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, 1999

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: NONE

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

Common Stock, par value $.375 per share

and

Preferred Share Purchase Rights

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 ý No o

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. ý

$283,601,511.50 is aggregate market value of common stock held by non-affiliates as of March 6, 2000.

9,039,092 shares outstanding at March 6, 2000

DOCUMENTS INCORPORATED BY REFERENCE

2000 Proxy Part III (Partial)

TENNANT COMPANY

1999

ANNUAL REPORT

Form 10-K/A

(Pursuant to Securities Exchange Act of 1934)

PART I

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 1998-1999 consolidated financial statements includes 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 and a reduction in previously reported net earnings of $1.7 million and net earnings per share diluted of $0.18 for the year ended December 31, 1998. The consolidated financial statements as of and for the years ended December 31, 1999 and 1998 and notes thereto included in this Form 10-K/A have been restated to include the effects of the correction to the timing of this 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 year ended December 31, 1999 amends and restates those items of the FORM 10-K originally filed on March 10, 2000 (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.

Item 1 Business

General Development of Business

Tennant Company, a Minnesota corporation incorporated in 1909, is a Minneapolis-based company that specializes in the design, manufacture, and sale of non-residential floor maintenance equipment and related products. On February 1, 1994, the Company acquired the business and assets of Castex Industries, Inc., a privately owned manufacturer of commercial floor maintenance equipment. In January 1999, the Company acquired the business and assets of Paul Andra KG, a privately owned manufacturer of commercial floor maintenance equipment in Germany.

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 segments is provided in Note 18 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 has manufacturing operations in Holland, Michigan; Uden, The Netherlands; and Waldhausen, Germany. It sells its products directly in eight countries and through distributors in 45 others. Tennant s shares have traded on the NASDAQ Market System under the symbol TANT since 1969.

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, revenues and earnings tend to concentrate 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.

Working Capital Practices

The Company s working capital practices are described in the Management s Financial Discussion and Analysis under the section Liquidity and Capital Resources on page 9.

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 the average. Consequently, order backlogs are 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. During 1999, the Company spent $15,385,000 on research and development activities relating to the development of new products or improvements of existing products or manufacturing processes. The Company spent $14,224,000 in 1998 and $13,470,000 in 1997 on research and development activities. Essentially all research and development is Company- sponsored.

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 2,241 persons in worldwide operations as of December 31, 1999.

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, Germany and The Netherlands. Sales offices, warehouse and storage facilities are leased in various locations in North America, Europe, Japan, Singapore, and Australia. The Company s facilities are in good operating condition, suitable for their respective uses and adequate for current needs. Notes 4 and 13 of the Notes to the Consolidated 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

Richard M. Adams, Vice President

Richard M. Adams (52) joined the Company in 1974. He was elected 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., Tennant Import

B.V., and Tennant Japan.

Janet M. Dolan, President and Chief Executive Officer

Janet M. Dolan (50) 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 Donaldson Company, Inc.

Thomas J. Dybsky, Vice President

Thomas J. Dybsky (50) joined the Company in 1998 as Vice President of Human Resources. Mr. Dybsky is a director of Tennant N.V.

James H. Moar, Chief Operating Officer

James H. Moar (51) 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 Castex Incorporated.

Dean A. Niehus, Corporate Controller and Principal Accounting Officer

Dean A. Niehus (42) joined the Company in 1998. Mr. Niehus is a director of Tennant Company Far East Headquarters Pte Ltd.

John T. Pain, Vice President, Treasurer and Chief Financial Officer

John T. Pain (51) joined the Company in 1984 as Corporate Tax Manager. He was named Assistant Treasurer in 1986, Corporate Controller and Principal Accounting Officer in 1997, and Vice President, Treasurer, and Chief Financial Officer in 1998. Mr. Pain is a Certified Public Accountant. He is a director of Castex Incorporated, and Tennant N.V.

Keith D. Payden, Vice President

Keith D. Payden (52) joined the Company in 1981. He was named Director, Information Services in 1987, Chief Information Officer in 1992, and Vice President in 1993.

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

James J. Seifert (43) 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., and Tennant Japan.

Thomas J. VanderBie, Senior Vice President

Thomas J. VanderBie (48) was named Senior Vice President of Tennant Company in August, 1999. Mr. VanderBie was President of Castex Incorporated, a subsidiary of Tennant Company from 1974-1999.

PART II

Item 5 Market for Registrant s Common Equity and Related Stockholder Matters

The annual meeting of Tennant Company will be held at 10:30 a.m. on Thursday, May 4, at the Company s corporate headquarters, 701 North Lilac Drive, Golden Valley, Minnesota. The Company s common stock is traded in the National Market System of NASDAQ, under the ticker symbol TANT. As of December 31, 1999, there were approximately 3,500 shareholders of record. The accompanying chart shows the quarterly price range of the Company s shares over the past five years after adjustment for the two-for-one stock split:

		First		**Second**		**Third**		**Fourth**
1995	$	23.13-25.00	$	23.00-29.00	$	25.00-27.25	$	22.25-27.25
1996	$	21.25-25.00	$	23.50-26.50	$	22.00-26.00	$	22.50-27.50
1997	$	26.13-28.75	$	26.75-33.25	$	33.25-37.50	$	36.00-39.63
1998	$	34.75-41.13	$	40.75-44.81	$	37.00-44.50	$	33.00-41.25
1999	$	31.44-45.00	$	32.00-38.50	$	32.63-37.25	$	32.00-35.63

Cash dividends on the Company s common stock have been paid for 56 consecutive years, and the Company has increased dividends in each of the last 28 years. Dividends generally are declared each quarter. Following are the record dates anticipated for 2000: June 1, 2000; September 1, 2000; December 15, 2000.

Item 6 Selected Financial Data

		1999 Restated	1998 Restated	1997	1996	1995
			(Dollars and shares in thousands, except per share data)			
Net sales	$	429,739	383,765	372,428	344,433	325,368
Cost of sales	$	255,528	223,369	217,570	204,165	187,396
Gross margin %		40.5	41.8	41.6	40.7	42.4
Selling and administrative expenses	$	136,076	125,806	118,770	108,637	107,790
% of net sales		31.7	32.8	31.9	31.5	33.1
Profit from operations	$	31,464(a)	34,590	36,088	31,631	30,182
% of net sales		7.3	9.0	9.7	9.2	9.3
Other income and (expense)	$	(770)	1,732	1,542	698	(747)
Income tax expense	$	10,939	12,713	13,425	11,302	9,773
% of earnings before income taxes		35.6	35.0	35.7	35.0	33.2
Net earnings	$	19,755(a)	23,609	24,205	21,027	19,662
% of net sales		4.6	6.2	6.5	6.1	6.0
Return on beginning shareholders equity %		15.2	16.7	18.8	18.4	20.4
Per Share Data						
Basic net earnings	$	2.17(a)	2.49	2.43	2.09	1.98
Diluted net earnings	$	2.16(a)	2.49	2.41	2.09	1.98
Cash dividends	$	.76	.74	.72	.69	.68
Shareholders equity (ending)	$	14.94	14.20	13.65	12.86	11.47
Year-End Financial Position						
Cash and cash equivalents	$	14,928	17,693	16,279	9,881	4,247
Total current assets	$	166,745	153,069	143,105	126,481	123,508
Property, plant, and equipment, net	$	67,388	67,302	65,111	65,384	63,724
Total assets	$	261,269	243,000	233,870	219,180	215,750
Current liabilities excluding current debt	$	65,362	54,044	53,738	45,724	44,374
Current ratio excluding current debt		2.6	2.8	2.7	2.8	2.8
Long-term liabilities excluding long-term debt	$	30,616	27,802	22,801	18,908	16,747
Financing debt						
Current	$	14,191	7,969	2,377	3,864	17,349
Long-term	$	16,839	23,635	20,678	21,824	23,149
Total as % of total capital		18.8	19.6	14.7	16.6	26.2
Shareholders equity	$	134,261	129,550	134,086	128,860	114,131
Cash Flow Increase (Decrease)						
Related to operating activities	$	38,320	42,890	41,892	44,566	17,834
Related to investing activities	$	(26,060)	(17,221)	(15,490)	(17,240)	(22,107)
Related to financing activities	$	(14,665)	(24,290)	(20,434)	(22,024)	6,721
Other Data						
Interest income	$	1,475	3,771	4,699	4,259	4,132
Interest expense	$	2,665	2,303	2,021	2,491	2,640
Depreciation and amortization expense	$	19,028	17,590	17,468	16,387	14,090
Net expenditures for property, plant, and equipment	$	16,001	17,221	16,424	17,581	19,117
Number of employees at year-end		2,241	2,127	2,019	1,950	1,997
Total direct compensation	$	111,761	102,821	95,099	89,210	86,263
Profit sharing and all other employee benefits	$	29,559	27,553	27,337	22,499	21,887

Average shares outstanding		9,140	9,500	10,032	10,076	9,916
Closing share price at year-end	$	323/4	401/8	363/8	271/2	237/8
Common stock price range during year	$	31 7/16 45	33 45 3/4	26 1/8 39 5/8	21 1/4 27 1/2	22 1/4 29
Closing price/earnings ratio(b)		15.2	16.1	15.1	13.2	12.1

(a) 1999 includes pretax restructuring charges of $6,671 ($4,308 net of taxes).

(b) Closing price/earnings ratio is based on closing share price and net earnings.

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, 1999 and 1998 and for the years then ended.

Tennant Company announced in February 2003 that due to a technical accounting interpretation brought to the Company s attention by its auditors, the Company is restating its financial statements to recognize revenues and earnings associated with the sales of its equipment to a U.S. third party lessor, that occurred between 1998 and 2002, over the lease period for operating lease transactions and, for short term rental transactions, at the time the customer converts the short term rental to an outright purchase or long term capital lease of the equipment. Previously, revenues and earnings associated with these sales were recognized at the time of shipment. The original contract between the Company and the U.S. third party lessor included retained ownership risk provisions that were determined to preclude operating lease and short-term rental transactions from meeting the criteria for sale treatment under Statement of Financial Accounting Standards No. 13. The effect of the correction to the timing of the revenue recognition on these transactions in the 1998-1999 consolidated financial statements inlcudes 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 and a reduction in previously reported net earnings of $1.7 million and net earnings per share diluted of $0.18 for the year ended December 31, 1998. The consolidated financial statements as of and for the years ended December 31, 1999 and 1998 and notes thereto included in this Form 10-K/A have been restated to include the effects of the correction to the timing of this 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.

Overview

The Company reported record sales in 1999 of $429.7 million, up 12.0 percent from 1998 sales of $383.8 million. Net earnings for 1999 before restructuring charges were $24.1 million, or $2.63 per diluted share, up 1.9 percent from $23.6 million, or $2.49 per diluted share in 1998. Profit from operations before restructuring charges were $38.1 million, up 10.3 percent from $34.6 million in 1998. Earnings before restructuring charges reflect the impact of implementing an Enterprise Resource Planning System in the Company s largest manufacturing operation. In the second and third quarters, the transition to this system decreased manufacturing efficiency and reduced earnings. Net earnings for 1999, after restructuring charges of $6.7 million, or 47 cents per diluted share, were $19.8 million, or $2.16 per diluted share.

Net Sales

North American sales were $312.1 million, up 8.2 percent, from $288.4 million in 1998. Growth by product line was 11.2 percent in industrial equipment, 10.6 percent in commercial equipment, and a decrease of 10 percent in floor coatings. Industrial equipment growth was due primarily to unit volume growth with a substantial part of the growth coming from new outdoor products introduced over the past year and a half. Commercial equipment growth was also due to unit volume growth. Partially offsetting this increase was the loss of sales for the last four months of 1999 resulting from the sale in September of the Company s Eagle propane burnisher business. That business had annual sales of approximately $4 million. The decline in floor coatings was due primarily to reduced unit volume.

European sales in 1999 were $82.2 million in translated U.S. dollars, up 30.5 percent from 1998 sales of $63.0 million. In local currency terms, sales grew 35.0 percent. The sales growth was due to the acquisition in January 1999 of Paul Andra KG, which had sales of approximately $21.5 million in U.S. dollars. European-base business sales declined 3.9 percent in translated dollars and 0.7 percent in local currency.

Other international sales during 1999 were $35.4 million, which was an increase of 9.6 percent over 1998 sales of $32.3 million. In local currency terms, other international sales declined 0.5 percent. Australian sales showed the greatest strength in 1999, growing 17.8 percent in local currency.

1998 net sales of $383.8 million increased 3.0 percent from the prior year. North American sales of $288.4 million were up

4.6 percent on economic conditions that were strong early in the year, but weakened as the year progressed. North American sales growth by product line were: 9 percent for industrial equipment, 3 percent for commercial equipment, and a decrease of 2 percent for floor coatings. Industrial product growth was primarily due to unit volume growth and was significantly supported by the introduction of new and updated products. Among the new product introductions were two products targeted at the outdoor market. Growth in commercial equipment sales was primarily the result of price increases, and the decline in floor coatings sales was primarily due to a decline in unit volume.

1998 European sales of $63.0 million increased 9.9 percent in U.S. dollars and were up 12 percent in local currencies. Local currency sales growth of industrial equipment was slightly stronger than commercial equipment and, in both product lines, sales growth was primarily due to unit volume increase.

Other International sales in 1998, which were $32.3 million, decreased 17.5 percent in U.S. dollars and 11 percent in local currencies. Sales of industrial equipment declined $8 million, primarily due to a unit volume decline in Asia. Partially offsetting this decline was an increase in commercial equipment sales of $2 million.

Order backlog at the end of 1999 was $8.5 million, which was a $2.1 million increase over the $6.4 million backlog at the end of 1998. Backlog at the end of 1998 declined $3.3 million from $9.7 million at the end of 1997.

Costs and Expenses

The following is a summary of operating costs and expenses, in relation to sales, by major category:

	1999 Restated	1998 Restated	1997
Cost of sales	59.5%	58.2%	58.4%
Sales and administrative expenses	31.7%	32.8%	31.9%
Restructuring charges	1.6%		

Cost of sales for 1998 and 1997 reflect a reclassification to conform to 1999 presentation of European service labor cost from selling and administrative expense to cost of sales. The reclassification increased cost of sales as a percentage of sales by 0.7 percentage points in 1998 and 0.6 percentage points in 1997 and reduced the Sales and Administrative expense rate by equivalent amounts.

Cost of sales as a percentage of sales increased 1.3 percentage points in 1999 compared to 1998. The increase was due substantially to a change in sales mix and a reduction in gross margin in the industrial equipment business in North America. The primary factor affecting sales mix was the acquisition of Paul Andra KG, whose gross margin, though in line with expectations, was below the average of the Company s remaining business. The reduction in gross margin in the North American industrial business was due to an increase in unfavorable manufacturing variances related primarily to the 1999 conversion to an Enterprise Resource Planning System, inventory charges, and an increase in selling price discounts. Cost of sales as a percentage of sales in 1998 declined 0.2 percentage points compared to 1997. The decline was the result of a low rate of inflation on product costs together with price increases in North America on industrial equipment, aftermarket, and floor coatings. Partially offsetting these factors was a decline in foreign currency exchange rates, which resulted in lower translated value of foreign sales of U.S. manufactured products. Future costs of sales as a percentage of sales will continue to be affected by the mix of product sales within and among geographies, exchange rate fluctuations, and competitive market conditions.

Sales and administrative expenses as a percentage of sales declined 1.1 percentage points in 1999 compared to 1998. The decline was the result of savings from restructuring activities, reduced employee incentive compensation expenses, and a reduction in spending on information technology. In addition, in 1999 the Company adopted a change in accounting treatment for software developed for internal use under Statement of Position (SOP) 98-1 issued by the American Institute of Certified Public Accountants. Under SOP 98-1, the cost of developing software for internal use must be capitalized. In 1999, approximately $1.3 million was capitalized as a result of this change in accounting. Selling and administrative expenses as a percentage of sales in 1998 increased .9 percentage points over 1997. The increase was due primarily to an increased investment in information technology spending in connection with the implementation of an enterprise resource planning system.

Other Income and Expense

In 1999, other income and expense was a net expense of $0.8 million, which compares to other income of $1.7 million in 1998. A substantial portion of the change was due to a decline in interest income resulting from product financing. In 1998, the Company outsourced its product financing business. The Company sold its portfolio with recourse to the outsourced vendor and accordingly under SFAS No. 125 is required to report interest income and interest expense on the remaining portfolio. The principal balance of the portfolio is declining over time as customer balances decrease thereby reducing the Company s interest income. Other factors contributing to the change in other income and expense are an increase in ESOP expense and an increase in the discretionary contribution to the Tennant Foundation in 1999. In 1998, other income was $1.7 million, which was a $0.2 million increase compared to the $1.5 million of other income reported in 1997.

Restructuring Charges

As discussed in Note 3 to the consolidated financial statements, the Company recorded restructuring charges of $6.7 million in 1999. The restructuring included plans to eliminate approximately 110 positions and close several facilities. The Company believes the restructuring will improve its competitive position in the global floor maintenance equipment market by realizing synergies in key functions such as manufacturing, purchasing, and logistics. When fully implemented, the restructuring is expected to reduce annual operating costs approximately $4 - $6 million through reductions in personnel, purchased materials, freight costs, and process efficiencies.

Income Taxes

1999 effective income tax rate at 35.6 percent was 0.6 percentage points above the 35.0 percent reported for 1998 and 0.1 percentage point below 35.7 percent for 1997. Management anticipates the effective income tax rate will continue in the range of 35 to 36 percent.

Liquidity and Capital Resources

At December 31,1999, the Company s capital structure was comprised of $14.2 million of current debt, $16.8 million of long-term debt, and $134.3 million of shareholders equity. The Company s debt-to-total capital ratio was 18.8 percent compared to 19.6 percent at December 31, 1998. The Company has available lines of credit of $24.1 million with $5.8 million outstanding at December 31, 1999. The Company believes that the combination of internally generated funds, present capital resources, and unused financing sources are more than sufficient to meet cash requirements for 2000.

Cash Flows

During 1999, $38.3 million of cash was generated from operating activities compared to $42.9 million in 1998 and $41.9 million in 1997. The decline is largely due to a decline in net income in 1999 compared to prior years.

Capital expenditures for property, plant, and equipment net of disposals totaled $16.0 million in 1999 compared to $17.2 million in 1998 and $16.4 million in 1997. Capital expenditures for 2000 are expected to be approximately $18 to $21 million. In 1999, the company acquired Paul Andra and affiliates, a German manufacturer of commercial cleaning equipment, for $10.1 million.

Dividends and Share Repurchases

Cash dividends were $0.76 per share the 28th consecutive year of increase. On October 2, 1998, the Board of Directors authorized the Company to buy 600,000 shares of common stock. At December 31, 1999, the Company had approximately 214,000 shares remaining under the repurchase authorization. In 1999, the Company repurchased approximately 283,000 shares for $9.9 million and an average price of $34.96 per share. The Company repurchased approximately 677,000 shares for $27.1 million in 1998 and approximately 398,000 shares in 1997 for $13.6 million.

Year 2000 Project Overview

The Company s Year 2000 Project proceeded on schedule. There have been no significant system or operational issues associated with the turn of the century.

Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between their existing currencies and the Euro, a new European currency, and adopted the Euro as their common legal currency (the Euro Conversion). Either the Euro or a participating country s present currency will be accepted as legal tender from January 1, 1999, to January 1, 2002, following which only the Euro will be accepted.

The Company has a significant number of customers located in European Union countries participating in the Euro Conversion. Such customers will likely have to upgrade or modify their computer systems and software to comply with Euro requirements. The amount of money the Company anticipates spending in connection with system development related to the Euro Conversion is not expected to have a material adverse effect on the Company s results of operations or financial condition. The Euro Conversion may also have competitive implications for the Company s pricing and marketing strategies, which could be material in nature; however, any such impact is not known at this time.

The Company has begun to analyze which of its internal systems will need to be modified to deal with the Euro Conversion. The Company does not currently expect the cost of such modifications to have a material effect on the Company s results of operations or financial condition. There is no assurance, however, that all problems related to the Euro Conversion will be foreseen and corrected, or that no material disruptions of the Company s business will occur.

Cautionary Factors Relevant to Forward-Looking Information

Certain statements contained in this document, as well as other written and oral statements made from time to time by the Company, are considered forward- looking statements within the meaning of the Private Securities Litigation Reform Act. These statements do not relate to strictly historical or current facts and provide current expectations or forecasts of future events. These include factors that affect all businesses operating in a global market, as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties presently facing the Company include: the ability to implement its plan to increase worldwide manufacturing efficiencies and realize restructuring benefits; economic uncertainty throughout the world; political risks in areas where the company currently does business and where it intends to do business; inflationary pressures; increased competition in the Company s businesses from competitors that have substantial financial resources; soft markets in certain international regions including Asia, Latin America, and Europe; the continuing strength of the dollar, which reduces the translated sales from the Company s products sold in local currency outside the U.S. but manufactured in the U.S.; 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.

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. 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, uncertainties, or potentially inaccurate assumptions.

Item 7a Quantitative and Qualitative Disclosures About Market Risk

Due to the global nature of the its operations, the Company is subject to exposures resulting from changes in foreign exchange rates. 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. A weaker dollar generally has a positive affect.

It is not possible to estimate the full direct and indirect impact of foreign currency exchange rate changes; however, the direct impact on net sales and net earnings can be estimated. In 1999, the stronger U.S. dollar compared to European currencies decreased net sales by $2.9 million and net earnings by $0.7 million. Offsetting this loss was the positive impact of a weaker dollar compared to currencies in Japan, Australia, and Canada. The weaker dollar compared to the currencies of those countries increased translated sales by $1.9 million and net income by $0.8 million. During 1998, the generally stronger dollar reduced translated sales by $3.4 million and net income by $2.1 million.

To offset a portion of the impact of exchange rate changes on net exposed assets in Australia, Canada and Japan, the Company entered into hedging contracts, primarily forward contracts to offset short-term exchange gains and losses. The Company maintains the policy of entering into foreign currency transactions only to the extent that actual exposures exist and does not enter into transactions for speculative purposes. The potential loss in fair value of foreign currency contracts outstanding as of December 31, 1999 from a 10 percent adverse change is not material.

Item 8 Financial Statements and Supplementary Data

Consolidated Statements of Earnings

	Years ended December 31					
	1999 Restated	Percent	1998 Restated	Percent	1997	Percent
	(Dollars in thousands, except per share data)					
Net sales	$ 429,739	100.0	$ 383,765	100.0	$ 372,428	100.0
Less:						
Cost of sales	255,528	59.5	223,369	58.2	217,570	58.4
Selling and administrative expenses	136,076	31.7	125,806	32.8	118,770	31.9
Restructuring charges	6,671	1.5				
Profit from operations	31,464	7.3	34,590	9.0	36,088	9.7
Other income and (expense):						
Net foreign currency transaction gain (loss)	(174)		139		(306)	(.1)
Interest income	1,475	.3	3,771	1.0	4,699	1.2
Interest expense	(2,665)	(.6)	(2,303)	(.6)	(2,021)	(.5)
Miscellaneous income (expense), net	594	.1	125		(830)	(.2)
Total other income (expense)	(770)	(.2)	1,732	.4	1,542	.4
Profit before income taxes	30,694	7.1	36,322	9.4	37,630	10.1

Income tax expense		10,939	2.5		12,713	3.3		13,425	3.6
Net earnings	$	19,755	4.6	$	23,609	6.1	$	24,205	6.5
Basic net earnings per share	$	2.17		$	2.49		$	2.43	
Diluted net earnings per share	$	2.16		$	2.49		$	2.41	
Diluted EPS before restructuring charges	$	2.63		$	2.49		$	2.41	

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	Years ended December 31 1999 Restated	1998 Restated
	(Dollars in thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,928	$ 17,693
Receivables:		
Trade, less allowance for doubtful accounts ($4,293 in 1999 and $2,855 in 1998)	85,200	71,386
Installment accounts receivable, net of deferred income from sales finance charges and less allowance for doubtful accounts ($100 in 1999 and $101 in 1998)	2,090	4,153
Sundry	2,565	1,696
Net receivables	89,855	77,235
Inventories	49,405	48,363
Prepaid expenses	1,694	878
Deferred income taxes, current portion	10,863	8,900
Total current assets	166,745	