

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

## FORM 10-Q/A

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended September 30, 2002

Commission File No. 04804

## TENNANT COMPANY

Incorporated in Minnesota

IRS Emp Id No. 410572550

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

The number of shares outstanding of Registrant's common stock, par value \$.375, on September 30, 2002, was 8,987,972.

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Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company's attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions includes a revision in previously reported net earnings of \$110,000 and \$10,000 and net earnings per share diluted of \$0.01 and \$0.00 for the quarters ended September 30, 2002 and 2001, respectively and a revision in previously reported net earnings of \$27,000 and (\$21,000) and net earnings per share diluted of \$0.00 for both nine month periods ended September 30, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and September 30, 2002 and for the three and nine month periods ended September 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition.

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

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

ITEM 1 - Financial Statements

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(In thousands, except per share amounts)

**Three Months  
Ended September 30**

**Nine Months  
Ended September 30**

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	2002 Restated		2001 Restated		2002 Restated		2001 Restated	
Net sales	\$	107,838	\$	105,129	\$	310,356	\$	319,424
Less:								
Cost of sales		69,359		67,158		198,012		201,279
Selling and administrative expenses		33,222		33,271		99,457		101,988
Restructuring charges						4,004		9,962
Profit from operations		5,257		4,700		8,883		6,195
Interest income (expense), net		63		(47)		126		242
Other income (expense)		(464)		(100)		(598)		73
Earnings before income taxes		4,856		4,553		8,411		6,510
Income tax expense		2,062		1,617		4,106		2,112
Net earnings	\$	2,794	\$	2,936	\$	4,305	\$	4,398
Per share:								
Basic earnings	\$	0.31	\$	0.32	\$	0.48	\$	0.48
Diluted earnings	\$	0.31	\$	0.32	\$	0.47	\$	0.48
Dividends	\$	0.21	\$	0.20	\$	0.61	\$	0.60
Weighted average number of shares:								
Basic		8,997		9,071		9,002		9,083
Diluted		9,058		9,206		9,064		9,225

See accompanying notes to consolidated financial statements.

## TENNANT COMPANY

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CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) September 30, 2002 Restated	(Unaudited) December 31, 2001 Restated
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,353	\$ 23,783
Receivables	80,858	76,952
Less allowance for doubtful accounts	(5,012)	(4,701)
Net receivables	75,846	72,251
Inventories	61,370	48,288
Prepaid expenses	2,104	2,394
Deferred income taxes, current portion	6,879	6,879
Total current assets	159,552	153,595
Property, plant and equipment	207,024	200,825
Less accumulated depreciation	(136,445)	(127,729)
Net property, plant and equipment	70,579	73,096
Deferred income taxes, long-term portion	5,496	5,496
Goodwill, net	16,751	16,373
Other assets	2,870	3,999
Total assets	\$ 255,248	\$ 252,559
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Current debt	\$ 12,404	\$ 13,418
Accounts payable, accrued expenses and deferred revenue	58,881	48,031
Total current liabilities	71,285	61,449
Long-term debt	6,969	12,496
Long-term employee-related benefits	26,851	26,643
Total liabilities	105,105	100,588
<b>SHAREHOLDERS EQUITY</b>		
Common stock	3,383	3,389
Additional paid-in capital	537	383

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Unearned restricted shares	(718)	(278)
Retained earnings	158,482	161,945
Accumulated other comprehensive loss (equity adjustment from foreign currency translation)	(4,271)	(6,247)
Receivable from ESOP	(7,270)	(7,221)
Total shareholders' equity	150,143	151,971
Total liabilities and shareholders' equity	\$ 255,248	\$ 252,559

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine Months Ended September 30	
	2002 Restated	2001 Restated
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES:</b>		
Net earnings	\$ 4,305	\$ 4,398
Adjustments to net earnings to arrive at operating cash flows:		
Depreciation and amortization	12,745	14,893
Deferred tax expense (benefit)		(2,975)
Changes in operating assets and liabilities	(4,970)	(2,100)
Other, net	558	1,227
Net cash flows related to operating activities	12,638	15,443
<b>CASH FLOWS RELATED TO INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(10,454)	(18,864)
Proceeds from disposals of property, plant and equipment	1,877	2,142
Net cash flows related to investing activities	(8,577)	(16,722)
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES:</b>		
Net changes in short-term borrowings	(6,472)	673
Proceeds from issuance of common stock	1,494	1,871
Purchases of common stock	(4,134)	(4,615)
Dividends paid	(5,489)	(5,439)
Principal payment from ESOP		799
Net cash flows related to financing activities	(14,601)	(6,711)
Effect of exchange rate changes on cash	110	(136)
Net decrease in cash and cash equivalents	(10,430)	(8,126)
Cash and cash equivalents at beginning of year	23,783	21,512
Cash and cash equivalents at end of period	\$ 13,353	\$ 13,386

## SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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Collateralized borrowings incurred for operating lease equipment	\$	162	\$	342
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See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –RESTATED (Unaudited)

(In thousands, except per share data)

(1) Basis of Presentation

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

(2) Restatement

Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company's attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions includes a revision in previously reported net earnings of \$110,000 and \$10,000 and net earnings per share diluted of \$0.01 and \$0.00 for the quarters ended September 30, 2002 and 2001, respectively and a revision in previously reported net earnings of \$27,000 and (\$21,000) and net earnings per share diluted of \$0.00 for both nine month periods ended September 30, 2002 and 2001, respectively. The consolidated financial statements as of December 31, 2001 and September 30, 2002 and for the three and nine month periods ended September 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition. Impacted financial statement line items were sales, cost of sales, interest expense, income tax expense, inventory, machinery and equipment, accumulated depreciation, deferred taxes, accrued expenses, deferred revenue and debt. There was no impact on cash flows or cash and cash equivalents. The consolidated financial statements as of December 31, 2001 and September 30, 2002 and for the periods ended September 30, 2002 and 2001 and notes thereto included in this Form 10-Q/A have been restated to include the effects of the correction to the timing of the revenue recognition, as follows:



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	Quarter Ended September 30, 2002		Quarter Ended September 30, 2001	
	As Previously Reported	Restated	As Previously Reported	Restated
<b>CONSOLIDATED STATEMENTS OF EARNINGS</b>				
Net sales	\$ 107,403	\$ 107,838	\$ 104,978	\$ 105,129
Cost of sales	69,162	69,359	67,114	67,158
Interest income (expense), net	133	63	43	(47)
Earnings before income taxes	4,689	4,856	4,536	4,553
Income tax expense	2,005	2,062	1,610	1,617
Net earnings	2,684	2,794	2,926	2,936
Net earnings per common share				
- Basic	\$ 0.30	\$ 0.31	\$ 0.32	\$ 0.32
- Diluted	\$ 0.30	\$ 0.31	\$ 0.32	\$ 0.32

	Nine Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	As Previously Reported	Restated	As Previously Reported	Restated
<b>CONSOLIDATED STATEMENTS OF EARNINGS</b>				
Net sales	\$ 309,784	\$ 310,356	\$ 319,414	\$ 319,424
Cost of sales	197,715	198,012	201,493	201,279
Interest income, net	357	126	497	242
Earnings before income taxes	8,369	8,411	6,542	6,510
Income tax expense	4,091	4,106		