from<br>reserves | Balance at<br>end of year |
|------------------------------|------------------------------------|--|--------------------------------|---------------------------|
| <b>Inventory reserves</b>    |                                    |  |                                |                           |
| Year ended December 31, 2001 | \$ 2,846                           | \$ 4,523   | \$ 4,545                       | \$ 2,824                  |
| Year ended December 31, 2000 | \$ 3,532                           | \$ 1,979   | \$ 2,665                       | \$ 2,846                  |
| Year ended December 31, 1999 | \$ 2,766                           | \$ 2,345   | \$ 1,579                       | \$ 3,532                  |

All other schedules are omitted as the required information is inapplicable or because the required information is presented in the Consolidated Financial Statements in the Tennant Company 2001 Annual Report to Shareholders.

#### Independent Auditors Report on Financial Statement Schedule

The Board of Directors

Tennant Company:

Under date of February 5, 2002, except as to note 2, which is as of March 24, 2003, we reported on the consolidated balance sheets of Tennant Company and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, cash flows, and shareholders equity and comprehensive income for each of the years in the three-year period ended December 31, 2001, which are included in Item 8. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as included in Item 8. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

/s/ KPMG LLP

Minneapolis, Minnesota



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February 5, 2002

### 2. Exhibits

| Item # | Description   | Method of Filing   |
|--------|---|--|
| 3i     | Restated Articles of Incorporation  | Incorporated by reference to Exhibit 3i to the Company's report on Form 10-Q for the quarterly period ended June 30, 1995.         |
| 3ii    | Amended and Restated 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.  |
| 4.1    | Rights Agreement, dated as of November 19, 1996 between Tennant Company and Wells Fargo Bank Minnesota, National Association (f/k/a Norwest Bank Minnesota, National Association) | Incorporated by reference to Exhibit 1 to Form 8-A dated November 26, 1996.  |
| 4.2    | First Amendment, dated as of November 18, 1999, to Rights Agreement, dated as of November 19, 1996, between Tennant Company and Norwest Bank Minnesota, National Association      | Incorporated by reference to Exhibit 1 to Form 8-A/A dated November 18, 1999.  |
| 10.1   | Tennant Company Amended and Restated 1992 Stock Incentive Plan*   | Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement No. 33-59054, Form S-8 dated March 2, 1993.       |
| 10.2   | Tennant Company 1995 Stock Incentive Plan*  | Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement No. 33-62003, Form S-8, dated August 22, 1995.    |
| 10.3   | Tennant Company Restricted Stock Plan for Nonemployee Directors, (As Amended and Restated Effective January 1, 1999)*   | Incorporated by reference to Exhibit 99 to the Company's Registration Statement No. 333-84374, Form S-8 dated March 15, 2002.      |
| 10.4   | Tennant Company Excess Benefit Plan, as amended and restated effective January 1, 1998*   | Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. |
| 10.5   | Form of Management Agreement, including schedule of management parties*   | Incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. |
| 10.6   | Tennant Company Non-Employee Director Stock Option Plan*  | Incorporated by reference to the Company's Registration Statement No. 333-28641, Form S-8 dated June 6, 1997.                      |
| 10.7   | Tennant Company 1998 Management Incentive Plan, as amended*   | Incorporated by reference to Exhibit 99 to the Company's Registration Statement No. 333-84372, Form S-8 dated March 15, 2002.      |
| 10.8   |   |  |

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|       |   |   |
|-------|---|---|
| 10.9  | Employment Agreement with Janet Dolan dated April 5, 1999*  | Incorporated by reference to Exhibit 10III.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.  |
| 10.9  | Tennant Company Amended and Restated 1999 Stock Incentive Plan*   | Incorporated by reference to the Company's Registration Statement No. 333-73706, Form S-8 dated November 19, 2001.  |
| 10.10 | Tennant Commercial Retirement Savings Plan  | Incorporated by reference to the Company's Registration Statement No. 333-51531 Form S-8 dated May 1, 1998 (originally filed under the name Castex Incorporated Employees Retirement Plan). |
| 10.11 | Tennant Company Profit Sharing and Employee Stock Ownership Plan, as amended and restated effective January 1, 2001 | Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.   |
| 10.12 | Tennant Company Pension Plan, as amended and restated effective as of January 1, 2002                               | Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.   |

21.1 Subsidiaries of the Registrant

Tennant Company has the following significant subsidiaries:

Tennant Holding B.V. is a wholly owned subsidiary organized under the laws of The Netherlands in 1991. A legal reorganization occurred in 1991 whereby Tennant N.V. became a participating interest of Tennant Holding B.V. Tennant N.V. had previously been a wholly owned subsidiary organized under the laws of The Netherlands in 1970. Tennant Maintenance Systems, Limited, was a wholly owned subsidiary, organized under the laws of the United Kingdom until October 29, 1992, at which time Tennant Holding B.V. acquired 100% of its stock from Tennant Company. The name was formally changed to Tennant UK Limited on or about October 16, 1996. Tennant Sales and Service Company is a wholly owned subsidiary organized under the laws of the state of Minnesota. The results of these operations have been consolidated into the financial statements, as indicated therein.

|      |                              |                                |
|------|------------------------------|--------------------------------|
| 23.1 | Independent Auditors Consent | Filed herewith electronically. |
| 99.1 | Certifications               | Filed herewith electronically. |

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\*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K/A.

B. Reports on Form 8-K

There were no reports filed on Form 8-K the quarter ended December 31, 2001.

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CROSS REFERENCE

| Form 10-K/A  | Referenced | Location       |
|--|------------|----------------|
| Part III, Item 10 Directors and Executive Officers of the Registrant             | 2002 Proxy | *Pages 4 to 7  |
| Part III, Item 11 Executive Compensation   | 2002 Proxy | *Pages 8 to 13 |
| Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management | 2002 Proxy | *Pages 2 and 3 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ Janet M. Dolan  
Janet M. Dolan  
President, CEO and  
Board of Directors

Date March 25, 2003

By /s/ Anthony T. Brausen

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

Date March 25, 2003

By /s/ Gregory M. Siedschlag

Gregory M. Siedschlag  
Corporate Controller and

By /s/ James T. Hale  
James T. Hale  
Board of Directors

Date March 25, 2003

By /s/ Pamela K. Knous

Pamela K. Knous  
Board of Directors

Date March 25, 2003

By /s/ William I. Miller

William I. Miller  
Board of Directors

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Principal Accounting Officer

Date March 25, 2003

Date March 25, 2003

By /s/ Edwin L. Russell

Edwin L. Russell  
Board of Directors

Date March 25, 2003

By /s/ Stephen G. Shank

Stephen G. Shank  
Board of Directors

Date March 25, 2003

By /s/ Frank L. Sims

Frank L. Sims  
Board of Directors

Date March 25, 2003

**CERTIFICATIONS**

I, Janet M. Dolan, certify that:

1. I have reviewed this annual report on Form 10-K/A of Tennant Company;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

Date: /s/ March 25, 2003

/s/ Janet M. Dolan  
Janet M. Dolan

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President and Chief Executive Officer

I, Anthony T. Brausen, certify that:

1. I have reviewed this annual report on Form 10-K/A of Tennant Company;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

Date: /s/ March 25, 2003

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