TENNANT CO

FORM 10-K
(Annual Report)

Filed 03/05/08 for the Period Ending 12/31/07

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Sector	Capital Goods
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________to ________.

Commission File Number 001-16191

TENNANT COMPANY

(Exact name of registrant as specified in its charter)

Minnesota	**41-0572550**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 763-540-1200

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

Title of each class	Name of exchange on which registered
Common Stock, par value $0.375 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2007, was approximately $678,347,147.

The number of shares outstanding of registrant's only class of common stock on February 27, 2008 was 18,472,448.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2008 annual meeting of shareholders (the "2008 Proxy Statement") are incorporated by reference in Part III.

Tennant Company
Form 10–K
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TENNANT COMPANY
2007
ANNUAL REPORT
Form 10–K

(Pursuant to Securities Exchange Act of 1934)

P ART I

I TEM 1 – Business

General Development of Business

Tennant Company, a Minnesota corporation incorporated in 1909, is a world leader in designing, manufacturing and marketing solutions that help create a cleaner, safer world. The Company's floor maintenance and outdoor cleaning equipment, specialty surface coatings and related products are used to clean and coat floors in factories, office buildings, parking lots and streets, airports, hospitals, schools, warehouses, shopping centers and more. Customers include building service contract cleaners to whom organizations outsource facilities maintenance, as well as end-user businesses, healthcare facilities, schools and local, state and federal governments who handle facilities maintenance themselves. We reach these customers through the industry's largest direct sales and service organization and through a strong and well-supported network of authorized distributors worldwide.

Industry Segments, Foreign and Domestic Operations and Export Sales

The Company, as described under "General Development of Business," has one reportable business segment. The Company sells its products domestically and internationally. Financial information on the Company's geographic areas is provided on page 34 of this Annual Report on Form 10–K. Nearly all of the Company's foreign investments in assets reside within The Netherlands, Australia, the United Kingdom, France, Germany, Canada, Austria, Japan, Spain, Brazil and China.

Principal Products, Markets and Distribution

Products consisting mainly of motorized cleaning equipment and related products, including specialty surface coatings and preservation products, are sold through direct and distribution channels in various regions around the world. In North America, products are sold through a direct sales organization and independent distributors; in Australia, Japan and 15 countries principally in Western Europe, products are sold primarily through direct sales organizations; and in more than 80 other countries Tennant relies on a broad network of independent distributors.

Raw Materials and Purchased Components

The Company has not experienced any significant or unusual problems in the availability of raw materials or other product components. The Company has sole-source vendors for certain components. A disruption in supply from such vendors may disrupt 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. In addition, we offer annual distributor rebates and sales commissions which tend to drive sales in the fourth quarter.

Working Capital

We fund our operations through a combination of cash and cash equivalents and cash flows from operations. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to subsidiaries as needed. In addition, our credit facilities are available for additional working capital needs or investment opportunities.

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. Our customer base includes several governmental entities; however, these customers generally have terms similar to our other customers.

Backlog

The Company processes orders within two weeks on average. Therefore, no significant backlogs existed at December 31, 2007 or 2006.

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. Significant competitors exist in all key geographic regions. However, the key competitors vary by region. The Company believes its market share exceeds that of several competitors in certain areas. The Company competes primarily on the basis of offering a broad line of high-quality, innovative products supported by an extensive sales and service network in major markets.

Product Research and Development

The Company strives to be the industry leader in innovation and is committed to investing in research and development. The Company believes that it regularly commits an above-average amount of resources to product research and development. In 2007, 2006 and 2005, respectively, the Company spent $23.9 million, $21.9 million and $19.4 million on research and development activities relating to the development of new products and technologies and improvements of existing product design or manufacturing processes.

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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 the Company does not expect it to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

Employment

The Company employed 2,774 people in worldwide operations as of December 31, 2007.

Access to Information on the Company's Website

The Company makes available free of charge, through the Company's website at www.tennantco.com, its Annual Reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Exchange Act as soon as reasonably practicable after such reports are filed electronically with, or furnished to, the Securities and Exchange Commission ("SEC").

I TEM 1A – Risk Factors

The following are significant factors known to us that could materially adversely affect our business, financial condition, or operating results. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

If the United States economy or global economies slow down, the demand for our products could decrease and our revenue may be adversely affected.

The demand for our products and services is dependent upon the overall success and general economic well-being of the U.S. and the foreign economies in which we conduct business. We are primarily susceptible to economic downturns in North America, Europe, the Middle East, Asia, Japan, Australia and Latin America. The global economy affects overall capital spending by businesses and consumers. An economic slowdown in the U.S. or abroad could result in a decrease in actual and projected spending on capital equipment. If, as a result of general economic uncertainty or otherwise, companies reduce their spending levels, such a decrease in spending could substantially reduce demand for our products and services and negatively impact our operating results.

We may encounter difficulties obtaining raw materials or component parts needed to manufacture our products and the prices of these materials are subject to fluctuation.

Raw materials and commodity-based components . As a manufacturer, our sales and profitability are dependent upon availability and cost of raw materials, which are subject to price fluctuations, and the ability to control or pass on an increase in costs of raw materials to our customers. We purchase raw materials, such as steel, rubber, lead and petroleum-based resins and components containing these commodities for use in our manufacturing operations. The availability of these raw materials is subject to market forces beyond our control. Under normal circumstances, these materials are generally available on the open market from a variety of sources. From time to time, however, the prices and availability of these raw materials and components fluctuate due to global market demands, which could impair our ability to procure necessary materials, or increase the cost of such materials. Inflationary and other increases in the costs of these raw materials and components have occurred in the past and may recur from time to time, and our performance depends in part on our ability to incorporate changes in costs into the selling prices for our products.

Given the worldwide lead market conditions, we have experienced cost increases in our lead-based component parts. In addition, our freight costs associated with shipping and receiving product and sales and service vehicle fuel costs are impacted by fluctuations in the cost of oil and gas. We do not use derivative commodity instruments to manage our exposure to changes in commodity prices such as steel, oil, gas and lead. Any fluctuations in the supply or prices for any of these commodities could have a material adverse affect on our profit margins and financial condition.

Single-source supply . We depend on many suppliers for the necessary parts to manufacture our products. However, there are some components that are purchased from a single supplier due to price, quality, technology or other business constraints. These components cannot be quickly or inexpensively re-sourced to another supplier. If we are unable to purchase on acceptable terms or experience significant delays or quality issues in the delivery of these necessary parts or components from a particular vendor and we needed to locate a new supplier for these parts and components, shipments for products impacted could be delayed which could have a material adverse affect on our business, financial condition and results of operations.

We may consider acquisition of suitable candidates to accomplish our growth objectives. We may not be able to successfully integrate the businesses we acquire.

We may consider, as part of our growth strategy, supplementing our organic growth through acquisitions of complementary businesses or products. We have engaged in acquisitions in the past and believe future acquisitions may provide meaningful opportunities to grow our business and improve profitability. Acquisitions allow us to enhance the breadth of our product offerings and expand the market and geographic participation of our products and services. However, our success in growing by acquisition is dependent upon identifying businesses to acquire and integrating the newly acquired businesses with our existing businesses. We may incur difficulties in the realignment and integration of business activities when assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings, revenue synergies, and profit margins. Acquired businesses may not achieve the levels of revenue, profit or productivity or otherwise perform as expected. We are also subject to incurring unanticipated liabilities and contingencies associated with the acquired entity that are not identified or fully understood in the due diligence process. Current or future acquisitions may not be successful or accretive to earnings if the acquired businesses do not achieve expected financial results. In addition, we may record significant goodwill or other intangible assets in connection with an acquisition. We are required to perform impairment tests at least annually and whenever events indicate that the carrying value may not be recoverable from future cash flows. If we determine that any intangible asset values need to be written down to their fair values, this could result in a charge that may be material to our operating results and financial condition.

Our strategic plans include international expansion. Our failure to meet the challenges associated with international expansion could adversely impact our ability to grow our business and our financial condition.

We plan to continue international expansion of our sales and manufacturing operations, which will require significant management attention and financial resources. There are certain risks inherent in doing business in international markets. We must ensure compliance with the laws and regulations of foreign governmental and regulatory authorities of each country in which we conduct business. Our international operations could be adversely affected by changes in political and economic conditions, trade protection measures, restrictions on repatriation of earnings, or changes in regulatory requirements that restrict the sales of our products or increase our costs. We may encounter difficulties in collecting receivables, enforcing intellectual property rights, staffing and managing new foreign operations, achieving cost-reduction strategies because of, among other things, competitive conditions overseas, product acceptance in already established domestic markets, or certain cultural barriers. We may experience increased infrastructure costs including costs for legal, tax, accounting and information technology services. Failure of our products to succeed in the global marketplace could reduce our revenues and margins, thereby adversely impacting our financial condition, results of operations, and timing of our planned business expansion.

Our inability to achieve certain planned operational efficiencies may adversely affect our strategic objectives, profit margins, and our earnings growth.

As a manufacturing and service company operating with facilities, inventories, and workforce, our operations have been, and may continue to be, adversely affected by our ability to control costs and achieve planned operational efficiencies. We continuously endeavor to lower our cost structure through various savings measures, including lower-cost sourcing alternatives and consolidation of higher-cost manufacturing facilities. In support of this effort, we launched several corporate priorities in 2006 that focus on leveraging our global cost structure through consolidating our global manufacturing footprint, expansion in China, global sourcing, creating a lean enterprise and continuous process improvement. In connection with the manufacturing footprint consolidation, we completed our Minnesota plant consolidation and sold our Maple Grove, Minnesota facility in 2007. Through these initiatives, we expect to reduce product costs and improve operating efficiencies over the next three to five years. Our operating results may be adversely affected if we are unable to find lower-cost sources for our materials, shift production from higher-cost facilities, or cost-effectively manage our existing manufacturing facilities.

We plan to continue our efforts to improve our performance through the adoption of lean manufacturing principles and focus on continous process improvement. It is our goal to become more efficient, better employ automation and thereby lower our operating costs. These initiatives will take some time to fully implement. Additionally, we may be unable to effectively complete the implementation of these initiatives or the impact of the initiatives may be less than expected, which could result in lower-than-expected financial results.

We are subject to risks associated with developing innovative products and technologies, which could delay the timing and success of new product releases.

Our products are sold in competitive markets throughout the world. Competition is based on product features and design, brand recognition, reliability, durability, technology, breadth of product offerings, price, customer relationships, and after-sale service. Although we believe that the performance and price characteristics of our products will provide competitive solutions for our customers' needs, there can be no assurance that our customers will continue to choose our products over products offered by our competitors.

The market for our products is characterized by changing technological and industry standards. Our product lines may be threatened by these new technologies or market demands for competitors' products may reduce the value of our current product lines. Our success is based in part on our ability to develop innovative new products and services and bring them to market more quickly than our competitors. Our ability to compete successfully will depend on our ability to enhance and improve our existing products, to continue to bring innovative products to market in a timely fashion, to adapt our products to the needs and standards of our customers and potential customers, and to continue to improve operating efficiencies and lower manufacturing costs. Product development requires substantial investment by us. If our products, markets and services are not competitive, we may experience a decline in sales, pricing, and market share, which adversely impacts revenues, margin, and the success of our operations.

We may not be able to adequately acquire, retain and protect our proprietary intellectual property rights which could put us at a competitive disadvantage.

We rely on trade secret, copyright, trademark and patent laws and contractual protections to protect our proprietary technology and other proprietary rights. Our competitors may attempt to copy our products or gain access to our trade secrets. Notwithstanding the precautions we take to protect our intellectual property rights, it is possible that third parties may illegally copy or otherwise obtain and use our proprietary technology without our consent. Any litigation concerning infringement could result in substantial cost to us and diversions of our resources, either of which could adversely affect our business. In some cases, there may be no effective legal recourse against duplication of products or services by competitors. Intellectual property rights in foreign jurisdictions may be limited or unavailable. Patents of third parties also have an important bearing on our ability to offer some of our products and services. Our competitors may obtain patents related to the types of products and services we offer or plan to offer. Any infringement by us on intellectual property rights of others could result in litigation and adversely affect our ability to continue to provide, or could increase the cost of providing, our products and services.

Our ability to effectively operate our Company could be adversely affected if we are unable to attract and retain key personnel and other highly skilled employees.

Our continued success will depend on, among other things, the skills and services of our executive officers and other key personnel. Our ability to attract and retain other highly qualified managerial, technical, manufacturing, research, sales and marketing personnel also impacts our ability to effectively operate our Company. Our senior management are employed at will and we cannot assure you that we will be able to attract and hire suitable replacements for any of our key employees. We believe the loss of a key executive officer or other key employee could have an adverse affect on our business, results of operations and financial condition.

We are subject to risks associated with changes in foreign currency exchange rates.

We are exposed to market risks from changes in foreign currency exchange rates. As a result of our increasing international presence, we have experienced an increase in transactions and balances denominated in currencies other than the U.S. dollar. There is a direct financial impact of foreign currency exchange when translating profits from local currencies to U.S. dollars. Our primary exposure is to transactions denominated in the Euro, Australian and Canadian dollar, British pound, Japanese yen and Chinese yuan. Any significant change in the value of the currencies of the countries in which we do business against the U.S. dollar could affect our ability to sell products competitively and control our cost structure. Because a substantial portion of our products are manufactured in the United States, a stronger U.S. dollar generally has a negative impact on results from operations outside the United States while a weaker dollar generally has a positive effect. Unfavorable changes in exchange rates between the U.S. dollar and these currencies impact the cost of our products sold internationally and could significantly reduce our reported sales and earnings. We periodically enter into contracts, principally forward exchange contracts, to protect the value of certain of our 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. However, all foreign currency exposures cannot be fully hedged, and there can be no assurances that our future results of operations will not be adversely affected by currency fluctuation.

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We are subject to product liability claims and product quality issues that could adversely affect our operating results or financial condition.

Our business exposes us to potential product liability risks that are inherent in the design, manufacturing and distribution of our products. If product liability claims are brought against us for damages that are in excess of our insurance coverage or for uninsured liabilities and it is determined we are liable, our business could be adversely impacted. If products are used incorrectly by our customers, injury may result leading to product liability claims against us. Any losses we suffer from any liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may have a negative impact on our business and operating results. Some of our products or product improvements may have defects or risks that we have not yet identified that may give rise to product quality issues, liability and warranty claims. We could experience a material design or manufacturing failure in our products, a quality system failure, other safety issues, or heightened regulatory scrutiny that could warrant a recall of some of our products. Any unforeseen product quality problems could result in loss of market share, reduced sales, and higher warranty expense.

Environmental compliance costs and liabilities could increase our expenses and adversely affect our financial condition.

Our manufacturing operations and our past and present ownership and operations of real property are subject to extensive and changing federal, state, and local environmental laws and regulations, as well as those of other countries pertaining to the handling or discharge of hazardous materials into the environment. We must conform our operations and properties to these laws and adapt to regulatory requirements in the countries in which we operate as these requirements change. We expect to continue to incur costs to comply with environmental laws and regulations. We may also be identified as a responsible party and be subject to liability relating to any investigation and clean-up of current or former properties that have been used for industrial purposes or the generation of hazardous substances in our operations. These laws and regulations can also result in the imposition of substantial fines and sanctions for violations, and could require the installation of costly pollution control equipment or operational changes to limit pollution emissions or decrease the likelihood of accidental hazardous substance releases. Imposition of new environmental laws and regulations, stricter enforcement of existing laws and regulations, or discovery of previously unknown contamination could require us to incur costs, or become the basis for new or increased liabilities, that could have a material adverse affect on our business, financial condition, or results of operations.

I TEM 1B – Unresolved Staff Comments

None.

I TEM 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, Uden, Northampton, United Kingdom and Shanghai, China. Sales offices, warehouse and storage facilities are leased in various locations in North America, Europe, Japan, Asia, Australia and Latin America. The Company’s facilities are in good operating condition, suitable for their respective uses and adequate for current needs. Further information regarding the Company’s property and lease commitments is included on pages 13 and 30 of this Annual Report on Form 10-K.

I TEM 3 – Legal Proceedings

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

I TEM 4 – Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

P ART II

I TEM 5 – Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

STOCK MARKET INFORMATION – Tennant common stock is traded on the New York Stock Exchange, under the ticker symbol TNC. As of January 31, 2008, there were approximately 600 shareholders of record and 7,700 beneficial shareholders. The common stock price was $32.99 per share on January 31, 2008.

STOCK SPLIT – On April 26, 2006, the Board of Directors declared a two-for-one common stock split effective July 26, 2006. As a result of the stock split, shareholders of record received one additional common share for every share held at the close of business on July 12, 2006. All share and per share data has been retroactively adjusted to reflect the stock split, except for the Consolidated Statements of Shareholders’ Equity and Comprehensive Income in Item 8 of this Annual Report on Form 10-K.

QUARTERLY PRICE RANGE – The accompanying chart shows the split-adjusted quarterly price range of the Company’s shares over the past two years:

	First	Second	Third	Fourth
2006	$ 21.71-27.75	$ 23.38-27.59	$ 22.21-27.63	$ 24.00-29.88
2007	$ 27.84-32.82	$ 31.16-37.31	$ 35.40-49.32	$ 41.26-48.40

DIVIDEND INFORMATION – Cash dividends on Tennant’s common stock have been paid for 63 consecutive years. Tennant’s cash dividend payout increased for the 36 th consecutive year to $0.48 per share in 2007, an increase of $0.02 per share over 2006. Dividends generally are declared each quarter. The Company announced a cash dividend of $0.13 per share payable March 17, 2008, to shareholders of record on February 29, 2008. Following are the anticipated remaining record dates for 2008: May 30, 2008, August 29, 2008 and November 28, 2008.

DIVIDEND REINVESTMENT OR DIRECT DEPOSIT OPTIONS – Shareholders have the option of reinvesting quarterly dividends in additional shares of Company stock or having dividends deposited directly to a bank account. The Transfer Agent should be contacted for additional information.

TRANSFER AGENT AND REGISTRAR – Shareholders with a change of address or questions about their account may contact:

Wells Fargo Bank, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075–0738
651-450-4064, 1-800-468-9716

SHARE REPURCHASES – In November 2004, Tennant Company’s Board of Directors authorized the repurchase of 400,000 shares of our common stock under the share repurchase program approved by the Board of Directors in May 2001. In August 2006, the Board of Directors approved the adjustment of the number of shares then available for repurchase to reflect the impact of the two-for-one stock split. On May 3, 2007, the Board of Directors authorized the repurchase of 1,000,000 additional shares of our common stock. Share repurchases are made from time to time in the open market or through privately negotiated transactions, primarily to offset the dilutive effect of shares issued through our stock-based compensation programs.

For the Quarter Ended 12/31/2007	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased
October 1–31, 2007	70,200	$ 45.74	70,200	853,974
November 1–30, 2007	65,012	45.68	64,700	789,274
December 1–31, 2007	51,618	44.83	50,300	738,974

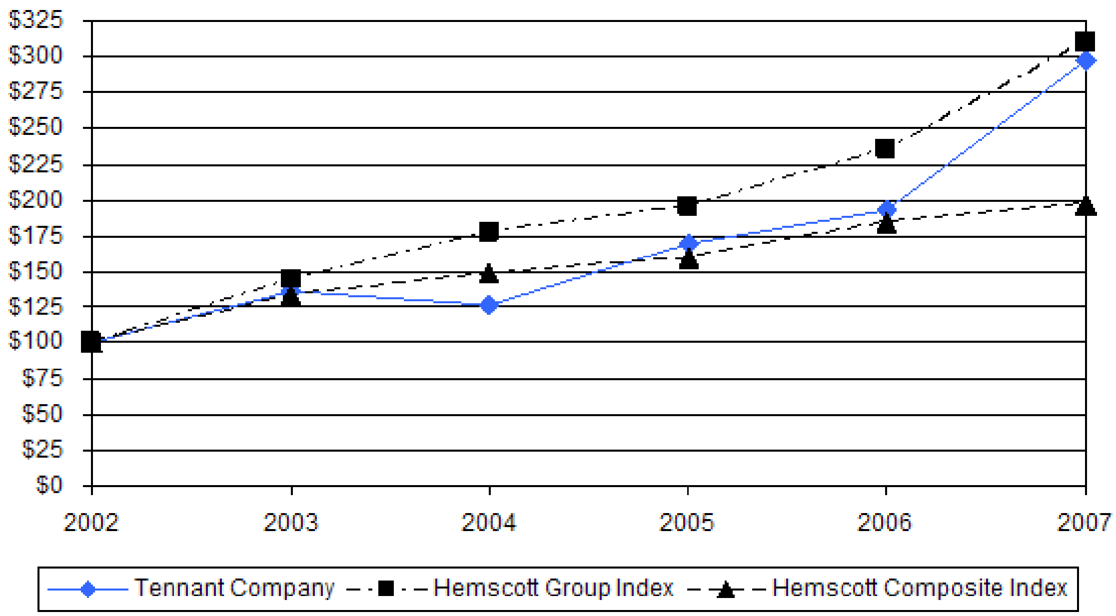
Total	186,830	$	45.47	185,200	738,974

(1) Includes 1,630 shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by employees who exercised stock options or restricted stock under employee stock compensation plans.

COMPARATIVE STOCK PERFORMANCE – The following graph compares the cumulative total shareholder return on the Common Stock of the Company for the last five fiscal years with the cumulative total return over the same period on the Overall Stock Market Performance Index (Hemscott Composite Index) and the Industry Index (Hemscott Group Index 62 – Industrial Goods, Manufacturing).

This assumes an investment of $100 in the Company's Common Stock, the Hemscott Composite Index and the Hemscott Group Index on December 31, 2002, with reinvestment of all dividends.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG TENNANT COMPANY
HEMSCOTT COMPOSITE INDEX AND HEMSCOTT GROUP INDEX



	2002	2003	2004	2005	2006	2007
Tennant Company	100.00	135.87	126.47	169.55	192.53	297.88
Hemscott Group Index	100.00	144.16	177.41	195.37	235.18	309.24
Hemscott Composite Index	100.00	133.13	149.33	159.90	185.09	196.97

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ITEM 6 – Selected Financial Data
(In thousands, except shares and per share data)

Years Ended December 31		2007	2006	2005	2004	2003
Year End Financial Results						
Net sales	$	**664,218**	598,981	552,908	507,785	453,962(3)
Cost of sales	$	**385,234**	347,402	318,044	305,277	272,285(3)
Gross margin –%		**42.0**	42.0	42.5	39.9	40.0
Research and development expenses	$	**23,869**	21,939	19,351	17,198	16,696
% of net sales		**3.6**	3.7	3.5	3.4	3.7
Selling and administrative expenses	$	**200,270**(1)	189,676	180,676	164,003(2)	142,306

% of net sales		**30.2**	31.7	32.7	32.3	31.3
Profit from operations	$	**54,845**(1)	39,964	34,837	21,307(2)	22,675(3)
% of net sales		**8.3**	6.7	6.3	4.2	5.0
Other income (expense)	$	**2,867**(1)	3,338	157	72	(192)
Income tax expense	$	**17,845**(1)	13,493	12,058	7,999	8,328
% of earnings before income taxes		**30.9**	31.2	34.5	37.4	37.0
Net earnings	$	**39,867**(1)	29,809	22,936	13,380(2)	14,155(3)
% of net sales		**6.0**	5.0	4.2	2.6	3.1
Return on beginning shareholders' equity –%		**17.4**	15.4	13.2	8.1	9.2
Per Share Data						
Basic net earnings	$	**2.14**(1)	1.61	1.27	0.74(2)	0.79(3)
Diluted net earnings	$	**2.08**(1)	1.57	1.26	0.73(2)	0.78(3)
Cash dividends	$	**0.48**	0.46	0.44	0.43	0.42
Shareholders' equity (ending)	$	**13.65**	12.25	10.50	9.67	9.21
Year-End Financial Position						
Cash and cash equivalents	$	**33,092**	31,021	41,287	16,837	24,587
Total current assets	$	**240,724**	235,404	211,601	188,631	176,370
Property, plant and equipment, net	$	**96,551**	82,835	72,588	69,063	61,121
Total assets	$	**382,070**	354,250	311,472	285,792	258,873
Current liabilities excluding current debt	$	**94,546**	92,992	86,733	74,179	58,477
Current ratio excluding current debt		**2.5**	2.5	2.4	2.5	3.0
Long-term liabilities excluding long-term debt	$	**30,496**	27,875	27,797	28,876	27,455
Debt:						
Current	$	**2,127**	1,812	2,232	7,674	1,030
Long-term	$	**2,470**	1,907	1,608	1,029	6,295
Total debt as% of total capital		**1.8**	1.6	2.0	4.8	4.2
Shareholders' equity	$	**252,431**	229,664	193,102	174,034	165,616
Cash Flow Increase (Decrease)						
Related to operating activities	$	**39,640**	40,319	44,237	36,697	30,470
Related to investing activities	$	**(10,357)**	(45,959)	(11,781)	(32,062)	(6,391)
Related to financing activities	$	**(26,679)**	(4,876)	(8,111)	(12,130)	(15,780)
Other Data						
Interest income	$	**1,854**	2,698	1,691	1,479	1,441
Interest expense	$	**898**	737	564	1,147	833
Depreciation and amortization expense	$	**18,054**	14,321	13,039	12,972	13,879
Acquisition of property, plant and equipment	$	**28,720**	23,872	20,880	21,089	10,483
Proceeds from disposals of property, plant and equipment	$	**7,254**	632	3,049	1,568	4,092
Number of employees at year-end		**2,774**	2,653	2,496	2,474	2,351
Diluted average shares outstanding		**19,146,000**	18,989,000	18,210,000	18,300,000	18,128,000
Closing share price at year-end	$	**44.29**	29.00	26.00	19.83	21.65
Common stock price range during year	$	**27.84-49.32**	21.71–29.88	17.39-26.23	18.25-22.17	14.50-22.90
Closing price/earnings ratio		**21.3**	18.5	20.6	27.2	27.8

(1) 2007 includes restructuring charge and associated expenses of $2.5 million pretax ($1.7 million aftertax or $0.09 per diluted share), a one-time tax benefit relating to a reduction in valuation reserves, net of the impact of tax rate changes in foreign jurisdictions on deferred taxes of $3.6 million aftertax or $0.19 per diluted share and gain on sale of the Maple Grove, Minnesota facility of $6.0 million pretax ($3.7 million aftertax or $0.19 per diluted share). (2) 2004 includes workforce reduction expenses of $2,301 pretax ($1,458 aftertax or $0.08 per diluted share). (3) 2003 includes sales of $6,430, gross profit of $2,917 and aftertax earnings of $1,796 ($0.10 per diluted share) related to the recognition of previously deferred revenue resulting from the amendment of a contract and pretax charges of $1,960 ($1,215 net of taxes or $0.07 per diluted share) related to the dissolution of a joint venture.

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ITEM 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Tennant Company is a world leader in designing, manufacturing and marketing solutions that help create a cleaner, safer world. We provide equipment, parts and consumables and specialty surface coatings to contract cleaners, end-user businesses, healthcare facilities, schools and local, state and federal governments. We sell our products through our direct sales and service organization and a network of authorized distributors worldwide. Geographically, our customers are primarily located in North America, Europe, Asia, Japan, Australia and Latin America. We strive to be an innovator in our industry through our commitment to understanding our customers' needs and using our expertise to create innovative solutions.

Net earnings for 2007 were up 33.7% to $39.9 million, or $2.08 per diluted share. Record 2007 revenues of $664.2 million, up 10.9% over 2006, and efficiency gains drove operating profit improvement of 22.3% to $48.9 million, excluding the gain on the sale of our Maple Grove facility of $6.0 million pretax ($3.7 million after tax or $0.19 per diluted share). 2007 results also benefited from a lower effective tax rate resulting from net one-time tax benefits. These benefits were partially offset by the charge associated with the third quarter restructuring action.

As previously disclosed, we completed the anticipated sale of our Maple Grove, Minnesota facility during the fourth quarter of 2007. All operations previously residing in this facility were integrated into our other North American facilities to enable greater efficiencies in conjunction with our manufacturing footprint consolidation initiative.

A net tax benefit of $3.6 million, or $0.19 per diluted share was recognized in the third quarter of 2007. The benefit related to the reversal of a valuation allowance on foreign net operating loss carryforwards. This benefit was partially offset by the impact of tax rate changes in foreign jurisdictions on deferred taxes.

Management approved a restructuring action during September 2007 in an effort to better match skill sets and talent in evolving functional areas that are critical to successful execution of strategic priorities as discussed in Note 2 to the Consolidated Financial Statements. These actions impacted approximately 60 positions within a workforce of 2,700, or about two percent of the employee base. The restructuring action resulted in the recognition of a pretax charge of $2.5 million or $0.09 per diluted share in 2007. These costs consist primarily of severance, outplacement benefits and recruiting expenses and are included within selling and administrative expenses in the Consolidated Statements of Earnings. These actions were substantially complete as of December 31, 2007.

During 2006, we launched initiatives aimed at consolidating our global footprint, expanding our presence in China and establishing global sourcing capabilities. Through these initiatives, we expect to broaden our global sourcing capabilities, reduce product costs and improve operating efficiencies over the next three to five years.

During 2007, in support of these strategic initiatives, we incurred approximately $4.2 million of costs. As we exit 2007, our North American manufacturing footprint consolidation initiative is complete. Our China facility is manufacturing two products for local and worldwide distribution, with another product platform ready for production in early 2008. Our global sourcing initiative contributed over $4.0 million in savings during 2007, allowing us to maintain our gross margin in 2007 despite rising material costs and investment in these initiatives. We also successfully doubled the percentage of materials and components sourced from low-cost regions from approximately 7-8% in 2006 to 14% in 2007.

Tennant continues to invest in innovative product development, with 3.6% of net sales spent on research and development in 2007. We launched five new products which targeted all of our markets during 2007. Sales of new products introduced in the past three years generated approximately 35% our equipment sales during 2007, exceeding our target of 30%.

In October 2007, we introduced a breakthrough new cleaning technology, *ech $_2$o* ™ that cleans using electrically activated tap water. We will begin global shipments of machines equipped with the *ech $_2$o* technology, which will initially be available on six walk-behind scrubbers, during the second quarter of 2008. In addition, we expect to launch 6 to 7 new products in 2008 that will take us into new market space and further enhance our product portfolio.

We ended 2007 with a debt-to-capital ratio of 1.8% and $33.1 million in cash and cash equivalents. We generated operating cash flows of $39.6 million during 2007. Shareholders’ equity increased by 9.9% to $252.4 million, as compared to 2006. During 2007, we repurchased $29.0 million in Tennant stock under our share repurchase program.

Current challenges facing Tennant include cost increases for raw materials and other purchased components due to rising commodity costs which are mitigated by selling price increases and cost reduction activities. We expect to continue to see volatility in commodity prices driving increases in our cost of commodity-based components in 2008.

The relative strength or weakness of the global economies in 2008 may also impact demand for our products and services in the markets we serve. Tennant achieved solid performance during 2007 despite a softening in North American macro-economic indicators during the year. However, as both global and regional economies are unpredictable and somewhat volatile, we continue to monitor macro-economic indicators closely.

Lastly, our results continue to be impacted by changes in value of the U.S. dollar primarily against the Euro, the Australian and Canadian dollars, the British pound, the Japanese yen and the Chinese yuan. To the extent the applicable exchange rates weaken relative to the U.S. dollar, the related direct foreign currency exchange effect would have an unfavorable impact on our 2008 results. If the applicable exchange rates strengthen relative to the U.S. dollar, our results would be favorably impacted.

Historical Results

The following table compares the historical results of operations for the years ended December 31, 2007, 2006 and 2005 in dollars and as a percentage of net sales (in thousands, except per share amounts):

	2007	**%**	**2006**	**%**	**2005**	**%**

Net sales	**$**	**664,218**	**100.0**	$	598,981	100.0	$	552,908	100.0
Cost of sales		**385,234**	**58.0**		347,402	58.0		318,044	57.5
Gross profit		**278,984**	**42.0**		251,579	42.0		234,864	42.5
Research and development expenses		**23,869**	**3.6**		21,939	3.7		19,351	3.5
Selling and administrative expenses		**206,242**	**31.1**		189,676	31.7		180,676	32.7
Gain on sale of facility		**(5,972)**	**0.9**		—	—		—	—
Profit from operations		**54,845**	**8.3**		39,964	6.7		34,837	6.3
Interest income		**1,854**	**0.3**		2,698	0.5		1,691	0.3
Interest expense		**(898)**	**0.1**		(737)	0.1		(564)	0.1
Interest income, net		**956**	**0.1**		1,961	0.3		1,127	0.2
Net foreign currency transaction gains		**39**	**—**		516	0.1		8	—
ESOP income		**2,568**	**0.4**		1,205	0.2		387	0.1
Other expense, net		**(696)**	**0.1**		(344)	0.1		(1,365)	0.2
Total other income (expense)		**1,911**	**0.3**		1,377	0.2		(970)	0.2
Profit before income taxes		**57,712**	**8.7**		43,302	7.2		34,994	6.3
Income tax expense		**17,845**	**2.7**		13,493	2.3		12,058	2.2
Net earnings	**$**	**39,867**	**6.0**	$	29,809	5.0	$	22,936	4.2
Earnings per diluted share	**$**	**2.08**		$	1.57		$	1.26	

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Consolidated Financial Results

In 2007, net earnings increased 33.7% to $39.9 million or $2.08 per diluted share. Net earnings were impacted by:

- Growth in net sales of 10.9% to $664.2 million, driven by increases in all geographic regions (North America, Europe and Other International) and all product categories (equipment; service, parts and consumables; and specialty surface coatings).
- Holding margins flat with 2006 at 42.0%, despite higher material costs and investments in our footprint consolidation and China expansion initiatives.
- A decrease in S&A expenses as a percentage of net sales of 0.6 percentage points as growth in net sales outpaced increases in S&A expenses, despite the inclusion of a $2.5 million restructuring charge and higher costs in support of strategic initiatives and other cost increases.
- A gain of $6.0 million associated with the sale of our Maple Grove, Minnesota facility.
- A decrease in interest income, net of $1.0 million primarily reflecting a lower average interest rate and a lower level of cash and cash equivalents and short-term investments. In addition, Tennant contributed $0.5 million to the Tennant Foundation, increasing other expense, net. Partially offsetting these decreases is an increase in ESOP income due to a higher average stock price.
- 2007 diluted earnings per share were $1.79 excluding the one-time gain from the sale of the Maple Grove, Minnesota facility of $0.19, the restructuring charge of $0.09, and the one-time net tax benefit of $0.19.

In 2006, net earnings increased 30.0% to $29.8 million, or $1.57 per diluted share. Net earnings were impacted by:

- Growth in net sales of 8.3% to $599.0 million, driven by increases in all geographic regions (North America, Europe and Other International) and all product categories (equipment; service, parts and consumables; and specialty surface coatings).

- A gross profit margin decrease of 0.5 percentage points to 42.0% as price increases taken earlier in the year and cost reductions were not enough to offset higher material costs and expenses associated with the startup of our China facility and our manufacturing footprint consolidation.

- A decrease in S&A expenses as a percentage of net sales of 1.0 percentage point as growth in net sales outpaced increases in S&A expenses, despite higher costs for strategic initiatives, stock option expense associated with the adoption of SFAS No. 123, “Share Based Payment–Revised 2004” (“SFAS No. 123(R)”) and other cost increases.

- An increase in interest income and other income, net of $3.2 million primarily due to increased interest and ESOP income. In addition, Tennant’s contribution of $0.8 million to the Tennant Foundation in 2005 was not repeated in 2006.

- A decrease in the effective tax rate of 3.3 percentage points to 31.2%, substantially related to a refund from a state protective tax claim and the release of tax reserves accrued in prior years.

We use Economic Profit as a key indicator of financial performance and the primary metric for performance-based incentives. Economic Profit is based on our net operating profit after taxes less a charge for the net assets used in the business. The key drivers of net operating profit we focus on include net sales, gross margin and operating expenses. The key drivers we focus on to measure how effectively we utilize net assets in the business include “Accounts Receivable Days Sales Outstanding” (DSO), “Days Inventory on Hand” (DIOH) and capital expenditures. These key drivers are discussed in greater depth throughout Management’s Discussion and Analysis.

Net Sales

In 2007, consolidated net sales of $664.2 million increased 10.9% from 2006. Consolidated net sales were $599.0 million in 2006, an increase of 8.3% from 2005. In 2007, growth was driven by increases in all geographic regions and all product categories. Growth in equipment sales was attributable to volume growth as well as price increases in all geographies. Organic volume growth in service, parts and consumables also contributed to the overall increase. Acquisitions contributed approximately $8.9 million, or approximately 1.5%, to net sales in 2007. Acquisitions contributed approximately $3.6 million, or approximately 0.6%, to net sales in 2006. Positive direct foreign currency exchange fluctuations increased net sales by approximately 3% and 1% in 2007 and 2006, respectively.

The following table sets forth for the years indicated net sales by geography and the related percent change from the prior year (in thousands):

	2007	%	2006	%	2005	%
North America	**$ 417,757**	**6.8**	$ 391,309	5.7	$ 370,142	8.3
Europe	**172,708**	**17.0**	147,657	16.3	126,913	10.4
Other International	**73,753**	**22.9**	60,015	7.5	55,853	9.6
Total	**$ 664,218**	**10.9**	$ 598,981	8.3	$ 552,908	8.9

North America – In 2007, North American net sales increased 6.8% to $417.8 million compared with $391.3 million in 2006. The primary drivers of the increase in net sales were price increases in all product categories and an increase in equipment volume within all sales channels. Shipment of several large non-recurring orders, primarily to national account customers, and continued success with new products were significant contributors to the growth in equipment volume in North America in 2007. Organic volume growth in service, parts and consumables sales also contributed to the increase.

In 2006, North American net sales increased 5.7% to $391.3 million compared with $370.1 million in 2005. Growth in net sales was driven by volume increases in all product categories and price increases. Organic growth accounted for the volume increases in service, parts and consumables sales, while the volume growth in equipment sales was primarily driven by the continued success of new products. Growth in specialty surface coatings also contributed to the increase in North America net sales as compared to 2005.

Europe – European net sales in 2007 increased 17.0% to $172.7 million compared to 2006 net sales of $147.7 million. Positive direct foreign currency exchange effects increased European net sales by approximately 10% in 2007. Our Hofmans and Floorep acquisitions contributed $7.4 million, or approximately 5% to Europe’s 2007 net sales. Europe’s organic base was essentially flat in 2007 when compared to 2006. Shipment of a large non-recurring order in 2006 for which a similar shipment did not occur in 2007 and lower sales of equipment in the United Kingdom offset volume growth from our Hofmans line of outdoor products during the second half of 2007 and benefits from price increases.

European net sales in 2006 increased 16.3% to $147.7 million compared to 2005 net sales of $126.9 million. Growth in net sales was driven by increased demand in certain regions and new product sales as well as price increases. The acquisition of Hofmans in July 2006 contributed $3.6 million to Europe’s 2006 sales growth. Organic volume growth in service, parts and consumables also contributed to the overall increase in net sales. Positive direct foreign currency exchange effects increased European net sales by approximately 2% in 2006.

Other International – Other International net sales in 2007 increased 22.9% to $73.8 million over 2006 net sales of $60.0 million.

Growth in net sales was primarily driven by organic growth, resulting in part from expanded market coverage in Brazil and China as well as volume growth in Australia, Mexico and the Middle East. Price increases also contributed to the 2007 growth in net sales. Positive direct foreign currency exchange effects increased net sales in other international markets by approximately 4% in 2007.

Other International net sales in 2006 increased 7.5% to $60.0 million over 2005 net sales of $55.9 million. Growth in net sales was primarily driven by price increases, new product sales and expanded market coverage in China. Negative direct foreign currency exchange effects decreased net sales in other international markets by approximately 1% in 2006.

Gross Profit

Gross profit margin was 42.0% in 2007, the same as in 2006. Price increases and cost reduction actions in 2007 nearly offset higher costs for raw materials and purchased components such as the high battery costs experienced during the year driven by increases in the cost of lead.

We implemented a selling price surcharge during the fourth quarter on certain products including batteries and battery-operated equipment in North America. Price increases on similar products in Europe were implemented during the third quarter. The benefits from our global sourcing initiative along with these pricing actions allowed us to nearly fully mitigate the impact of rising material costs during 2007.

Gross margins in 2007 were also impacted by positive direct foreign currency exchange effects and a favorable mix of products sold, which offset costs associated with our manufacturing footprint consolidation, China expansion and the integration of the Hofmans acquisition.

Gross profit margin declined 0.5 percentage points to 42.0% in 2006 compared to 2005. Price increases taken earlier in the year and manufacturing cost reduction actions were not enough to offset higher material costs and expenses associated with the startup of our China facility and our manufacturing footprint consolidation.

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

Operating Expenses

Research and Development Expenses – Research and development expenses increased $1.9 million, or 8.8% in 2007 compared to 2006, and decreased 0.1 percentage points to 3.6% as a percentage of net sales in 2007. Research and development expenses increased $2.6 million, or 13.4%, in 2006 compared to 2005, and increased 0.2 percentage points to 3.7% as a percentage of net sales in 2006.

We strive to be the industry leader in innovation and are committed to investing in research and development. We expect to maintain our spending on research and development at 3% to 4% of net sales annually in support of this commitment.

Selling and Administrative Expenses – S&A expenses increased by $16.6 million, or 8.7%, in 2007 compared to 2006. S&A expenses included a $2.5 million charge for a restructuring action approved by management during the third quarter as discussed in Note 2 to the Consolidated Financial Statements. The charge consisted primarily of severance and outplacement benefits. The impact of foreign currency translation on S&A expenses was approximately $6.0 million in 2007. The remaining approximate 4% increase in S&A expenses was due in part to investments associated with expanding our international market coverage, the inclusion of expenses of acquired operations and recruiting expenses associated with filling restructured positions and other openings. Increased bad debt expense, benefit costs and depreciation expense also contributed to the increase in S&A expenses in comparison to 2006. Partially offsetting these increases was a decrease in performance-based compensation expenses and a reduction in warranty costs.

As a percentage of net sales, S&A expenses declined 0.6 percentage points to 31.1%, as growth in net sales outpaced increases in S&A expenses, despite the inclusion of the restructuring charge, investments to grow the business and other cost increases.

S&A expenses increased by $9.0 million, or 5.0%, in 2006 compared to 2005. S&A expenses increased in part due to general inflationary cost increases including salaries & wages, medical, travel and fuel costs. Increases in sales incentives and warranty expenses driven primarily by growth in net sales and higher levels of marketing expenses for new product launches also contributed to the increase in S&A expenses over the prior year. Additional costs due to the inclusion of expenses related to the acquired operations of Hofmans, costs to support expansion in China and international growth initiatives further increased our S&A expenses in comparison to 2005. Lastly, 2006 S&A expenses include the impact of recognizing stock option expense associated with the adoption of SFAS No. 123(R). As a percentage of net sales, S&A expenses declined 1.0 percentage point to 31.7%, as growth in net sales outpaced these cost increases.

Gain on Sale of Facility – As discussed above, we completed the anticipated sale of our Maple Grove, Minnesota facility during the fourth quarter of 2007 for a net pretax gain of $6.0 million.

Interest Income, Net

Interest income, net was $1.0 million in 2007, a decrease of $1.0 million from 2006. The decrease was a result of lower interest rates and lower average levels of cash, cash equivalents and short-term investments during 2007 compared to 2006.

Interest income, net was $2.0 million in 2006, an increase of $0.8 million from 2005. The 2006 increase was primarily a result of higher interest rates and higher average levels of cash and cash equivalents invested.

Other Income (Expense), Net

Total other income increased $0.5 million between 2007 and 2006.

Net foreign currency exchange gains decreased $0.5 million between 2007 and 2006 due to fluctuations in foreign currency exchange rates.

ESOP income increased $1.4 million between 2007 and 2006 due to a higher average stock price. The Company benefits from ESOP income when the shares held by the Company's ESOP plan are utilized as the basis of those shares is lower than the current average stock price. This benefit will end when we issue the last of the shares held by the ESOP which is anticipated to occur on December 31, 2009.

The change in other expense, net of $0.4 million between 2007 and 2006 was primarily due to an increase in discretionary contributions to Tennant's charitable foundation.

The $2.3 million change in other income (expense), net between 2006 and 2005 was primarily due to contributions made to the Tennant Foundation during 2005 that were not repeated in 2006, increased ESOP income due to a higher average stock price in 2006 than 2005 and fluctuations in foreign currency exchange rates.

Income Taxes

Our effective income tax rate was 30.9%, 31.2% and 34.5% for the years 2007, 2006 and 2005, respectively. The decrease in the 2007 effective tax rate was substantially related to a favorable one-time tax benefit associated with the reversal of a valuation allowance, net of the impact of tax rate changes in foreign jurisdictions on deferred taxes. These items were partially offset by an increase in taxes due to the repeal of the extraterritorial income exclusion. In 2006 the decrease in the effective tax rate was substantially related to a refund from a state tax protective claim and the release of tax reserves accrued in prior years.

The third quarter of 2007 included a favorable one-time discrete item of $3.6 million related to the reversal of a German valuation allowance, net of the impact of tax rate changes in foreign jurisdictions on deferred taxes. During the third quarter of 2007 it was determined that it was now more likely than not that a tax loss carryforward in Germany will be utilized in the future and accordingly the valuation allowance on the related deferred tax asset was reduced to zero.

During 2006 and 2005, we had a favorable impact from the Extraterritorial Income Exclusion Act (ETI Act), a U.S. tax law, of approximately 2% on our effective tax rate. On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, which phased out the ETI Act tax benefit during 2005 and 2006. In addition, the new law established a manufacturing deduction for profits on U.S. manufactured product to be phased in through 2010. For 2007, these changes resulted in an increase in our effective tax rate of slightly more than one percentage point. For 2008, we expect the change in the U.S. tax law will have a similar impact.

We expect our effective tax rate in 2008 to be between 36.5% and 38.5%. This rate may vary based on changes in mix of taxable earnings by country and our ability to utilize the available foreign net operating loss carryforwards.

Liquidity and Capital Resources

During 2007, our financial condition remained strong. Our debt-to-capital ratio was 1.8% as of December 31, 2007, compared with 1.6% as of December 31, 2006. Our capital structure was comprised of $2.1 million of current debt, $2.5 million of long-term debt and $252.4 million of shareholders' equity as of December 31, 2007.

As of December 31, 2007, we had an available committed line of credit totaling $125.0 million. We also had stand alone letters of credit of approximately $3.0 million outstanding as of December 31, 2007. There were no outstanding borrowings under these facilities and we were in compliance with all debt covenants as of December 31, 2007.

On June 19, 2007, we entered into a credit agreement (the “Credit Agreement”) with JPMorgan Chase Bank, National Association, as administrative agent, Bank of America, N.A., as syndication agent, BMO Capital Markets Financing, Inc. and U.S. Bank National Association, as Co-Documentation Agents and the Lenders from time to time party thereto. The Credit Agreement provides us and certain of our foreign subsidiaries access to a $125.0 million senior unsecured revolving credit facility until June 19, 2012. Borrowings may be denominated in U.S. Dollars or certain other currencies. The Credit Agreement contained a $75.0 million sublimit on foreign currency borrowings and a $50.0 million sublimit on borrowings by the foreign subsidiaries. The agreement also contains an option which allows the Company to increase the commitment, in increments of $20.0 million, to a total of $225.0 million. Approval from the Board of Directors is required if the aggregate amount of the commitment exceeds $150.0 million. The facility is available for general corporate purposes, working capital needs, share repurchases and acquisitions.

The fee for committed funds under the Credit Agreement ranges from an annual rate of 0.08% to 0.225%, depending on our leverage ratio. Borrowings under the Credit Agreement generally bear interest at an annual rate of, at our option, either (i) between LIBOR plus 0.32% to LIBOR plus 1.025%, depending on our leverage ratio, or (ii) the higher of (A) the prime rate or (B) the federal funds rate plus 0.50%.

The Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and to merge or consolidate with another entity. Further, the Credit Agreement contains a covenant requiring us to maintain an indebtedness to EBITDA ratio as of the end of each quarter of not greater than 3.5 to 1, and to maintain an EBITDA to interest expense ratio of no less than 3.5 to 1. The Credit Agreement also restricts us from paying dividends or repurchasing stock in an amount that exceeds $50.0 million during any fiscal year if, after giving effect to such payments, our leverage ratio would exceed 2.5 to 1. The company was in compliance with all such covenants at December 31, 2007.

In February 2008, we completed the acquisition of one foreign-based company and announced that we had signed a purchase agreement to acquire a second foreign-based company. We used a combination of available cash and the Credit Agreement to fund the acquisition that closed and intend to use a combination of available cash and the Credit Agreement to fund the other acquisition which has not yet closed.

On February 21, 2008, we amended the Credit Agreement to increase the sublimit on foreign currency borrowings from $75.0 million to the aggregate amount of the commitment and to increase the sublimit on borrowings by the foreign subsidiaries from $50.0 million to $100.0 million.

On August 23, 2007, we entered into an unsecured revolving credit facility (the “Credit Facility”) with Bank of America, National Association which expires in August 2008. This Credit Facility is denominated in Renminbi (“RMB”) in the amount of 14.6 million RMB, or approximately $1.9 million U.S. Dollars, and is available for general corporate purposes, including working capital needs of our China location. The interest rate on borrowed funds is equal to the People’s Bank of China’s base rate. This facility also allows for the issuance of standby letters of credit, performance bonds and other similar instruments over the term of the facility for a fee of 0.95% of the amount issued. The balance outstanding on this facility was $0.2 million U.S. Dollars at December 31, 2007 at a rate of 6.21%.

Cash and cash equivalents totaled $33.1 million at December 31, 2007, down 26.9% from $45.3 million of cash, cash equivalents and short-term investments as of December 31, 2006. We did not have any short-term investments as of December 31, 2007. Cash and cash equivalents held by our foreign subsidiaries totaled $3.8 million as of December 31, 2007 as compared to $6.7 million of cash and cash equivalents held by our foreign subsidiaries as of December 31, 2006. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to subsidiaries as needed. Our current ratio was 2.5 as of December 31, 2007 and 2006, based on working capital of $144.1 million and $140.6 million, respectively.

If the global economy deteriorates, it could have an unfavorable impact on the demand for our products and, as a result, our operating cash flow. We believe that the combination of internally generated funds, present capital resources and available financing sources are more than sufficient to meet our cash requirements for 2008.

Our contractual cash obligations and commitments as of December 31, 2007, are summarized by period due in the following table (in thousands):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
On-balance sheet obligations:					

Collateralized borrowings [1]	$ —	$ —	$ —	$ —	$ —
Capital leases	3,451	1,536	1,903	12	—
Interest payments on capital leases	136	—	135	1	—
Residual value guarantee [2]	797	508	286	3	—
Retirement benefit plans [3]	985	985	—	—	—
Deferred compensation arrangements [4]	6,890	1,008	1,849	643	3,390
Other long-term employee benefits [5]	—	—	—	—	—
Unrecognized tax benefits [6]	—	—	—	—	—
Total on-balance sheet obligations	$ 12,259	$ 4,037	$ 4,173	$ 659	$ 3,390
Off-balance sheet arrangements:					
Operating leases	21,745	8,900	9,140	3,469	236
Purchase obligations	47,479	47,479	—	—	—
Total off-balance sheet obligations	$ 69,224	$ 56,379	$ 9,140	$ 3,469	$ 236
Total contractual obligations	$ 81,483	$ 60,416	$ 13,313	$ 4,128	$ 3,626

(1) Collateralized borrowings on our balance sheet totaling $0.7 million represent deferred sales proceeds on certain leasing transactions in Europe accounted for as borrowings under SFAS No. 13, “Accounting for Leases” (“SFAS No. 13”). We do not expect to have to fund these obligations; as a result, these obligations are not included in the contractual cash obligations and commitments table.

(2) Certain operating leases for vehicles contain residual value guarantee provisions, which would become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. Of those leases that contain residual value guarantees, the aggregate residual value at lease expiration is $11.9 million, of which we have guaranteed $9.3 million. As of December 31, 2007, we have recorded a liability for the fair value of this residual value guarantee of $0.8 million.

(3) Our retirement benefit plans, as described in Note 10 to the Consolidated Financial Statements, require us to make contributions to the plans from time to time. Our plan obligations totaled $15.9 million as of December 31, 2007. Contributions to the various plans are dependent upon a number of factors including the market performance of plan assets, if any, and future changes in interest rates, which impact the actuarial measurement of plan obligations. As a result, we have only included our $1.0 million of 2008 expected contributions in the contractual cash obligations and commitments table.

(4) The unfunded deferred compensation arrangements covering certain current and retired management employees totaled $6.9 million as of December 31, 2007. Our estimated distributions in the contractual cash obligations and commitments table are based upon a number of assumptions including termination dates and participant distribution elections.

(5) Other long-term employee benefit arrangements are comprised of long-term incentive compensation arrangements with certain key management, foreign defined contribution plans and other long-term arrangements totaling $2.0 million. We cannot predict the timing or amount of our future payments associated with these arrangements; as a result, these obligations are not included in the contractual cash obligations and commitments table.

(6) Approximately $6.1 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN 48, and we are uncertain as to if or when such amounts may be settled; as a result, these obligations are not included in the table above. Included in the amount above is interest of $0.3 million and potential penalties of $0.1 million.

Off-balance Sheet Arrangements – Off-balance sheet arrangements consist primarily of operating lease commitments for office and warehouse facilities, vehicles and office equipment as discussed in Note 12 to the Consolidated Financial Statements as well as unconditional purchase commitments. In accordance with U.S. generally accepted accounting principles, these obligations are not reflected in the Consolidated Balance Sheets.

We have applied the provisions of EITF 01-8, “Determining Whether an Arrangement Contains a Lease,” and have determined that our agreement with our third-party logistics provider contains an operating lease under SFAS No. 13. As a result, we have included the future minimum lease payments related to the underlying building lease in our operating lease commitments in the contractual cash obligations and commitments table. In the event we elect to cancel the agreement with our third-party logistics provider prior to the contract expiration date we would be required to assume the underlying building lease for the remainder of its term.

Unconditional purchase obligations include purchase orders entered into in the ordinary course of business and contractual purchase commitments. During July 2005, we amended our 2003 purchase commitment with a third-party manufacturer to extend the terms of the agreement to September 2008. The remaining commitment under this agreement totaled $2.3 million as of December 31, 2007. This purchase commitment has been included in the contractual cash obligations and commitments table along with purchase orders entered into in the ordinary course of business.

Cash Requirements

Operating Activities – Cash provided by operating activities was $39.6 million in 2007, $40.3 million in 2006 and $44.2 million in 2005. In 2007, cash provided by operating activities was driven primarily by strong net earnings as well as an increase in net income taxes payable/prepaid, partially offset by a decrease in employee compensation and benefits and other accrued expenses. The decrease in employee compensation and benefits and other accrued expenses was primarily a result of decreases in performance-based compensation.

Cash flow from operations decreased $0.7 million in 2007 compared to 2006. This decrease was primarily driven by decreased income taxes payable/prepaid and decreased employee compensation and benefits and other accrued expenses.

In 2006, cash provided by operating activities was impacted by strong net earnings and an increase in non-cash share-based compensation expense, an increase in accounts payable, employee compensation and benefits and other accrued expenses. The increase in share-based compensation expense was primarily attributable to the inclusion of stock option expense under SFAS No. 123(R) in 2006 and an increase in expense associated with performance share and restricted stock awards. The increases in accounts payable, employee compensation and benefits and other accrued expenses were attributable to higher accruals for volume-based incentives and warranty, an increase in payroll

accruals as well as timing of payments. Partially offsetting these sources of cash were an increase in receivables driven by higher fourth quarter sales volumes and an increase in inventory. The increase in inventory was in support of new product launches and the addition of our manufacturing facility in China.

As discussed previously, two metrics used by management to evaluate how effectively we utilize our net assets are "Accounts Receivable Days Sales Outstanding" (DSO) and "Days Inventory on Hand" (DIOH), on a FIFO basis. These metrics for the years indicated were as follows (in days):

	2007	2006	2005
DSO	**61**	61	61
DIOH	**83**	82	82

DIOH increased one day in 2007 compared to 2006. This increase is mainly due to higher inventory levels at our foreign locations due to longer lead times and pipeline fill for new products. Inventory grew at the same pace as demand during 2006 as compared to 2005 resulting in no change in the DIOH.

Investing Activities – Net cash used in investing activities was $10.4 million in 2007, $46.0 million in 2006 and $11.8 million in 2005. The primary use of cash in investing activities during 2007 was capital expenditures and our acquisition of Floorep Limited. Sources of cash for 2007 investing activities include net sales of short-term investments, which generated $14.3 million in cash and proceeds from the sale of our Maple Grove, Minnesota facility.

Capital expenditures were $28.7 million during 2007 compared to $23.9 million in 2006. Capital expenditures were $20.9 million in 2005. Capital expenditures in 2007 included continued investments in our footprint consolidation initiative, new product tooling and capital spending related to our global expansion initiatives. Capital expenditures in 2006 included continued expansion of our information systems capabilities and investments in new product tooling as well as capital spending in support of our China expansion initiative. Capital expenditures in 2005 included investments in new product tooling and expansion of our information system capabilities.

In 2008, capital expenditures are expected to approximate $25 to $29 million. Significant capital projects planned for 2008 include upgrades to our information technology systems and related infrastructure and investments in tooling in support of new products. In addition, we plan to invest in our corporate facilities to create a global center for research and development. Capital expenditures in 2008 are expected to be financed primarily with funds from operations.

Proceeds from dispositions of property, plant and equipment in 2005 include $1.5 million in proceeds from the sale of a distribution center in Holland, Michigan.

In July 2006, we acquired Hofmans Machinefabriek ("Hofmans") for a purchase price of $8.6 million, subject to certain post-closing adjustments. The cost of the acquisition was paid for in cash with funds provided by operations.

In February 2007, we acquired Floorep Limited ("Floorep"), a distributor of cleaning equipment based in Scotland, for a purchase price of $3.6 million in cash, subject to certain post-closing adjustments. The results of Floorep's operations have been included in the Consolidated Financial Statements since February 2, 2007, the date of acquisition.

Financing Activities – Net cash used in financing activities was $26.7 million in 2007, $4.9 million in 2006 and $8.1 million in 2005. In 2007, significant uses of cash included $29.0 million in repurchases of common stock related to our share repurchase program and $9.0 million of dividends paid. In 2006, significant uses of cash included $8.6 million of dividends paid and $5.3 million in repurchases of common stock related to our share repurchase program.

Proceeds from issuance of common stock generated $8.7 million in 2007 and $8.5 million in 2006. Proceeds in both years were driven by an increase in employees' stock option exercises due to a higher average stock price and senior management transitions.

Our cash dividend payout increased for the 36 th consecutive year to $0.48 per share in 2007, an increase of $0.02 per share over 2006.

In November 2004, an additional 400,000 shares were authorized under the share repurchase program approved by the Board of Directors in May 2001. In August 2006, the Board of Directors approved the adjustment of the number of shares then available for repurchase to reflect the impact of the two-for-one stock split, which increased the number of shares available for repurchase from approximately 281,000 immediately before the stock split to approximately 562,000. On May 3, 2007, the Board of Directors authorized the repurchase of 1,000,000 additional shares of our common stock.

Shares repurchased during 2007 approximated 735,900, with the average repurchase price of $39.34. Repurchases made in 2006 prior to the stock split on July 26, 2006 totaled approximately 61,000 shares at an average repurchase price of $46.36 or 122,000 shares at $23.18, post-split. Following the stock split, approximately 87,000 shares were repurchased at an average price of $27.96. Shares repurchased during 2005 approximated 92,000 on a post-split basis. With the average post-split repurchase price of $18.83.

At December 31, 2007, approximately 739,000 shares were authorized for repurchase.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosure about fair value measurements. The requirements are effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 157 will have a material impact on our financial condition, results of operations or cash flows.

In November 2006, the FASB released EITF No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF Issue No. 06-11"). EITF Issue No. 06-11 defines how an entity should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123(R)"). The requirements are effective prospectively for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF No. 06-11 will have a material impact on our financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings without having to apply complex hedge accounting. The requirements are effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 will have a material impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired to be recorded at full fair value. This statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. The requirements are effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact that the adoption of SFAS No. 141(R) will have on our Consolidated Financial Statements.

Critical Accounting Estimates

Our Consolidated Financial Statements are based on the selection and application of U.S. generally accepted accounting principles, which require us to make estimates and assumptions about future events that affect the amounts reported in our Consolidated Financial Statements and the accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to the Consolidated Financial Statements. We believe that the following policies may involve a higher degree of judgment and complexity in their application and represent the critical accounting policies used in the preparation of our Consolidated Financial Statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results.

Allowance for Doubtful Accounts – We record a reserve for accounts receivable that are potentially uncollectible. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information becomes available. Our reserves are also based on amounts determined by using percentages applied to trade receivables. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. We are not able to predict changes in the financial condition of our customers and if circumstances related to these customers deteriorate, our estimates of the recoverability of accounts receivable could be materially affected and we may be required to record additional allowances. Alternatively, if more allowances are provided than are ultimately required, we may reverse a portion of such provisions in future periods based on the actual collection experience. Bad debt write-offs as a percentage of net sales were 0.1% in 2007, 0.3% in 2006 and 0.2% in 2005. As of December 31, 2007, we had $2.2 million reserved against our accounts receivable for doubtful accounts.

Inventory Reserves – We value our inventory at the lower of the cost of inventory or fair market value through the establishment of a reserve for excess, slow moving and obsolete inventory. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed by comparing our inventory levels to our projected demand requirements based on historical demand, market conditions and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there is a significant decline in demand for certain products. This reserve creates a new cost basis for these products and is considered permanent.

We also record a reserve for inventory shrinkage. Our inventory shrinkage reserve represents anticipated physical inventory losses that are recorded and adjusted as a part of our cycle counting and physical inventory procedures. The reserve amount is based on historical loss trends, historical physical and cycle-count adjustments as well as inventory levels. Changes in the reserve result from the completed cycle counts and physical inventories.

As of December 31, 2007, we had $4.4 million reserved against inventories.

Warranty Reserves – We record 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 net sales, the historical length of time between the sale and resulting warranty claim, new product introductions and other factors. Future claims experience could be materially different from prior results because of the introduction of new, more complex products, a change in our warranty policy in response to industry trends, competition or other external forces, or manufacturing changes that could impact product quality. In the event we determine that our current or future product repair and replacement costs exceed our estimates, an adjustment to these reserves would be charged to earnings in the period such determination is made. Warranty expense as a percentage of net sales was 1.2% in 2007, 1.4% in 2006 and 1.3% in 2005. As of December 31, 2007, we had $7.0 million reserved for future estimated warranty costs.

Income Taxes – When preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax obligations based on expected income, statutory tax rates and tax planning opportunities in the various jurisdictions. We also establish reserves for uncertain tax matters that are complex in nature and uncertain as to the ultimate outcome. Although we believe that our tax return positions are fully supportable, we consider our ability to ultimately prevail in defending these matters when establishing these reserves. We adjust our reserves in light of changing facts and circumstances, such as the closing of a tax audit. We believe that our current reserves are adequate. However, the ultimate outcome may differ from our estimates and assumptions and could impact the income tax expense reflected in our Consolidated Statements of Earnings.

Tax law requires certain items to be included in our tax return at different times than the items are reflected in our results of operations. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences will reverse over time, such as depreciation expense on property, plant and equipment. These temporary differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheets. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years but have already been recorded as an expense in our Consolidated Statements of Earnings. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, based on management's judgment, to the extent we believe that recovery is less likely than not, we establish a valuation reserve against those deferred tax assets. The deferred tax asset valuation allowance could be materially different from actual results because of changes in the mix of future taxable income, the relationship between book and taxable income and our tax planning strategies. As of December 31, 2007, a valuation allowance of $8.2 million was recorded against foreign tax loss carryforwards.

Cautionary Factors Relevant to Forward-Looking Information

Certain statements contained in this document as well as other written and oral statements made by us from time to time 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. Any such expectations or forecasts of future events are subject to a variety of factors. These include factors that affect all businesses operating in a global market as well as matters specific to us and the markets we serve. Particular risks and uncertainties presently facing us include:

- Geopolitical and economic uncertainty throughout the world.
- Inflationary pressures.
- Fluctuations in the cost or availability of raw materials and purchased components.
- Ability to achieve anticipated global sourcing cost reductions.
- Successful integration of acquisitions, including ability to carry acquired goodwill at current values.
- Ability to achieve growth plans.
- Ability to achieve projections of future financial and operating results.
- Ability to achieve operational efficiencies, including synergistic and other benefits of acquisitions.
- Ability to benefit from production reallocation plans, including benefits from our expansion into China.
- Success and timing of new technologies and products.
- Ability to acquire, retain and protect proprietary intellectual property rights.

- Potential for increased competition in our business.
- Ability to attract and retain key personnel.
- Relative strength of the U.S. dollar, which affects the cost of our materials and products purchased and sold internationally.
- Changes in laws, including changes in accounting standards and taxation changes.
- Unforeseen product quality problems.
- Effects of litigation, including threatened or pending litigation.

We caution 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. For additional information about factors that could materially affect Tennant’s results, please see our other Securities and Exchange Commission filings, including disclosures under “Risk Factors” in this document.

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

ITE M 7A – Quantitative and Qualitative Disclosures About Market Risk

Commodity Risk – We are subject to exposures resulting from potential cost increases related to our purchase of raw materials or other product components. We do not use derivative commodity instruments to manage our exposures to changes in commodity prices such as steel, oil, gas, lead and other commodities.

Various factors beyond our control affect the price of oil and gas, including but not limited to worldwide and domestic supplies of oil and gas, political instability or armed conflict in oil-producing regions, the price and level of foreign imports, the level of consumer demand, the price and availability of alternative fuels, domestic and foreign governmental regulation, weather-related factors and the overall economic environment. We purchase petroleum-related component parts for use in our manufacturing operations. In addition, our freight costs associated with shipping and receiving product and sales and service vehicle fuel costs are impacted by fluctuations in the cost of oil and gas.

Increases in worldwide demand and other factors affect the price for lead, steel and related products. We do not maintain an inventory of raw or fabricated steel or batteries in excess of near-term production requirements. As a result, increases in the price of lead or steel can significantly increase the cost of our lead and steel-based raw materials and component parts.

During 2007, our raw materials and other purchased component costs, such as batteries, were unfavorably impacted by commodity prices and we were not able to fully mitigate these higher costs with selling price increases and cost reduction actions. We will continue to focus on mitigating the risk of continued future raw material or other product component cost increases through product pricing, negotiations with our vendors and cost reduction actions. The success of these efforts will depend upon our ability to increase our selling prices in a competitive market and our ability to achieve cost savings. If the commodity prices remain at their current levels or continue to increase, our results may be unfavorably impacted in 2008.

Foreign Currency Exchange Risk – Due to the global nature of our operations, we are subject to exposures resulting from foreign currency exchange fluctuations in the normal course of business. Our primary exchange rate exposures are with the Euro, the Australian and Canadian dollars, the British pound, the Japanese yen and the Chinese yuan against the U.S. dollar. The direct financial impact of foreign currency exchange includes the effect of translating profits from local currencies to U.S. dollars, the impact of currency fluctuations on the transfer of goods between Tennant operations in the United States and abroad and transaction gains and losses. In addition to the direct financial impact, foreign currency exchange has an indirect financial impact on our results, including the effect on sales volumes within local economies and the impact of pricing actions taken as a result of foreign exchange rate fluctuations.

Because our products are currently 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. Our objective in managing the exposure to foreign currency fluctuations is to minimize the earnings effects associated with foreign exchange rate changes on certain of our foreign currency-denominated assets and liabilities. We periodically enter into various contracts, principally forward exchange contracts, to protect the value of certain of our 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. We had forward exchange contracts outstanding in the notional amounts of approximately $62 million and $54 million at the end of 2007 and 2006, respectively. The potential for material loss in fair value of foreign currency contracts outstanding and the related underlying exposures as of December 31, 2007, from a 10% adverse change is unlikely due to the short-term nature of our forward contracts. Our policy prohibits us from entering into transactions for speculative purposes.

Other Matters – Management regularly reviews our business operations with the objective of improving financial performance and maximizing our return on investment. As a result of this ongoing process to improve financial performance, we may incur additional restructuring charges in the future which, if taken, could be material to our financial results.

I TEM 8 – Financial Statements and Supplementary Data

M ANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal accounting and financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in *Internal Control – Integrated Framework* (COSO), our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

/s/ H. Chris Killingstad

H. Chris Killingstad
President and Chief Executive Officer

/s/ Thomas Paulson

Thomas Paulson
Chief Financial Officer (Principal
Financial and Accounting Officer)

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R EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2007 and 2006, 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, 2007. We also have audited Tennant Company's internal control over financial reporting as of December

31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Tennant Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Tennant Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* , as of January 1, 2006, Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* , as of December 31, 2006, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* , as of January 1, 2007.

/s/ KPMG LLP
Minneapolis, MN
February 29, 2008

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Consolidated Statements of Earnings
TENNANT COMPANY AND SUBSIDIARIES

(In thousands, except shares and per share data)

Years ended December 31	**2007**	**2006**	**2005**
Net sales	**$ 664,218**	$ 598,981	$ 552,908
Cost of sales	**385,234**	347,402	318,044
Gross profit	**278,984**	251,579	234,864
Operating expense:			
Research and development expenses	**23,869**	21,939	19,351

Selling and administrative expenses	**206,242**	189,676	180,676
Gain on sale of facility	**(5,972)**	—	—
Total operating expenses	**224,139**	211,615	200,027
Profit from operations	**54,845**	39,964	34,837
Other income (expense):			
Interest income	**1,854**	2,698	1,691
Interest expense	**(898)**	(737)	(564)
Net foreign currency transaction gains	**39**	516	8
ESOP income	**2,568**	1,205	387
Other income (expense), net	**(696)**	(344)	(1,365)
Total other income	**2,867**	3,338	157
Profit before income taxes	**57,712**	43,302	34,994
Income tax expense	**17,845**	13,493	12,058
Net earnings	**$ 39,867**	$ 29,809	$ 22,936
Earnings per share:			
Basic	**$ 2.14**	$ 1.61	$ 1.27
Diluted	**$ 2.08**	$ 1.57	$ 1.26
Weighted average shares outstanding:			
Basic	**18,641,000**	18,561,000	18,024,000
Diluted	**19,146,000**	18,989,000	18,210,000

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets
TENNANT COMPANY AND SUBSIDIARIES

(In thousands, except shares and per share data)

December 31	2007	2006
Assets		
CURRENT ASSETS		
Cash and cash equivalents	**$ 33,092**	$ 31,021
Short-term investments	**—**	14,250
Receivables:		
Trade, less allowances for doubtful accounts and returns ($3,264 in 2007 and $3,347 in 2006)	**126,520**	115,146
Other, net	**971**	1,180
Net receivables	**127,491**	116,326
Inventories	**64,027**	60,978
Prepaid expenses	**7,549**	4,531
Deferred income taxes, current portion	**8,076**	8,298
Other current assets	**489**	—
Total current assets	**240,724**	235,404
Property, plant and equipment	**263,643**	244,283
Accumulated depreciation	**(167,092)**	(161,448)
Property, plant and equipment, net	**96,551**	82,835

Deferred income taxes, long-term portion	**2,670**	1,574
Goodwill	**29,053**	26,298
Intangible assets, net	**5,500**	4,581
Other assets	**7,572**	3,558
Total assets	**$ 382,070**	$ 354,250
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Current debt	**$ 2,127**	$ 1,812
Accounts payable	**31,146**	31,326
Employee compensation and benefits	**29,699**	32,374
Income taxes payable	**2,391**	710
Other current liabilities	**31,310**	28,582
Total current liabilities	**96,673**	94,804
LONG-TERM LIABILITIES		
Long-term debt	**2,470**	1,907
Employee-related benefits	**23,615**	27,081
Deferred income taxes, long-term portion	**752**	794
Other liabilities	**6,129**	—
Total long-term liabilities	**32,966**	29,782
Total liabilities	**129,639**	124,586
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Preferred stock of $0.02 par value per share, authorized 1,000,000; none issued	**—**	—
Common stock of $0.375 par value per share, authorized 60,000,000; issued and outstanding 18,499,458 shares in 2007 and 18,753,648 in 2006	**6,937**	7,045
Additional paid-in capital	**8,265**	14,223
Retained earnings	**233,527**	210,457
Accumulated other comprehensive income	**5,507**	647
Receivable from ESOP	**(1,805)**	(2,708)
Total shareholders' equity	**252,431**	229,664
Total liabilities and shareholders' equity	**$ 382,070**	$ 354,250

See accompanying Notes to Consolidated Financial Statements.

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C onsolidated Statements of Cash Flows
TENNANT COMPANY AND SUBSIDIARIES

(In thousands)

Years ended December 31	**2007**	**2006**	**2005**
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net earnings	**$ 39,867**	$ 29,809	$ 22,936
Adjustments to net earnings to arrive at operating cash flow:			
Depreciation	**16,901**	13,711	12,950
Amortization	**1,153**	610	89
Deferred tax (benefit) expense	**(1,510)**	(70)	(465)
Stock-based compensation expense	**2,886**	3,521	2,015
ESOP expense	**(659)**	112	580
Tax benefit on ESOP and stock plans	**46**	58	1,495
Provision for bad debts and returns	**1,690**	532	1,021
Gain on sale of facility	**(5,972)**	—	—

Changes in operating assets and liabilities excluding the impact of acquisitions:			
Accounts receivable	**(11,258)**	(9,790)	(8,620)
Inventories	**(82)**	(3,104)	(59)
Accounts payable	**(2,337)**	3,308	3,397
Employee compensation and benefits and other accrued expenses	**(4,069)**	2,697	8,507
Income taxes payable/prepaid	**2,056**	(2,608)	221
Other current/noncurrent assets and liabilities	**(2,131)**	(1,197)	(1,883)
Other, net	**3,059**	2,730	2,053
Net cash flows related to operating activities	**39,640**	40,319	44,237
CASH FLOWS RELATED TO INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	**(28,720)**	(23,872)	(20,880)
Proceeds from disposals of property, plant and equipment	**7,254**	632	3,049
Acquisition of businesses, net of cash acquired, and intangible assets	**(3,141)**	(8,469)	—
Purchases of short-term investments	**(7,925)**	(14,250)	—
Sales of short-term investments	**22,175**	—	6,050
Net cash flows related to investing activities	**(10,357)**	(45,959)	(11,781)
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Payments on capital leases	**(2,505)**	(2,257)	(885)
Payment of long-term debt	**—**	—	(5,000)
Proceeds from issuance of short-term debt	**205**	—	—
Proceeds from issuance of common stock	**8,734**	8,477	7,874
Tax benefit on stock plans	**3,255**	1,334	—
Purchase of common stock	**(28,951)**	(5,275)	(3,471)
Dividends paid	**(8,979)**	(8,574)	(7,919)
Principal payment from ESOP	**1,562**	1,419	1,290
Net cash flows related to financing activities	**(26,679)**	(4,876)	(8,111)
Effect of exchange rate changes on cash and cash equivalents	**(533)**	250	105
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,071**	(10,266)	24,450
Cash and cash equivalents at beginning of year	**31,021**	41,287	16,837
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 33,092**	$ 31,021	$ 41,287
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	**$ 14,543**	$ 15,207	$ 9,076
Interest	**$ 479**	$ 322	$ 638
Supplemental non-cash investing and financing activities:			
Capital expenditures funded through capital leases	**$ 2,441**	$ 2,872	$ 2,553
Collateralized borrowings incurred for operating lease equipment	**$ 695**	$ 427	$ 178

See accompanying Notes to Consolidated Financial Statements.

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C onsolidated Statements of Shareholders’ Equity and Comprehensive Income
TENNANT COMPANY AND SUBSIDIARIES

(In thousands, except shares and per share data)

Years ended December 31	2007		2006		2005	
	Shares	Amount	Shares (1)	Amount	Shares	Amount
COMMON STOCK						
Beginning balance	**18,753,648**	**$ 7,045**	9,191,205	$ 3,459	9,003,209	$ 3,388
Stock split	**—**	**—**	9,305,523	3,490	—	—
Issue stock for directors, employee benefit and stock plans	**481,710**	**168**	410,541	154	280,185	105
Purchase of common stock	**(735,900)**	**(276)**	(153,621)	(58) (1)	(92,189)	(34)

Ending balance	**18,499,458**	**$ 6,937**	18,753,648	$ 7,045	9,191,205	$ 3,459
ADDITIONAL PAID-IN CAPITAL						
Beginning balance		**$ 14,223**		$ 6,963		$ 163
Stock split		**—**		(3,490)		—
Issue stock for directors, employee benefit plans and stock plans		**8,661**		9,939		6,633
Share-based compensation		**2,753**		4,694		—
Tax benefit on stock plans		**3,255**		1,334		1,423
Purchase of common stock		**(28,675)**		(5,217) [1]		(1,256)
Reclassification to Retained Earnings		**8,048**		—		—
Ending balance		**$ 8,265**		$ 14,223		$ 6,963
RETAINED EARNINGS						
Beginning balance		**$ 210,457**		$ 189,221		$ 174,132
Net earnings		**39,867**		29,809		22,936
Dividends paid, $0.48, $0.46 and $0.44, respectively, per common share		**(8,979)**		(8,574)		(7,919)
Issue stock for employee benefit plans and directors		**—**		—		2,181
Purchase of common stock		**—**		—		(2,181)
Tax benefit on ESOP		**46**		58		72
Adjustment related to SFAS No. 158 adoption		**—**		(57)		—
Adjustment related to FIN No. 48 adoption		**184**		—		—
Reclassification from Additional Paid-in Capital		**(8,048)**		—		—
Ending balance		**$ 233,527**		$ 210,457		$ 189,221
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) [2]						
Beginning balance		**$ 647**		$ (2,931)		$ 864
Foreign currency translation adjustments		**2,630**		2,763		(2,813)
Prior service costs		**(13)**		—		—
Transition (asset) obligation		**(14)**		—		—
Net actuarial (gain) loss		**2,257**		815		—
Minimum pension liability		**—**		—		(982)
Ending balance		**$ 5,507**		$ 647		$ (2,931)
RECEIVABLE FROM ESOP						
Beginning balance		**$ (2,708)**		$ (3,610)		$ (4,513)
Principal payments		**1,562**		1,419		1,290
Shares allocated		**(659)**		(517)		(387)
Ending balance		**$ (1,805)**		$ (2,708)		$ (3,610)
Total shareholders' equity		**$ 252,431**		$ 229,664		$ 193,102
[2] Reconciliations of net earnings to comprehensive income are as follows:						
Net earnings		**$ 39,867**		$ 29,809		$ 22,936
Foreign currency translation adjustments		**2,630**		2,763		(2,813)
Defined benefit pension plans, net of tax:						
Prior service costs		**(13)**		274		—
Transition (asset) obligation		**(14)**		40		—
Net actuarial (gain) loss		**2,257**		501		—
Minimum pension liability		**—**		—		(982)
Comprehensive income		**$ 44,727**		$ 33,387		$ 19,141

The company had 60,000,000 authorized shares of common stock as of December 31, 2007 and 2006.

The company had 30,000,000 authorized shares of common stock as of December 31, 2005.

[1] Adjusted for the two-for-one stock split effective July 26, 2006.

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except shares and per share data)

1. Summary of Significant Accounting Policies and Other Related Data

NATURE OF OPERATIONS – Our primary business is the design, manufacture and sale of products used primarily in the maintenance of nonresidential surfaces. We provide equipment, parts and consumables and specialty surface coatings to contract cleaners, corporations, healthcare facilities, schools and local, state and federal governments. We sell our products through our direct sales and service organization and a network of authorized distributors worldwide. Our products are sold in North America, Europe and Other International markets including the Middle East, Latin America and Asia Pacific.

CONSOLIDATION – The Consolidated Financial Statements include the accounts of Tennant Company and its subsidiaries. All material intercompany transactions and balances have been eliminated. In these Notes to the Consolidated Financial Statements, Tennant Company is referred to as "Tennant," "we," "us," or "our."

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. Foreign currency transaction gains or losses are included in other income (expense).

USE OF ESTIMATES – The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS – We consider all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

SHORT-TERM INVESTMENTS – Short-term investments with maturities of less than one year are classified and accounted for as available-for-sale and carried at fair value. Changes in fair value are reported as accumulated other comprehensive income (loss). There were no short term investments at December 31, 2007 and no unrealized gains or losses during the year ended December 31, 2007. At December 31, 2006, the estimated fair value of these securities approximated their cost due to their short maturities.

RECEIVABLES – Credit is granted to our customers in the normal course of business. Receivables are recorded at original carrying value less reserves for estimated uncollectible accounts and sales returns. Management performs ongoing credit evaluations of customers and maintains allowances for potential credit losses and product returns based on historical write-off experience, evaluation of specific customer accounts and anticipated sales returns. Past-due balances are reviewed for collectibility based on agreed-upon contractual terms. Uncollectible accounts are written-off against the allowance when it is deemed that a customer account is uncollectible.

INVENTORIES – Inventories are valued at the lower of cost or market. For inventories in Europe and China, cost is determined on a first-in, first-out basis. Cost is determined on a last-in, first-out basis for substantially all other locations.

PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment is carried at cost. Additions and improvements that extend the lives of the assets are capitalized while expenditures for repairs and maintenance are expensed as incurred. We generally depreciate 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 15 years.

GOODWILL – Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. Goodwill is reviewed annually or at the time of a triggering event for impairment. In assessing the recoverability of goodwill, we compare the reporting unit's carrying value of goodwill to its fair value. During the fourth quarter of 2007, we completed our annual impairment test and concluded that goodwill is not impaired.

INTANGIBLE ASSETS – Intangible assets consist of definite lived customer lists, an acquired trade name, technology and an order book. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from two to 22 years.

IMPAIRMENT OF LONG-LIVED ASSETS – We periodically review our intangible and long-lived assets for impairment and assess whether events or circumstances indicate that the carrying amount of the assets may not be recoverable. We generally deem an asset group to be impaired if an estimate of undiscounted future operating cash flows is less than its carrying amount. If impaired, an impairment loss is recognized based on the excess of the carrying amount of the asset group over its fair value.

WARRANTY – We record a liability for estimated 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, new product introductions and other factors. In the event we determine that our current or future product repair and replacement costs exceed our estimates, an adjustment to these reserves would be charged to earnings in the period such determination is made. Warranty terms on machines range from one to four years.

PENSION AND PROFIT SHARING PLANS – We have pension and/or profit sharing plans covering substantially all of our employees. Pension plan costs are accrued based on actuarial estimates with the pension cost funded annually.

POSTRETIREMENT BENEFITS – We recognize the cost of retiree health benefits over the employees' period of service.

DERIVATIVE FINANCIAL INSTRUMENTS – We use derivative instruments to manage exposures to foreign currency only in an attempt to limit underlying exposures from currency fluctuations and not for trading purposes. We periodically enter into various contracts, principally forward exchange contracts, to protect the value of certain of our foreign currency-denominated assets and liabilities (principally the Euro, Australian and Canadian dollars, British pound, Japanese yen and Chinese yuan). We have elected not to apply hedge accounting treatment to these contracts as our contracts are for a short duration. These contracts are marked-to-market with the related asset or liability recorded in other current assets or other current liabilities, as applicable. The gains and losses on these contracts generally approximate changes in the value of the related assets and liabilities. Gains or losses on forward foreign exchange contracts to hedge foreign currency-denominated net assets and liabilities are recognized in other income under net foreign currency transaction gains (losses) within the Consolidated Statements of Earnings on a current basis over the term of the contracts.

REVENUE RECOGNITION – We recognize revenue when persuasive evidence of an arrangement exists, title and risk of ownership have passed, the sales price is fixed or determinable and collectibility is probable. Generally, these criteria are met at the time the product is shipped. Provisions for estimated returns, rebates and discounts are provided for at the time the related revenue is recognized. Freight revenue billed to customers is included in net sales and the related shipping expense is included in cost of sales. Service revenue is recognized in the period the service is performed, or ratably over the period of the related service contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except shares and per share data)

Customers may obtain financing through third-party leasing companies to assist in their acquisition of our equipment products. Certain lease transactions classified as operating leases contain retained ownership provisions or guarantees, which results in recognition of revenue over the lease term. As a result, we defer the sale of 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, not to exceed the equipment's estimated useful life.

We apply the provisions of Emerging Issues Task Force Issue No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables" to arrangements with multiple deliverables. EITF 00-21 addresses certain aspects of accounting by a vendor for arrangements under which multiple revenue-generating activities are performed as well as how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. Under EITF 00-21, revenues from contracts with multiple element arrangements are recognized as each element is earned. We offer service contracts in conjunction with equipment sales in addition to selling equipment and service contracts separately. When equipment and service contracts are sold at the same time, we first apply FASB Technical Bulletin 90–1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts" and deduct from the sales proceeds the separately priced service contract. The balance of the consideration is allocated to the equipment and recognized when the equipment is shipped. Sales proceeds allocated to service contracts are deferred if the proceeds are received in advance of the service and recognized ratably over the contract period.

STOCK-BASED COMPENSATION - We account for employee stock-based compensation in accordance with SFAS No. 123(R) using the fair value based method. Our stock-based compensation plans are more fully described in Note 14.

Prior to the adoption of SFAS No. 123(R) on January 1, 2006, we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." As we adopted SFAS No. 123(R) using the modified prospective approach, prior period net earnings and basic and diluted earnings per share have not been restated.

The pro forma effects of recognizing the estimated fair value of stock-based compensation as previously calculated under SFAS No. 123 for the year ended December 31, 2005 is summarized below:

		2005
Net earnings – as reported	$	22,936
Add:		
Share-based compensation expense determined under intrinsic value method included in net earnings, net of related tax effects		913
Deduct:		

Share-based employee compensation expense determined under fair value-based method, net of related tax effects		(2,130)
Pro forma net earnings	$	21,719
Basic earnings per share:		
As reported	$	1.27
Pro forma	$	1.21
Diluted earnings per share:		
As reported	$	1.26
Pro forma	$	1.19

RESEARCH AND DEVELOPMENT – Research and development costs are expensed as incurred.

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. A valuation allowance is provided when, in management's judgment, it is more likely than not that some portion or all of the deferred tax asset will not be realized. We have established contingent tax liabilities using management's best judgment. We adjust these liabilities as facts and circumstances change. Interest expense is recognized in the first period the interest would begin accruing. Penalties are recognized in the period we claim or expect to claim the position in our tax return. Interest and penalties expenses are classified as an income tax expense.

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 restricted share awards. Performance-based shares are included in the calculation of diluted earnings per share in the quarter in which the performance targets have been achieved.

STOCK SPLIT – On April 26, 2006, the Board of Directors declared a two-for-one common stock split effective July 26, 2006. As a result of the stock split, shareholders of record received one additional common share for every share held at the close of business on July 12, 2006. All share and per share data has been retroactively adjusted to reflect the stock split, except for the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS –

In March 2006, the Financial Accounting Standards Board ("FASB") released EITF Issue No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF Issue No. 06-3"). EITF Issue No. 06-3 concluded that the presentation of sales, use, value-added and certain excise taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed in the Consolidated Financial Statements. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual Consolidated Financial Statements for each period for which an income statement is presented if those amounts are significant. We adopted EITF Issue No. 06-3 as of January 1, 2007. Our accounting policy is to present these taxes on a net basis.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the Consolidated Financial Statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN No. 48 as of January 1, 2007, as further discussed in Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except shares and per share data)

2. Management Actions

2007 ACTIONS – During the third quarter of 2007, management approved a restructuring action in an effort to better match skill sets and talent in evolving functional areas that are critical to successful execution of our strategic priorities. These actions impacted approximately 60 positions within a workforce of 2,700, or about two percent of the employee base.

The restructuring action resulted in the recognition of pretax charges of $2,194 during 2007, as well as other associated costs of $313. Of the $2,194, $1,647 was recognized in the third quarter and the remaining $547 was recognized in the fourth quarter. These charges consist primarily of severance and outplacement benefits and are included within selling and administrative expenses in the Consolidated Statements of Earnings.

The components of the 2007 restructuring action were as follows:

	Severance, Early Retirement and Related Costs
2007 restructuring action	$ 2,194
Cash payments	(836)
Foreign currency adjustments	31
December 31, 2007 balance	$ 1,389

3. Acquisition of Businesses

In February 2007, we acquired Floorep Limited ("Floorep"), a distributor of cleaning equipment based in Scotland, for a purchase price of $3,565 in cash, subject to certain post-closing adjustments. The results of Floorep's operations have been included in the Consolidated Financial Statements since February 2, 2007, the date of acquisition. The components of the purchase price were allocated primarily to goodwill and identified intangible assets.

4. Inventories

The composition of inventories at December 31, were as follows:

	2007	2006
Inventories carried at LIFO:		
Finished goods	**$ 41,921**	$ 36,513
Raw materials, production parts and work-in-process	**18,045**	20,110
LIFO reserve	**(27,858)**	(25,731)
Total LIFO inventories	**32,108**	30,892
Inventories carried at FIFO:		
Finished goods	**22,369**	21,387
Raw materials, production parts and work-in-process	**9,550**	8,699
Total FIFO inventories	**31,919**	30,086
Total inventories	**$ 64,027**	$ 60,978

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, including equipment under capital leases, at December 31, consisted of the following:

	2007	2006
Land	$ 4,432	$ 3,177
Buildings and improvements	43,143	36,600
Machinery and equipment	206,867	188,103
Work in progress	9,201	16,403
Total property, plant and equipment	263,643	244,283
Less accumulated depreciation	(167,092)	(161,448)
Net property, plant and equipment	96,551	82,835

(In thousands, except shares and per share data)

In December 2007, we sold our Maple Grove Facility for a gain of approximately $6,000.

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill as of December 31, are as follows:

	2007	2006
Beginning balance	$ 26,298	$ 22,253
Additions	1,721	2,787
Foreign currency fluctuations	1,034	1,258
Ending balance	$ 29,053	$ 26,298

The balances of acquired intangible assets, excluding goodwill, as of December 31, are as follows:

	Customer List and Order Book	Trade Name	Technology	Total
Balance as of December 31, 2006				
Original cost	$ 3,147	$ 295	$ 1,900	$ 5,342
Accumulated amortization	(608)	(233)	(147)	(988)
Foreign currency fluctuations	235	(15)	7	227
Carrying value	$ 2,774	$ 47	$ 1,760	$ 4,581
Weighted-average original life (in years)	14	4	10	
Balance as of December 31, 2007				
Original cost	$ 3,961	$ 295	$ 1,900	$ 6,156
Accumulated amortization	(593)	(295)	(452)	$ (1,340)
Foreign currency fluctuations	510	—	174	$ 684
Carrying value	$ 3,878	$ —	$ 1,622	$ 5,500
Weighted-average original life (in years)	14	4	10	

Amortization expense on intangible assets was $821, $675 and $165 for the years ended December 31, 2007, 2006, and 2005, respectively.

The additions to goodwill and intangible assets during 2007 were based on the purchase price allocation of the Floorep acquisition in February 2007, as described in Note 3, plus any adjustments to goodwill related to the Hofmans Machinefabriek acquisition in July 2006. The Floorep intangible asset consisted of a customer list and is amortized over a useful life of 12 years. Additions to intangible assets during 2007 also included an acquired customer list, which is amortized over a useful life of seven years.

The additions to goodwill and intangible assets during 2006 consisted of goodwill from the purchase price of Hofmans acquisition and intangible assets consisting of technology, a customer list and an order book and are amortized over useful lives of two to 22 years, 15 years and eight months, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets for each of the five succeeding years is as follows:

2008	$ 617
2009	552
2010	550
2011	548
2012	524
Thereafter	2,709
Total	$ 5,500

7. Short- and Long-Term Debt

The components of our outstanding debt as of December 31, consisted of the following:

	Maturity Dates	Interest Rates 2007	Interest Rates 2006	Outstanding Balance 2007	Outstanding Balance 2006
Short term debt	**2008**	**6.21%**	—	**$ 205**	$ —
Collateralized borrowings	**2008 - 2011**	**2.94%**	2.94 - 4.50%	**696**	371
Capital lease obligations	**2008 - 2011**	**4.50 - 7.00%**	4.50 - 7.00%	**3,696**	3,348
Total outstanding debt				**4,597**	3,719
Less: current portion				**2,127**	1,812
Long-term portion				**$ 2,470**	$ 1,907

The aggregate maturities of our outstanding debt including capital lease obligations as of December 31, 2007, are as follows:

2008	$ 2,127
2009	1,747
2010	708
2011	15
2012	—
Thereafter	—
Total	$ 4,597

Collateralized borrowings represent deferred sales proceeds on certain leasing transactions with third-party leasing companies. These transactions are accounted for as borrowings in accordance with SFAS No. 13, with the related assets capitalized as property, plant and equipment and depreciated straight-line over the lease term.

Capital lease obligations outstanding are primarily related to sale-leaseback transactions with third-party leasing companies whereby we sell our manufactured equipment to the leasing company and lease it back. The equipment covered by these leases is rented to our customers over the lease term.

As of December 31, 2007, we had an available committed line of credit totaling approximately $125,000. We also have stand alone letters of credit of approximately $3,000 outstanding as of December 31, 2007. There were no outstanding borrowings under these facilities as of December 31, 2007.

On June 19, 2007, we entered into a credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, National Association, as administrative agent, Bank of America, N.A., as syndication agent, BMO Capital Markets Financing, Inc. and U.S. Bank National Association, as Co-Documentation Agents and the Lenders from time to time party thereto. The Credit Agreement provides us and certain of our foreign subsidiaries access to a $125,000 senior unsecured revolving credit facility until June 19, 2012. Borrowings may be denominated in U.S. Dollars or certain other currencies. The Credit Agreement contained a $75,000 sublimit on foreign currency borrowings and a $50,000 sublimit on borrowings by the foreign subsidiaries. The agreement also contains an option that allows us to increase the commitment, in increments of

(In thousands, except shares and per share data)

$20,000, to a total of $225,000. Approval from the Board of Directors is required if the aggregate amount of the commitment exceeds $150,000. The facility is available for general corporate purposes, working capital needs, share repurchases and acquisitions.

The fee for committed funds under the Credit Agreement ranges from an annual rate of 0.08% to 0.225%, depending on our leverage ratio. Borrowings under the Credit Agreement generally bear interest at an annual rate of, at our option, either (i) between LIBOR plus 0.32% to LIBOR plus 1.025%, depending on our leverage ratio, or (ii) the higher of (A) the prime rate or (B) the federal funds rate plus 0.50%.

The Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and to merge or consolidate with another entity. Further, the Credit Agreement contains a covenant requiring us to maintain an indebtedness to EBITDA ratio as of the end of each quarter of not greater than 3.5 to 1, and to maintain an EBITDA to interest expense ratio of no less than 3.5 to 1. The Credit Agreement also restricts us from paying dividends or repurchasing stock in an amount that exceeds $50,000 during any fiscal year if, after giving effect to such payments, our leverage ratio would exceed 2.5 to 1. We were in compliance with all such covenants at December 31, 2007.

On February 21, 2008, we amended the Credit Agreement to increase the sublimit on foreign currency borrowings from $75,000 to the aggregate amount of the commitment and to increase the sublimit on borrowings by the foreign subsidiaries from $50,000 to $100,000.

On August 23, 2007, we entered into an unsecured revolving credit facility (the "Credit Facility") with Bank of America, National Association which expires in August 2008. This Credit Facility is denominated in Renminbi ("RMB") in the amount of 14,600 RMB, or approximately $1,900 U.S. Dollars, and is available for general corporate purposes, including working capital needs of our China location. The interest rate on borrowed funds is equal to the People's Bank of China's base rate. This facility also allows for the issuance of standby letters of credit, performance bonds and other similar instruments over the term of the facility for a fee of 0.95% of the amount issued. The balance outstanding on this facility was $205 U.S. Dollars at December 31, 2007 at a rate of 6.21%.

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8. Other Current Liabilities

Other current liabilities at December 31, consisted of the following:

	2007	2006
Taxes, other than income taxes	**$ 3,390**	$ 3,224
Warranty	**6,950**	6,868
Deferred revenue	**2,560**	2,664
Rebates	**5,173**	4,681
Other	**13,237**	11,145
Total	**$ 31,310**	$ 28,582

The changes in warranty reserves for the three years ended December 31 were as follows:

	2007	2006	2005
Beginning balance	**$ 6,868**	$ 6,146	$ 6,180
Additions charged to expense	**7,740**	8,258	7,668
Changes in estimates	**(45)**	153	(398)
Acquired reserves	**—**	89	—
Foreign currency	**193**	135	(122)
Claims paid	**(7,806)**	(7,913)	(7,182)
Ending balance	**$ 6,950**	$ 6,868	$ 6,146

9. Fair Value of Financial Instruments

Our short-term financial instruments including cash equivalents and short-term investments are valued at their carrying amounts in the Consolidated Balance Sheets, which are reasonable estimates of their fair value due to their short maturities. Our foreign currency forward exchange contracts are valued at fair market value, which is the amount we would receive or pay to terminate the contracts at the reporting date. The fair market value of our long-term debt approximates cost, based on the borrowing rates currently available to us for bank loans with similar terms and remaining maturities.

We use derivative instruments to manage exposures to foreign currency only in an attempt to limit underlying exposures from currency fluctuations and not for trading purposes. As of December 31, 2007 and 2006, the fair value of such contracts outstanding was a net gain of $490 and a net loss of $117, respectively. At December 31, 2007 and 2006, the notional amounts of foreign currency forward exchange contracts outstanding were $61,756 and $54,451, respectively.

10. Retirement Benefit Plans

Substantially all U.S. employees are covered by various retirement benefit plans maintained by Tennant. Retirement benefits for eligible employees in foreign locations are funded principally through defined benefit plans, annuity or government programs. The total cost of benefits for our U.S. and foreign plans was $9,604, $10,188 and $9,898 in 2007, 2006 and 2005, respectively.

We have a 401(k) plan that covers substantially all U.S. employees. Under this plan, the employer contribution matches up to 3% of the employee's compensation in the form of Tennant stock. We also make a profit sharing contribution to the plan for employees with more than one year of service in accordance with our Profit Sharing Plan. This contribution can be in the form of Tennant stock or cash and is based upon our financial performance. Matching contributions are primarily funded by our ESOP Plan, while profit sharing contributions are generally paid in cash. Expenses under these plans were $6,184, $7,344 and $7,129 during 2007, 2006 and 2005, respectively.

We have a U.S. nonqualified supplemental benefit plan ("the U.S. Nonqualified Plan") to provide additional retirement benefits for certain employees whose benefits under our 401(k) plan or U.S. Pension Plan are limited by either the Employee Retirement Income Security Act or the Internal Revenue Code.

We have a U.S. postretirement medical benefit plan ("the U.S. Retiree Plan") to provide certain healthcare benefits for U.S. employees hired before January 1, 1999. Eligibility for those benefits is based upon a combination of years of service with Tennant and age upon retirement.

We have a qualified, funded defined benefit retirement plan ("the U.S. Pension Plan") in the U.S. covering certain current and retired employees. Plan benefits are based on the years of service and compensation during the highest five consecutive years of service in the final ten years of employment. No new participants have entered the plan since 2000. The plan has approximately 500 participants including approximately 200 active employees as of December 31, 2007.

We also have defined pension benefit plans in the United Kingdom and Germany ("the U.K. Pension Plan" and "the German Pension Plan"). The U.K. Pension Plan and German pension Plan both cover certain current and retired employees and neither plan is accepting new participants.

We expect to contribute approximately $125 to our U.S. Nonqualified Plan, approximately $816 to our U.S. Retiree Plan, approximately $159 to our U.K. Pension Plan, and approximately $44 to our German Pension Plan in 2008. No contributions to the U.S. Pension Plan are expected to be required during 2008.

Weighted-average asset allocations by asset category of the U.S. and U.K. Pension Plans as of December 31, are as follows:

	2007	2006
Equity securities	**57%**	56%
Debt securities	**39%**	40%
Other	**4%**	4%
Total	**100%**	100%

The primary objective of our U.S. and U.K. Pension Plans is to meet retirement income commitments to plan participants at a reasonable cost to Tennant and to maintain a sound actuarially funded status. This objective is accomplished through growth of capital and safety of funds invested. The pension plan assets are invested in securities to achieve growth of capital over inflation through appreciation and accumulation and reinvestment of dividend and interest income. Investments are diversified to control risk. The overall return objective is to achieve an annualized return equal to or greater than the return expectations in the actuarial valuation. The target allocation for the U.S. Pension Plan is 60% equity and 40% debt securities. Equity securities within the U.S. Pension Plan do not include any investments in Tennant Company common stock. The U.K. Pension Plan is invested in an insurance contract with underlying investments primarily in equity and fixed income securities. Our German Pension Plan is unfunded, which is customary in that country.

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Weighted-average assumptions used to determine benefit obligations as of December 31 are as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2007	**2006**	**2007**	**2006**
Discount rate	**6.42%**	5.77%	**6.60%**	6.00%
Rate of compensation increase	**4.16%**	4.11%	—	—

Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31 are as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2007	**2006**	**2007**	**2006**
Discount rate	**5.77%**	5.62%	**6.00%**	5.80%
Expected long-term rate of return on plan assets	**8.19%**	8.24%	—	—
Rate of compensation increase	**4.11%**	4.05%	—	—

The discount rate is used to discount future benefit obligations back to today's dollars. Our discount rates were determined based on high-quality fixed income investments. The resulting discount rates are consistent with the duration of plan liabilities. The Citigroup Above Median Yield Curve is used in determining the discount rate for the U.S. Plans.

The accumulated benefit obligations as of December 31, for all defined benefit plans are as follows:

	2007	**2006**
U.S. defined benefit plans	**$ 29,758**	$ 28,539
U.K. Pension Plan	**7,801**	8,615
German Pension Plan	**731**	786

Information for our plans with an accumulated benefit obligation in excess of plan assets is as follows:

	2007	**2006**
Projected benefit obligation	**$ 10,527**	$ 11,475
Accumulated benefit obligation	**10,029**	10,796
Fair value of plan assets	**7,356**	6,755

As of December 31, 2007 and 2006, the U.S. Nonqualified, U.K. Pension and German Pension Plans had an accumulated benefit obligation in excess of plan assets.

Assumed healthcare cost trend rates at December 31, 2007 and 2006 are as follows:

	2007	**2006**
Healthcare cost trend rate assumption for the next year	**10.1%**	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.1%**	4.5%
Year that the rate reaches the ultimate trend rate	**2028**	2027

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. To illustrate, a one-percentage-point change in assumed healthcare cost trends would have the following effects:

	1-Percentage-Point Decrease	1-Percentage-Point Increase
Effect on total of service and interest cost components	$ (74)	$ 86
Effect on postretirement benefit obligation	$ (1,034)	$ 1,200

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

	Pension Benefits		Postretirement Medical Benefits	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 41,391**	$ 40,628	**$ 14,242**	$ 15,027
Service cost	**1,014**	1,039	**142**	152
Interest cost	**2,377**	2,316	**734**	766
Plan participants’ contributions	**52**	53	**—**	—
Plan amendments	**—**	—	**—**	(426)
Actuarial (gain) loss	**(2,007)**	(551)	**(1,800)**	(305)
Foreign exchange	**220**	938	**—**	—
Benefits paid	**(1,675)**	(3,168)	**(555)**	(972)
Settlement loss	**—**	136	**—**	—
Benefit obligation at end of year	**41,372**	$ 41,391	**$ 12,763**	$ 14,242
Change in fair value of plan assets and net accrued liabilities:				
Fair value of plan assets at beginning of year	**$ 39,065**	$ 35,730	**$ —**	$ —
Actual return on plan assets	**2,545**	4,640	**—**	—
Employer contributions	**373**	1,179	**555**	972
Plan participants’ contributions	**52**	53	**—**	—
Foreign exchange	**96**	631	**—**	—
Benefits paid	**(1,675)**	(3,168)	**(555)**	(972)
Fair value of plan assets at end of year	**40,456**	39,065	**—**	—
Funded status at end of year	**$ (916)**	$ (2,326)	**$ (12,763)**	$ (14,242)
Amounts recognized in the consolidated balance sheets consisted of:				
Noncurrent assets	**$ 2,255**	$ 2,394	**$ —**	$ —
Current liabilities	**(169)**	(157)	**(816)**	(1,024)
Noncurrent liabilities	**(3,002)**	(4,563)	**(11,947)**	(13,218)
Net accrued liability	**$ (916)**	$ (2,326)	**$ (12,763)**	$ (14,242)
Amounts recognized in accumulated other comprehensive income consist of:				
Prior service cost	**$ 2,588**	$ 3,150	**$ (3,008)**	$ (3,587)
Transition asset	**(43)**	(65)	**—**	—
Net (gain) loss	**(4,114)**	(2,499)	**1,261**	3,095

Accumulated other comprehensive income (loss)	**$ (1,569)**	$ 586	**$ (1,747)**	$ (492)

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Components of net periodic benefit cost for the three years ended December 31, were as follows:

	Pension Benefits			Postretirement Medical Benefits		
	2007	2006	2005	2007	2006	2005
Service cost	**$ 1,014**	$ 1,008	$ 1,129	**$ 142**	$ 152	$ 213
Interest cost	**2,377**	2,252	2,113	**734**	766	839
Expected return on plan assets	**(3,025)**	(2,943)	(2,921)	**—**	—	—
Amortization actuarial (gain) loss	**88**	71	(155)	**34**	75	169
Amortization of transition obligation	**(22)**	(22)	(22)	**—**	—	—
Amortization of prior service cost	**562**	567	570	**(580)**	(520)	(520)
Settlement loss	**—**	179	—	**—**	—	—
Foreign currency	**76**	98	(95)	—	—	—
Net periodic cost	**$ 1,070**	$ 1,210	$ 619	**$ 330**	$ 473	$ 701
Changes in accumulated other comprehensive income:						
Incremental effect of adopting SFAS No. 158	**N/A**	$ (1,055)	N/A	**N/A**	$ (492)	N/A
Net (gain) loss	**(1,527)**	197	N/A	**(1,800)**	—	N/A
Amortization of unrecognized prior service cost	**(562)**	N/A	N/A	**580**	N/A	N/A
Amortization of unrecognized prior transition (asset) obligation	**22**	N/A	N/A	—	N/A	N/A
Amortization of unrecognized actuarial (gain) loss	**(88)**	N/A	N/A	**(34)**	N/A	N/A
Total recognized in other comprehensive income	**$ (2,155)**	$ (858)	N/A	**$ (1,254)**	$ (492)	N/A
Total recognized in net periodic benefit cost and other comprehensive income	**$ (1,085)**	$ 352	N/A	**$ (924)**	$ (19)	N/A

The following benefit payments, which reflect expected future service, are expected to be paid for our U.S. and foreign plans:

	Pension Benefits	Postretirement Medical Benefits
2008	$ 1,995	$ 816
2009	2,876	930
2010	2,194	956
2011	2,103	1,053
2012	2,686	1,136
2013 to 2017	18,285	6,163
Total	30,139	11,054

The following amounts are included in accumulated other comprehensive income as of December 31, 2007 and are expected to be recognized as components of net periodic benefit cost during 2008:

	Pension Benefits	Postretirement Medical Benefits
Net (gain) loss	$ (220)	$ —
Net transition obligation	(22)	—
Net prior service cost (credit)	556	(580)

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11. Common and Preferred Stock and Additional Paid-in Capital

We are authorized to issue an aggregate of 61,000,000 shares; 60,000,000 are designated as common stock, having a par value of $0.375 per share, and 1,000,000 are 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 10, 2006, the Board of Directors approved a Rights Agreement and declared a dividend of one preferred share purchase right for each outstanding share of common stock. Each right entitles the registered holder to purchase from us one one-hundredth of a Series A Junior Participating Preferred Share of the par value of $0.02 per share 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, including for stock ownership by employee benefit plans, the beneficial owner of 20% or more of the outstanding common stock), or (ii) the close of business on the fifteenth day following the first 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 stock (or such later date as may be determined by our Board of Directors prior to a person or group of affiliated or associated persons becoming an Acquiring Person). After a person or group becomes an Acquiring Person, each holder of a Right (other than an Acquiring Person) will be able to exercise the right at the current exercise price of the Right and receive the number of shares of common stock having a market value of two times the exercise price of the right, or, depending upon the circumstances in which the rights became exercisable, the number of common shares of the acquiring company having a market value of two times the exercise price of the right. At no time do the rights have any voting power. We may redeem the rights for $0.001 per right at any time prior to a person or group acquiring 20% or more of the common stock. Under certain circumstances, the Board of Directors may exchange the rights for our common stock or reduce the 20% thresholds to not less than 10%. The rights will expire on December 26, 2016, unless extended or earlier redeemed or exchanged by us.

12. Commitment and Contingencies

We lease 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 2013 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 $13,647, $11,911 and $8,977 in 2007, 2006 and 2005, respectively.

The minimum rentals for aggregate lease commitments with an initial term of one year or more at December 31, 2007, were as follows:

2008	$ 8,900
2009	5,467
2010	3,673
2011	2,153
2012	1,316
Thereafter	236
Total	$21,745

Certain operating leases for vehicles contain residual value guarantee provisions, which would become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. Of those leases that contain residual value guarantees, the aggregate residual value at lease expiration is $11,862, of which we have guaranteed $9,270. As of December 31, 2007, we have recorded a liability for the estimated end-of-term loss related to this residual value guarantee of $797 for certain vehicles within our fleet. Our fleet also contains vehicles we estimate will settle at a gain. Gains on these vehicles will be recognized at the end of the lease term.

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We have applied the provisions of EITF 01-8, “Determining Whether an Arrangement Contains a Lease,” and have determined that our agreement with our third-party logistics provider contains an operating lease under SFAS No. 13. As a result, we have included the future minimum lease payments related to the underlying building lease in our operating lease commitments above. In the event that we elect to cancel the agreement with our third party logistics provider, Tennant would be required to assume the underlying building lease for the remainder of its term.

During July 2005, we amended our 2003 purchase commitment with a third-party manufacturer to extend the terms of the agreement to September 2008. The remaining commitment under this agreement totaled $2,323 as of December 31, 2007.

In the ordinary course of business, we may become liable with respect to pending and threatened litigation, tax, environmental and other matters. While the ultimate results of current claims, investigations and lawsuits involving us are unknown at this time, we do not expect that these matters will have a material adverse effect on our consolidated financial position or results of operations.

13. Income Taxes

Income from continuing operations for the three years ended December 31, was as follows:

	2007	2006	2005
U.S. operations	$ 50,561	$ 37,325	$ 28,660
Foreign operations	7,151	5,977	6,334
Total	$ 57,712	$ 43,302	$ 34,994

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

	2007	2006	2005
Current			
Federal	**$ 14,927**	$ 11,345	$ 8,243
Foreign	**3,135**	2,423	3,117
State	**1,305**	436	1,129
	$ 19,367	$ 14,204	$ 12,489
Deferred			
Federal	**$ 1,978**	$ (458)	$ (108)
Foreign	**(3,605)**	(200)	(354)
State	**105**	(53)	31
	$ (1,522)	$ (711)	$ (431)
Total			
Federal	$ **16,905**	$ 10,887	$ 8,135
Foreign	(470**)**	2,223	2,763
State	**1,410**	383	1,160
	$ 17,845	$ 13,493	$ 12,058

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U.S. income taxes have not been provided on approximately $58,125 of undistributed earnings of non-U.S. subsidiaries. We plan to permanently reinvest these undistributed earnings. If any portion were to be distributed, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable.

We have Dutch, German and Chinese tax loss carryforwards of approximately $30,800, $18,066 and $3,574, respectively. If unutilized, the Dutch and Chinese tax loss carryforwards will begin expiring in 2012. The German tax loss carryforward has no expiration date. Because of the uncertainty regarding realization of the Dutch and Chinese tax loss carryforwards, a valuation allowance was established. This valuation allowance increased in 2007 due to continued losses in these countries, the strength of the Euro and RMB against the U.S. dollar and changes in Chinese tax laws. During 2007 we determined that it is now more likely than not that the German tax loss carryforward will be utilized in the future and accordingly the valuation allowance for the related deferred tax asset was reduced to zero. The one-time tax benefit related to the reversal of this valuation allowance, net of the impact of tax rate changes in Germany and the U.K., was $3,605.

A valuation allowance for the remaining deferred tax assets is not required since it is more likely than not that they will be realized through carryback to taxable income in prior years, future reversals of existing taxable temporary differences and future taxable income.

Our effective income tax rate varied from the U.S. federal statutory tax rate for the three years ended December 31, as follows:

	2007	2006	2005
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	**1.8**	(0.2)	2.2
Effect of foreign operations	**0.5**	0.6	4.0
Effect of changes in valuation allowances	**(4.9)**	0.4	(2.7)
Effect of ETI and manufacturing deduction	**(1.2)**	(2.5)	(2.6)
Other, net	**(0.3)**	(2.1)	(1.4)
Effective income tax rate	**30.9%**	31.2%	34.5%

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

	2007	2006
Deferred tax assets:		
Inventories, principally due to additional costs inventoried for tax purposes and changes in inventory reserves	**$ 848**	$ 854
Employee wages and benefits, principally due to accruals for financial reporting purposes	**13,062**	14,366
Warranty reserves accrued for financial reporting purposes	**1,856**	1,862
Accounts receivable, principally due and tax accounting method for equipment rentals	**658**	643
Tax loss carryforwards	**13,106**	11,034
Valuation allowance	**(8,197)**	(11,034)
Other	**562**	863
Total deferred tax assets	**$ 21,895**	$ 18,588
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation and related gains	**$ 5,895**	$ 3,621
Goodwill	**6,006**	5,889
Total deferred tax liabilities	**$ 11,901**	$ 9,510
Net deferred tax assets	**$ 9,994**	$ 9,078

The valuation allowance at December 31, 2007, principally applies to certain foreign loss carryforwards that, in the opinion of management, are more likely than not to expire unutilized. However, to the extent that tax benefits related to these carryforwards are realized in the future, the reduction in the valuation allowance will reduce income tax expense.

In 2007, 2006 and 2005, we recorded tax benefits directly to shareholders' equity of $3,300, $1,392 and $1,495, respectively, relating to our ESOP and stock plans.

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"), on January 1, 2007. The cumulative effect of adopting FIN No. 48 was a decrease in reserves for uncertain tax positions and an increase to the January 1, 2007 balance of retained earnings of $184. Consistent with the provisions of FIN No. 48, we reclassified the reserves for uncertain tax positions from other current liabilities to non-current liabilities unless the liability is expected to be paid within one year.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at 1/1/07	$	5,779
Increases/(decreases) as a result of tax positions taken during a prior period		—
Increases/(decreases) as a result of tax positions taken during the current period		548
Decreases for tax positions related to acquired entities during a prior period		—
Decreases relating to settlements with taxing authorities		—
Reductions as a result of a lapse of the applicable statute of limitations		(561)
Increases/(decreases) as a result of foreign currency fluctuations		363
Balance at 12/31/07	$	6,129

Included in the balance of unrecognized tax benefits at December 31, 2007 are potential benefits of $1,865 that, if recognized, would affect the effective tax rate from continuing operations.

We recognize potential accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Included in the liability of $6,129 for unrecognized tax benefits as of December 31, 2007 was a benefit of approximately $368 for accrued interest and penalties. To the extent interest and penalties are not assessed with respect to uncertain tax positions, the amounts accrued will be revised and reflected as an adjustment to income tax expense.

We do not anticipate that total unrecognized tax benefits will change significantly within the next 12 months.

We are subject to U.S. federal income tax as well as income tax of numerous state and foreign jurisdictions. We are generally no longer subject to U.S. federal tax examinations for taxable years before 2004 and with limited exceptions, state and foreign income tax examinations for taxable years before 2003. The Internal Revenue Service has just begun an examination of our income tax return for the 2005 tax year. It is possible that the examination phase of the audit may conclude in the next 12 months, and that the related unrecognized tax benefits for tax positions taken may change from those recorded as liabilities for uncertain tax positions in our financial statements at December 31, 2007. Although the outcome of this matter cannot currently be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

14. Stock-Based Compensation

We have seven plans under which we have awarded share-based compensation grants. The 1992 Stock Incentive Plan ("1992 Plan"), 1995 Stock Incentive Plan ("1995 Plan"), 1998 Management Incentive Plan ("1998 Plan") and 1999 Amended and Restated Stock Incentive Plan ("1999 Plan") provided for stock-based compensation grants to our executives and key employees. The 1993 Restricted Stock Plan for Non-Employee Directors ("1993 Plan") provided for restricted shares to our non-employee Directors. The 1997 Non-Employee Directors Option Plan

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(“1997 Plan”) provided for stock option grants to our non-employee Directors. In 2007, our shareholders approved the 2007 Stock Incentive Plan (the “2007 Plan”), which was adopted as a continuing step toward aggregating our then existing equity compensation programs into one plan to reduce the complexity of our equity compensation programs.

The 1992 Plan expired in 1999 and consequently, no new awards have been granted under this Plan since 1999, although awards previously granted under it remain outstanding and continue to be governed by its terms.

The 1995 and 1998 Plans were terminated in 2006 and all remaining shares were transferred to the Amended and Restated 1999 Stock Incentive Plan as approved by the shareholders in 2006. Awards granted under the 1995 and 1998 Plans prior to 2006 that remain outstanding, continue to be governed by the respective plan under which the grant was made. Upon approval of the Amended and Restated Stock Incentive Plan in 2006, we ceased making grants of future awards under the 1995 and 1998 Plans and subsequent grants of future awards were made from the 1999 Plan and governed by its terms.

The 2007 Plan terminated our rights to grant awards under the 1999 Plan except that the 1999 Plan will remain available for grants of reload options upon exercise of previously granted options with one-time reload features. Awards previously granted under the 1999 Plan remain outstanding and continue to be governed by the terms of that plan. A total of 1,500,000 shares were authorized for future awards under the 2007 Plan.

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share Based Payment” (“SFAS No. 123(R)”), using the modified prospective transition method. Under this method, stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006. Compensation costs for unvested stock options and awards that were outstanding as of the adoption date are being recognized, beginning January 1, 2006, over the requisite service period based on the grant date fair value of those options and awards as previously calculated under the pro-forma disclosures pursuant to Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”).

A maximum of 6,200,000 shares have been available under these plans. As of December 31, 2007, there were 158,230 shares reserved for issuance under the 1993 Plan, the 1997 Plan and the 1999 Plan for outstanding compensation awards and 1,463,673 shares were available for issuance under the 2007 Plan for current and future equity awards. The Compensation Committee of the Board of Directors determines the grant date and number of shares awarded under all plans.

Stock Option and Stock Appreciation Right Awards

We determined the fair value of our stock option awards using the Black-Scholes option pricing model.

The following assumptions were used for the 2007, 2006 and 2005 grants:

	2007	**2006**	**2005**
Expected dividend yield	**1.3 - 1.8%**	1.8 - 2.1%	2.2 - 2.3%
Expected volatility	**26 - 35%**	22 - 75%	24 - 30%
Risk-free interest rate	**3.7 - 5.1%**	4.6 - 5.1%	3.9 - 4.5%
Expected life, in years	**1 - 9**	2 - 9	6 - 7
Weighted-average expected volatility	**30%**	43%	25%
Weighted-average fair value	**$ 10.26**	$ 10.01	$ 5.78

The expected life selected for stock options granted during the year represents the period of time that the stock options are expected to be outstanding based on historical data of stock option holder exercise and termination behavior of similar grants. The risk-free interest rate for periods within the contractual life of the stock option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatilities are based upon historical volatility of our stock over a period equal to the expected life of each stock option grant. Dividend yield is estimated over the expected life based on our dividend policy and historical dividends paid. We use historical data to estimate pre-vesting forfeiture rates and revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

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The total grant date fair value of stock options vested during the years ended December 31, 2007, 2006 and 2005 was $876, $1,418 and $3,133, respectively.

The weighted-average remaining contractual life for options outstanding and exercisable as of December 31, 2007, was four years. The aggregate intrinsic value of options outstanding and exercisable was $26,779 and $25,415, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2007, 2006 and 2005 was $8,370, $3,629 and $4,043, respectively.

Employee stock option awards prior to 2005 include a reload feature for options granted to key employees. This feature allows employees to exercise options through a stock-for-stock exercise using mature shares, and employees are granted a new stock option (reload option) equal to the number of shares of common stock used to satisfy both the exercise price of the option and the tax withholding requirements. The reload options granted have an exercise price equal to the fair market value of the common stock on the grant date. Stock options granted in conjunction with reloads vest immediately and have a term equal to the remaining life of the initial grant.

Beginning in 2005, new stock option awards granted vest one-third each year over a three-year period and have a ten-year contractual term. These grants do not contain a reload feature. Compensation expense equal to the grant date fair value is recognized for these awards over the vesting period. Compensation expense is fully recognized for reload stock options as of the reload date.

In addition to stock options, we also occasionally grant cash-settled stock appreciation rights (“SARs”) to employees in certain foreign locations. Total outstanding SARs were 11,400 as of December 31, 2007. No new SARs were granted during 2007 or 2006.

Compensation expense related to stock options and SARs was $778 and $1,054, for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, there was unrecognized compensation cost for unvested options and rights of $525 which is expected to be recognized during 2008, 2009 and 2010.

The following table summarizes the activity during the year ended December 31, 2007, for stock option and SARs awards:

	Shares	Weighted - Average Exercise Price
Outstanding at beginning of year	1,543,000	$ 19.54
Granted	29,000	32.30
Exercised	(465,300)	19.63
Forfeited	(1,000)	20.82
Expired	(23,200)	18.13
Outstanding at end of year	1,082,500	$ 19.87
Exercisable at end of year	1,007,200	$ 19.37

Restricted Share Awards

The following table summarizes the activity during the year ended December 31, 2007, for unvested restricted share awards:

	Unvested Shares	Weighted-Average Grant Date Fair Value
Unvested at beginning of year	83,100	$ 25.56
Granted	32,800	33.15
Vested	(17,600)	24.92
Forfeited	(7,200)	26.38
Unvested at end of year	91,100	$ 28.35

Restricted share awards typically have a two or three year vesting period from the effective date of the grant. Restricted share awards to non-employee directors vest upon a change of control or upon termination of service as a director occurring at least six months after grant date of award so long as termination is for one of the following reasons: death; disability; retirement in accordance with company policy (i.e., age 68 etc.); resignation at request of Board (other than for gross misconduct); resignation following at least one year advance notice; failure to be re-nominated (unless due to unwillingness to serve) or re-elected by shareholders; or removal by shareholders. The total fair value of shares vested during the year ended December 31, 2007, 2006 and 2005 was $438, $256 and $955, respectively. Compensation expense related to restricted stock was $1,105 and $772 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, there was $877 of total unrecognized compensation cost related to unvested shares which is expected to be recognized during 2008, 2009 and 2010.

(In thousands, except shares and per share data)

Performance Share Awards

We grant performance share awards to key employees as a part of our management compensation program. These awards are earned based upon achievement of certain financial performance targets. We determine the fair value of these awards as of the date of grant and recognize the expense over a three year performance period. The compensation expense for these awards was $807 and $1,361 for the years ended December 31, 2007 and 2006, respectively.

During November 2005, we also granted a performance share award, which vests and is earned upon achieving certain total shareholder return targets over a five-year performance period. The maximum number of shares of common stock issuable upon payout of the award is 40,000. Compensation cost is based on the fair value of this award as of the date of grant and recognized over the derived requisite service period of three years. Compensation expense related to this award was $142 for the years ended December 31, 2007 and 2006. As of December 31, 2007, there was $130 of total unrecognized compensation cost related to this award, which is expected to be recognized during 2008.

Share-Based Liabilities

As of December 31, 2007, we had $1,386 in total share-based liabilities recorded on our balance sheet. During the year ended December 31, 2007 we paid out $655 related to 2006 share-based liability awards. $1,739 related to 2005 share-based liability awards was paid during the year ended December 31, 2006.

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15. Employee Stock Ownership Plan

We established a leveraged Employee Stock Ownership Plan (“ESOP”) in 1990. The ESOP covers substantially all domestic employees. The shares required for our 401(k) matching contribution program are provided principally by our ESOP, supplemented as needed by newly issued shares. We make 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, in the form of a matching contribution, based on the proportion of debt service paid in the year. We account for the ESOP in accordance with EITF 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, we report compensation expense equal to the cost of the shares to the ESOP. All ESOP shares are considered outstanding in earnings-per-share computations, and dividends on allocated and unallocated shares are recorded as a reduction of retained earnings.

The following table summarizes ESOP activity during the years ended December 31:

	2007	**2006**	**2005**
Cash contributions	**$ 1,530**	$ 1,513	$ 1,498
Net benefit provided by ESOP	**2,568**	1,205	387
Interest earned and received on loan	**520**	663	792
Dividends	**486**	523	559

The benefit provided through the ESOP is net of expenses and is recorded in other income. At December 31, 2007, the ESOP indebtedness to us, which bears an interest rate of 10.05% and is due December 31, 2009, was $3,611.

The ESOP shares as of December 31, were as follows:

	2007	**2006**	**2005**
Allocated shares	**1,738,210**	1,638,248	1,538,286
Unreleased shares	**199,922**	299,884	399,846
Total ESOP shares	**1,938,132**	1,938,132	1,938,132

16. Earnings Per Share Computations

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

	2007	2006	2005
Numerator:			
Net Earnings	**$ 39,867**	$ 29,809	$ 22,936
Denominator:			
Basic - weighted average outstanding shares	**18,641,000**	18,561,000	18,024,000
Effect of dilutive securities:			
Employee stock options	**505,000**	428,000	186,000
Diluted - weighted average outstanding shares	**19,146,000**	18,989,000	18,210,000
Basic earnings per share	**$ 2.14**	$ 1.61	$ 1.27
Diluted earnings per share	**$ 2.08**	$ 1.57	$ 1.26

Options to purchase 20,700, 107,000 and 892,000 shares of common stock were outstanding during 2007, 2006, and 2005, respectively, but were not included in the computation of diluted earnings per share as the effect would have been antidilutive.

17. Segment Reporting

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," establishes disclosure standards for segments of a company based on management's approach to defining operating segments. In accordance with the objective and basic principles of the standard we aggregate our operating segments into one reportable segment.

The following sets forth net sales and long-lived assets by geographic area:

	2007	2006	2005
Net sales:			
North America	**$ 417,757**	$ 391,309	$ 370,142
Europe	**172,708**	147,657	126,913
Other International	**73,753**	60,015	55,853
Total	**$ 664,218**	$ 598,981	$ 552,908

	2007	2006
Long-lived assets:		
North America	**$ 93,222**	$ 85,829
Europe	**37,395**	29,529
Other International	**4,062**	1,914
Total	**$ 134,679**	$ 117,272

Accounting policies of the operations in the various geographic areas are the same as those described in Note 1. Net sales are attributed to each geographic area based on the country to which the product is shipped and 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 our U.S. operations. No single customer represents more than 10% of our consolidated sales. Long-lived assets consist of property and equipment, goodwill, intangible assets and certain other assets.

The following table presents revenues for groups of similar products and services:

	2007	2006	2005
Net sales:			

Equipment	**$ 393,270**	$ 358,344	$ 332,421
Parts and consumables	**161,334**	145,218	133,108
Service and other	**84,429**	74,235	67,482
Specialty surface coatings	**25,185**	21,184	19,897
Total	**$ 664,218**	$ 598,981	$ 552,908

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except shares and per share data)

18. Consolidated Quarterly Data

	Net Sales		Gross Profit	
Quarter	**2007**	**2006**	**2007**	**2006**
First	**$ 155,078**	$ 135,462	**$ 63,758**	$ 56,800
Second	**165,203**	150,965	**70,853**	65,798
Third	**161,329**	145,690	**66,864**	60,617
Fourth	**182,608**	166,863	**77,509**	68,364
Year	**$ 664,218**	$ 598,981(1)	**$ 278,984**	$ 251,579

	Net Earnings		Basic Earnings per Share		Diluted Earnings per Share	
Quarter	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
First	**$ 5,851**	$ 4,437	**$ 0.31**	$ 0.24	**$ 0.31**	$ 0.24
Second	**10,454**	9,153	**0.56**	0.49	**0.55**	0.48
Third	**10,967**	7,922	**0.59**	0.43	**0.57**	0.42
Fourth	**12,595**	8,297	**0.68**	0.44	**0.66**	0.43
Year	**$ 39,867**	$ 29,809	**$ 2.14**	$ 1.61(1)	**$ 2.08**(1)	$ 1.57

(1) The summation of quarterly data does not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis.

Regular quarterly dividends aggregated $0.48 per share in 2007, or $0.12 per share each quarter and $0.46 per share in 2006, or $0.11 per share for the first and second quarters and $0.12 per share for the third and fourth quarters.

19. Subsequent Events

On February 15, 2008, we announced that we entered into a purchase agreement to acquire Applied Sweepers for approximately $68,000. Applied Sweepers, a privately-held company based in Falkirk, Scotland, had 2007 revenues of approximately $40,000.

On February 21, 2008, we amended our Credit Agreement to increase the sublimit on foreign currency borrowings from $75,000 to the aggregate amount of the commitment and to increase the sublimit on borrowings by the foreign subsidiaries from $50,000 to $100,000.

On February 22, 2008, we announced that we entered into a purchase agreement with Sociedade Alfa Ltda., based in Sao Paulo, Brazil. Sociedade Alfa Ltda. reported approximately $9,000 in sales revenues for 2007. This acquisition is expected to close in March or April 2008.

On February 29, 2008, we announced that we completed the acquisition of Applied Sweepers.

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

None.

ITEM 9A – Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Principal Financial and Accounting Officer, have evaluated the effectiveness of our disclosure controls and procedures for the year ended December 31, 2007 (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and our Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is communicated to our management, including our principal executive and our principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Controls over Financial Reporting

The report of management required under this item is contained in Item 8 of this Annual Report on Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this item is contained in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control

There were no significant changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B – Other Information

None.

PART III

ITEM 10 – Directors, Executive Officers and Corporate Governance

The sections entitled "Board of Directors Information" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2008 Proxy Statement are incorporated herein by reference.

The list below identifies those persons designated as executive officers of the Company, including their age, position with the Company and positions held by them during the past five or more years.

H. Chris Killingstad, President and Chief Executive Officer

H. Chris Killingstad (52) joined the Company in April 2002 as Vice President, North America and was named President and CEO in 2005. From 1990 to 2000, he was employed by The Pillsbury Company, a consumer foods manufacturer. From 1999 to 2000 he served as Sr. Vice President and General Manager of Frozen Products for Pillsbury North America; from 1996 to 1999 he served as Regional Vice President and Managing Director of Pillsbury Europe, and from 1990 to 1996 was Regional Vice President of Haagen-Dazs Asia Pacific.

Steven M. Coopersmith, Vice President, Global Marketing

Steven M. Coopersmith (44) joined Tennant in April 2003. From 2000 to 2003, he was the President of Dairy Marketing Alliance LLC, a joint venture between Land O'Lakes, Inc. and Dean Foods Company. Previously, he was Vice President of Product Development with United Healthcare. Before that, he was the Business Team Leader for Pillsbury's line of refrigerated sweet baked goods. Earlier in his career, he managed new products for Reckitt & Coleman Inc.'s household product group. He began his marketing career at Unilever's Lever Brothers Company, where he held a variety of positions culminating in Senior Manager of their All detergent franchise.

Thomas J. Dybsky, Vice President, Administration

Thomas J. Dybsky (58) joined the Company in September 1998 as Vice President of Human Resources and was named Vice President of Administration in 2004. From June 1995 to September 1998, he was Vice President/Senior Consultant for MDA Consulting.

Andrew J. Eckert, Vice President, North America Sales

Andrew J. Eckert (44) joined Tennant in 2002 as General Manager, North America. He was promoted to Vice President, North America Sales in 2005. From 2000 to 2002, he was the Senior Vice President of Operations at Storecast Merchandising Company, a national retail merchandising service contractor for the grocery industry. Prior to that, he was Director of Strategic Planning at General Mills and led the automation and cost-reduction efforts for U.S. trade promotional spending. He began his sales career in 1985 at General Mills in Houston, TX, and held a variety of increasing responsibilities including Customer Sales Manager for Fleming Companies and American Stores.

Michael W. Schaefer, Vice President, Chief Technical Officer

Michael W. Schaefer (47) joined the Company in 2008 as Vice President, Chief Technical Officer. From 2000 to 2008, he was Vice President of Dispensing Systems, Lean Six Sigma and Quality at Ecolab, Inc., a provider of cleaning and sanitizing products and services, where he led R&D efforts for their equipment business, continuous improvement and standardization of R&D processes. Prior to that, he held various management positions at Alticor Corporation and Kraft General Foods.

Heidi M. Hoard, Vice President, General Counsel and Secretary

Heidi M. Hoard (57) joined Tennant in 2003 as Assistant General Counsel and Assistant Secretary and was named General Counsel in 2005. She was a partner with General Counsel Ltd. during 2003. From 1995 to 2001, she was Vice President, General Counsel and Secretary at Musicland Group, Inc. From 1993 to 1995, she was Senior Legal Counsel at Medtronic, Inc. Prior to that, she was a partner at Faegre & Benson L.L.P., a Minneapolis law firm.

Karel Huijser, Vice President, International

Karel Huijser (46) joined the Company in 2006 as Vice President, International. Prior to joining Tennant, he was President and CEO of Asia Pacific for GE Infrastructure Shanghai, China, from 2005 to November 2006. From 2003 to 2005, he was General Manager of Asia Pacific, GE Water and Process Technologies (Asia). From 2001 to 2003, he was Global Marketing Director for GE Plastics Division based in The Netherlands. His career at GE began in 1992, following six years at Daf Trucks in The Netherlands.

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Thomas Paulson, Vice President and Chief Financial Officer

Thomas Paulson (51) joined Tennant in March 2006. Prior to joining Tennant, Paulson was Chief Financial Officer and Senior Vice President of Innovex from 2001 to 2006. Prior to joining Innovex, a manufacturer of electronic interconnect solutions, Paulson worked for The Pillsbury Company for over 19 years. Paulson became a Vice President at Pillsbury in 1995 and was the Vice President of Finance for the $4 billion North American Foods Division for over two years before joining Innovex.

Don B. Westman, Vice President, Global Operations

Don B. Westman (54) joined the Company in November 2006 as Vice President, Global Operations. Prior to joining Tennant, he was Vice President of Operations – Pump Division for Pentair, Inc., a provider of products and services for the movement, treatment and storage of water, from 2005 to November 2006. From 2003 to 2005, he was Vice President of Operations – Pentair Water. From 1997 to 2003, Westman was Vice President of Operations for Hoffmans Enclosures, where he began in 1982 as a manufacturing engineering manager.

Business Ethics Guide

We have adopted the Tennant Company Business Ethics Guide, which applies to all of our employees, directors, consultants, agents and anyone else acting on our behalf. The Business Ethics Guide includes particular provisions applicable to our senior financial management, which includes our Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions. A copy of our Business Ethics Guide is available on the Investors page of our website, www.tennantco.com, and a copy will be mailed upon request to Investor Relations, Tennant Company, P.O. Box 1452, Minneapolis, MN 55440-1452. We intend to post on our website any amendment to, or waiver from, a provision of our Business Ethics Guide that applies to our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer, Controller and other persons performing similar functions promptly following the date of such amendment or waiver. In addition, we have also posted copies of our Corporate Governance Principles and the Charters for our Audit, Compensation, Governance and Executive Committees on our website.

Section 302 Certifications

We have filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to this report. We filed with the NYSE the CEO certification regarding our compliance with the NYSE's corporate governance listing standards as required by NYSE Rule 303A.12(a) on May 29, 2007.

Corporate Governance

ITEM 11 – Executive Compensation

The sections entitled "Executive Compensation Information" and "Director Compensation" in our 2008 Proxy Statement are incorporated herein by reference.

ITEM 12 – Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our 2008 Proxy Statement are incorporated herein by reference.

ITEM 13 – Certain Relationships and Related Transactions, and Director Independence

The sections entitled "Committee Member Appointment and Director Independence" and "Related Person Transaction Approval Policy" in our 2008 Proxy Statement are incorporated herein by reference.

ITEM 14 – Principal Accounting Fees and Services

The section entitled "Fees Paid to Independent Registered Public Accounting Firm" in our 2008 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15 – Exhibits, Financial Statement Schedules

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

1. **Financial Statements**

Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 on pages 18 to 21 of this Annual Report on Form 10-K.

2. **Financial Statement Schedule**

Schedule II – Valuation and Qualifying Accounts

(Dollars in thousands)

Allowance for doubtful accounts and returns	Balance at beginning of year	Additions charged to costs and expenses	Additions charged to other accounts	Deductions from reserves (1)	Balance at end of year
Year ended December 31, 2007	$ 3,347	$ 1,690	$ —	$ 1,773	$ 3,264
Year ended December 31, 2006	$ 4,756	$ 532	$ —	$ 1,941	$ 3,347
Year ended December 31, 2005	$ 5,143	$ 1,021	$ —	$ 1,408	$ 4,756

[(1)] Includes accounts determined to be uncollectible and charged against reserves, net of collections on accounts previously charged against reserves, as well as the effect of foreign currency on these reserves.

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors and Shareholders

Tennant Company:

Under date of February 29, 2008, we reported on the consolidated balance sheets of Tennant Company and subsidiaries as of December 31, 2007 and 2006, 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, 2007, which are included in Item 15.A.1. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as included in Item 15.A.2. 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 therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* , as of January 1, 2006 and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* , as of December 31, 2006, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* , as of January 1, 2007.

/s/ KPMG LLP
Minneapolis, Minnesota
February 29, 2008

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3. Exhibits

Item #	Description	Method of Filing
3i	Restated Articles of Incorporation	Incorporated by reference to Exhibit 3i to the Company's report on Form10-Q for the quarterly period ended June 30, 2006.
3.1	Certificate of Designation	Incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 2006.
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 10, 2006, between the Company and Wells Fargo Bank, N.A., as Rights Agent	Incorporated by reference to Exhibit 1 to Form 8-A dated November 14, 2006.
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 May 6, 2004)*	Incorporated by reference to Exhibit 10.3 to the Company's Form 10-K for the year ended December 31, 2005.

10.4	Tennant Company Executive Nonqualified Deferred Compensation Plan, as restated effective January 1, 2005*	Filed herewith electronically.
10.5	Form of Management Agreement and Executive Employment Agreement*	Incorporated by reference to Exhibit 10.5 to the Company's Form 10-K for the year ended December 31, 2005.
10i.5	Schedule of parties to Management and Executive Employment Agreement	Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2007.
10.6	Tennant Company Non-Employee Director Stock Option Plan (as amended and restated effective May 6, 2004)*	Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended June 30, 2004.
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	Tennant Company Amended and Restated 1999 Stock Incentive Plan*	Incorporated by reference to Appendix A to the Company's proxy statement for the 2006 Annual Meeting of Shareholders filed on March 15, 2006.
10.9	Long-Term Incentive Plan 2006*	Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated January 19, 2006.
10.10	Long-Term Incentive Plan 2007*	Incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the year ended December 31, 2006.
10.11	Short-Term Incentive Plan 2007*	Incorporated by reference to Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 2006.
10.12	Deferred Stock Unit Agreement (awards prior to 2008)*	Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 2006.
10.13	Performance share award agreement for H. Chris Killingstad*	Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 2005.
10.14	Services Agreement and Management Agreement between the Company and Karel Huijser*	Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2006.
10.15	Tennant Company 2007 Stock Incentive Plan*	Incorporated by reference to Appendix A to the Company's proxy statement for the 2007 Annual Meeting of Shareholders filed on March 15, 2007.

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Item #	Description	Method of Filing
10.16	Credit Agreement dated as of June 19, 2007.	Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated June 19, 2007.
10.17	Deferred Stock Unit Agreement (awards in and after 2008)*	Filed herewith electronically.
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	Filed herewith electronically.

	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 Auditor's Consent	Filed herewith electronically.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith electronically.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith electronically.
32	Section 1350 Certifications	Filed herewith electronically.

*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K.

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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/ H. Chris Killingstad

H. Chris Killingstad
President, CEO and
Board of Directors

Date March 5, 2008

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By	/s/ H. Chris Killingstad	By	/s/ David Mathieson
	H. Chris Killingstad President, CEO and Board of Directors *		David Mathieson Board of Directors *
Date	March 5, 2008	Date	March 5, 2008
By	/s/ Thomas Paulson	By	/s/ Edwin L. Russell
	Thomas Paulson Chief Financial Officer (Principal Financial and Accounting Officer)		Edwin L. Russell Board of Directors *
Date	March 5, 2008	Date	March 5, 2008
By	/s/ Jeffrey A. Balagna	By	/s/ Stephen G. Shank
	Jeffrey A. Balagna Board of Directors *		Stephen G. Shank Board of Directors *
Date	March 5, 2008	Date	March 5, 2008
By	/s/ James T. Hale	By	/s/ Steven A. Sonnenberg
	James T. Hale		Steven A. Sonnenberg

	Board of Directors *		Board of Directors *
Date	March 5, 2008	Date	March 5, 2008

* The Directors signing this report represent a majority of the Board of Directors.

Exhibit 10.4

TENNANT COMPANY
EXECUTIVE NONQUALIFIED
DEFERRED COMPENSATION PLAN
(as restated effective January 1, 2005)

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TENNANT COMPANY
EXECUTIVE NONQUALIFIED
DEFERRED COMPENSATION PLAN
(as restated effective January 1, 2005)

The Tennant Company (the “Company”) previously adopted two nonqualified deferred compensation plans for the benefit of certain of the Company’s executive employees. These plans are the Tennant Company Deferred Compensation Plan (the “Deferred Compensation Plan”) and the Tennant Company Excess Benefit Plan (the “Excess Benefit Plan”). The Company merged the Excess Benefit Plan into the Deferred Compensation Plan and restated the Deferred Compensation Plan, effective January 1, 2003. As part of that restatement, the Deferred Compensation Plan was renamed the Tennant Company Executive Nonqualified Deferred Compensation Plan (the “Plan”).

Since the Plan became effective, it has been amended to include the Company’s outside Directors as individuals eligible to participate. In addition, changes have been made to the law pursuant to Section 409A of the Code that affect nonqualified deferred compensation plans. Finally, the Company wishes to make some changes in the design and operation of the Plan, including the addition of a Deferred Stock Unit feature.

The Company hereby restates the Plan, as set forth herein, to incorporate the above-mentioned amendment, comply with Section 409A of the Code and to effect the above-mentioned changes in the Plan design and operation. The Plan, as so restated, is sometimes referred to herein as the “Restatement.” Except as otherwise specified herein, the Restatement shall be effective with respect to amounts deferred or that become vested on or after January 1, 2005. Amounts deferred and vested under the Plan prior to January 1, 2005, shall remain subject to the terms of the Plan, as in effect prior to the Restatement. Accordingly, such amounts shall be "grandfathered" under Section 409A of the Code.

ARTICLE 1. PURPOSE & DESCRIPTION OF PLAN

Section 1.1. Purpose . The purpose of the Plan is to provide Eligible Employees with benefits that supplement those provided under certain of the tax-qualified plans maintained by the Company. More specifically, the Plan is intended to permit Eligible Employees to defer a portion of their compensation on a pre-tax basis, and to provide certain other benefits on a nonqualified plan basis that are not otherwise provided under the tax-qualified plans.

Section 1.2. Description of Plan . In the case of Participants who are employees, the Plan is intended to be (and shall be construed and administered as) an employee benefit pension plan under the provisions of ERISA, which is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly-compensated employees, as described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

The Plan is not intended to be qualified under Section 401(a) of the Code. The Plan, as restated herein, is subject to, and intended to comply with, Section 409A of the Code and has been prepared in reliance on IRS Notice 2005-1 and the Proposed Regulations issued under Section 409A of the Code on October 4, 2005.

The obligation of the Company to make payments under the Plan constitutes an unsecured (but legally enforceable) promise of the Company to make such payments and no person, including any Participant or Beneficiary , shall have any lien, prior claim or other security interest in any property of the Company as a result of the Plan.

ARTICLE 2. DEFINITIONS, GENDER, AND NUMBER

Section 2.1 . Definitions . Whenever used in the Plan, the following words and phrases have the meanings set forth below unless the context plainly requires a different meaning, and when a defined meaning is intended, the term is capitalized.

(1) " Account " means the device used to measure and determine the amount of deferred compensation to be paid to a Participant or Beneficiary under the Plan, other than pursuant to Article 7. An employee Participant shall have the opportunity to maintain two Accounts under the Plan, Account A, and Account B. A Director Participant shall have only one Account under the Plan, Account A.

(2) " Affiliate " means any corporation that is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company and any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company.

(3) " Base Compensation ," of a Participant for a Plan Year, means the total annual base salary earned by the Participant for his or her employment with the Company or any Affiliate during such Plan Year, but excluding any other remuneration paid by the Company, such as overtime, severance pay, Incentive Compensation, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving expenses, travel expenses and automobile allowances), fringe benefits whether payable in cash or in a form other than cash, and disability pay. In the case of an individual who is a participant in a plan sponsored by the Company that is described in Section 401(k), 125 or 132(f) of the Code, the term Base Compensation shall include any amount that would be included in the definition of Base Compensation but for the individual's election to reduce his or her Base Compensation and have the amount of the reduction contributed to or used to purchase benefits under such plan.

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(4) " Beneficiary " or " Beneficiaries " means the persons or trusts designated by a Participant in writing pursuant to Section 6.4(a)(iii) of the Plan as being entitled to receive any benefit payable under the Plan by reason of the death of a Participant, or, in the absence of such designation, the persons specified in 6.4(a)(iv) of the Plan.

(5) " Board " means the Board of Directors of the Company as constituted at the relevant time.

(6) " Change in Control " with respect to a Participant, means any one of the events described in Proposed Treasury Regulations Section 1.409A-3(g)(5)(v), (vi) and (vii) (as set forth in Schedule A hereto), or any successor guidance thereto under Code Section 409A. In order to be a Change in Control with respect to a Participant, the change in control event must relate to: (i) the corporation for which the Participant is performing services at the time of the change in control event; (ii) the corporation that is liable for Plan payments; (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), above, or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii), above. For purposes hereof, a majority shareholder of a corporation is a shareholder owning more than 50% of the total fair market value and total voting power of the corporation.

(7) " Code " means the Internal Revenue Code of 1986, as amended from time to time and any successor statute. References to a Code section shall be deemed to be to that section or to any successor to that section.

(8) " Committee " means the Company's Retirement Committee, or any successor committee appointed by the Board to perform substantially similar functions.

(9) " Company " means the Tennant Company, a Minnesota corporation, and its successors and assigns, by merger, purchase or otherwise.

(10) " Compensation ," of an employee Participant for a Plan Year, means the Participant's Base Compensation, STIP Compensation, and LTIP Compensation for the Plan Year. "Compensation," of a Director Participant for a Plan Year, means the annual retainer and meeting fees earned by the Director for the Plan Year for his or her services as a member of the Company's Board.

(11) " Compensation Reduction Contribution " means a contribution to the Plan made by a Participant pursuant to a Deferral Election Agreement that the Participant enters into with the Company. Compensation Reduction Contributions shall be made according to the terms of the Plan set forth in Section 4.2.

(12) " Deferred Compensation Plan " means the Tennant Company Deferred Compensation Plan, as in effect prior to January 1, 2003.

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(13) " Deferral Election Agreement " means the agreement described in Section 4.2 in which the Participant designates the amount of his or her Compensation, if any, that he or she wishes to contribute to the Plan, the proportion in which such contribution is to be allocated between his or her Account A and Account B under the Plan, and acknowledges and agrees to the terms of the Plan.

(14) " Deferred Stock Unit " means a unit of interest under the Plan entitling a Participant to receive a share of Stock at a future date. A Deferred Stock Unit is not a present interest in Stock. Accordingly, a Participant has no rights as a shareholder of the Company with respect to any Deferred Stock Unit.

(15) " Director " means a member of the Company's Board who is not an employee of the Company.

(16) " Eligible Employee " means any key employee of an Affiliate designated by the Committee who is a member of a select group of management or highly compensated employees of the Affiliate, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and any Director.

(17) " Enrollment Period " means the period designated by the Committee during which a Deferral Election Agreement may be entered into with respect to an Eligible Employee's Compensation as described in Section 4.2. Generally, the Enrollment Period must end no later than the end of the calendar year before the calendar year in which the services giving rise to the Compensation to be deferred are performed. As described in Section 4.2, an exception is made to this requirement for individuals who first become eligible to participate in the Plan, and may be made in the case of Compensation Reduction Contributions from certain types of Incentive Compensation considered to be Performance-Based Compensation, as determined by the Committee from time to time.

(18) " ERISA " means the Employee Retirement Income Security Act of 1974, as amended from time to time and any successor statute. References to an ERISA section shall be deemed to be to that section or to any successor to that section.

(19) " Excess Benefit Plan " means the "Tennant Company Excess Benefit Plan," as in effect prior January 1, 2003.

(20) " Highly-Compensated Employee " has the same meaning as in the Profit Sharing Plan.

(21) “ Incentive Compensation ,” of a Participant, means the Participant’s STIP or LTIP Compensation.

(22) “ LTIP ” means the Company’s Long-term Incentive Plan, as in effect from time to time.

(23) “ LTIP Compensation ,” of a Participant for a Plan Year, means the compensation (payable in cash or Stock) under the LTIP in which the Participant vests under the LTIP during the Plan Year.

(24) “ Participant ” means: (a) an Eligible Employee who has satisfied the requirements set forth in Section 3.2; and (b) and any other employee of the Company described in Section 3.1 who has satisfied the requirement set forth in Section 3.2.

(25) “ Pension Plan ” means the “Tennant Company Pension Plan,” as in effect from time to time.

(26) “ Performance-Based Compensation, ” of a Participant, means any Incentive Compensation of the Participant where the amount of, or entitlement to, the Incentive Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months in which the Participant performs services. Organizational or individual performance criteria are considered pre-established if established in writing by not later than 90 days after the commencement period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-based compensation may include payment based on performance criteria that are not approved by the Board, a compensation committee of the Board, or the stockholders of the Company.

(27) “ Plan ” means the Tennant Company Executive Nonqualified Deferred Compensation Plan, as set forth herein, and as may be amended from time to time.

(28) “ Plan Year” means the 12-month period commencing each January 1 and ending the following December 31.

(29) “ Profit Sharing Plan ” means the “Tennant Company Profit Sharing Plan and Employee Stock Ownership Plan,” as may be amended from time to time.

(30) “ Qualified Domestic Relations Order ” has the same meaning as in Section 414(p) of the Code.

(31) “ Qualified Plans ” means the Profit Sharing Plan and the Pension Plan.

(32) “ Restatement “ means the Plan, as set forth herein.

(33) “ Section 401(a)(17) Limit ” means the limit on the dollar amount of compensation that may be taken into account under the Qualified Plans under Section 401(a)(17) of the Code.

(34) “ Section 401(k) Limit ” means the limit on pre-tax contributions that may be made by a highly-compensated employee under a plan described in Code Section 401(k) as a result of the application of the nondiscrimination tests under Section 401 (k)(3) of the Code.

(35) “ Section 401(m) Limit ” means the limit on matching contributions that may be made on behalf of a highly-compensated employee under a plan described in Code Section 401(m) as a result of the application of the nondiscrimination tests under Section 401(m)(2) and (3) of the Code.

(36) “ Section 402(g) Limit ” means the limit on the amount of compensation that may be deferred by an individual on a pre-tax basis under an arrangement described in Section 401(k) of the Code.

(37) “ Section 415 Limit ” means the limit on accruals for defined benefit pension plans and the limit on allocations for defined contribution plans that are imposed by Sections 415(b) and 415(c) of the Code.

(38) “ Separation from Service ” or “ Separate from Service ,” with respect to a Participant, means the Participant’s separation from service with all Affiliates, within the meaning of Section 409A(a)(2)(A)(i) of the Code and the regulations thereunder.

Solely for these purpose, a Participant who is an employee will be considered to have a Separation from Service when the Participant dies, retires, or otherwise has a termination of employment with all Affiliates. The employment relationship is treated as continuing intact while the Participant is on military leave, sick leave, or other bona fide leave of absence (such as temporary employment by the government) if the period of such leave does not exceed six months, or if longer, so long as the individual's rights to reemployment with the Company or any Affiliate is provided either by statute or by contract. If the period of leave exceeds six months and the individual's right to reemployment is not provided either by statute or contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. Whether a termination of employment has occurred is based on the facts and circumstances. A Director is considered to have a Separation from Service when he or she ceases to perform services for the Company as a Director and the Company does not then anticipate that the Director will continue to perform services for the Company as a Director or employee.

(39) " STIP " means the Company's Short-term Incentive Plan, as in effect from time to time.

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(40) " STIP Compensation ," of a Participant for a Plan Year, means the compensation earned by the Participant under the STIP for the Plan Year.

(41) " Specified Employee " means a "key employee" (as defined in Section 416(i) of the Code without regard to Section 416(i)(5)) with respect to the Company. For purposes hereof, an employee is a key employee if the employee meets the requirements of Section 416(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the regulations thereunder and disregarding Section 416(i)(5)) at any time during the 12-month period ending on December 31. If a person is a key employee as of this identification date, the person is treated as a Specified Employee for the 12-month period beginning on the first day of the fourth month following the identification date.

(42) " Stock " means the common stock, $.375 par value per share (as such par value may be adjusted from time to time), of the Company.

(43) " Stock Sub-Account ," of a Participant, means a Sub-Account maintained under an Account for the benefit of the Participant that is credited with Deferred Stock Units.

Section 2.2 . Gender and Number . Except as otherwise indicated by context, masculine terminology used herein also includes the feminine and neuter, and terms used in the singular may also include the plural.

ARTICLE 3. PARTICIPATION

Section 3.1 . Who May Participate . Participation in the Plan is limited to Eligible Employees. The Committee shall have sole discretion to determine whether an employee is an Eligible Employee. In addition, an employee of an Affiliate who is entiteld to receive a benefit under Section 4.4 or Article 7 of the Plan shall be a Participant with respect to such benefit, provided the employee is a member of a select group of management or highly compensated employees of the Affiliate, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, as determined by the Committee in its discretion. The Committee may make such projections or estimates as it deems desirable in applying the eligibility requirements, and its determination shall be conclusive.

Section 3.2 . Time and Conditions of Participation . An individual who satisfies the eligiblity requirements set forth in Section 3.1 shall become a Participant only upon his or her compliance with such terms and conditions as the Committee may from time to time establish for the implementation of the Plan, including but not limited to, any condition the Committee may deem necessary or appropriate for the Company to meet its obligations under the Plan.

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Section 3.3 . Notification . The Committee shall notify in writing each employee and Director whom the Committee has determined in its discretion to be an Eligible Employee and explain the rights, privileges and duties of participation in the Plan. The Committee shall provide each Eligible Employee with a Deferral Election Agreement so that the Eligible Employee may notify the Committee of his or her intent to make such contributions.

Section 3.4 . Termination and Suspension of Participation . Once an individual has become a Participant in the Plan, participation shall continue until the first to occur of: (a) payment in full of all benefits to which the Participant or his or her Beneficiary is entitled under the Plan; or (b) the occurrence of the event specified in Section 3.5, Article 5, or Article 7 that results in loss of benefits.

Section 3.5 . Missing Persons . Each Participant and Beneficiary entitled to receive benefits under the Plan shall be obligated to keep the Company informed of his or her current address until all Plan benefits that are due to be paid to the Participant or Beneficiary have been paid to him or her. If the Company is unable to locate the Participant or his or her Beneficiary for purposes of making a distribution, the amount of a Participant's benefits under the Plan that would otherwise be considered as non-forfeitable shall be forfeited effective one year after: (a) the last date a payment of said benefit was made, if at least one such payment was made; or (b) the first date a payment of said benefit was directed to be made by the Company pursuant to the terms of the Plan, if no payments have been made. If such p erson is located after the date of such forfeiture, the benefits for such Participant or Beneficiary shall not be reinstated hereunder.

Section 3.6 . Relationship to Other Plans . Participation in the Plan shall not preclude participation of the Participant in any other fringe benefit program or plan sponsored by the Company for which such Participant would otherwise be eligible. The terms of such other plan or plans shall govern in determining the extent to which the Participant's Compensation and Plan benefits are considered in determining eligibility for, and the amount of, the benefit provided under such other program or plan.

ARTICLE 4. ESTABLISHMENT OF AND ENTRIES TO ACCOUNTS

Section 4.1 . Establishment of Accounts The Company shall establish two Accounts under the Plan for each Participant, termed "Account A" and "Account B;" provided, however, that Director Participants shall have only an Account A.

(a) Account A . Account A shall consist of: (i) all Compensation Reduction Contributions made to the Plan that the Participant elects to have allocated to Account A pursuant to a Deferral Election Agreement, adjusted for gains and losses thereon pursuant to Section 4.5; and (ii) all contributions made by the Company to the Plan on behalf of the Participant pursuant to Section 4.3 or 4.4, adjusted for gains and losses thereon pursuant to Section 4.5.

(b) Account B . Account B shall consist of all Compensation Reduction Contributions made to the Plan that the Participant elects to have allocated to Account B, adjusted for gains and losses thereon pursuant to Section 4.5.

Notwithstanding anything in this Section 4.1 to the contrary, if a Participant enters into an election pursuant to Section 4.2 to reduce some or all of the portion of LTIP Compensation otherwise payable to him or her in Stock and receive such Stock at a later date under the Plan, then the Stock shall be converted to Deferred Stock Units (as described in Section 4.2) which shall be credited to a Stock Sub-Account established for the benefit of the Participant under the Account or Accounts (Account A, Account B or both) designated by the Participant in his or her Deferral Election Agreement. The Stock Sub-Account shall consist of the Deferred Stock Units credited to it from time to time.

Section 4.2 . Compensation Reduction Contributions . Each Eligible Employee may make Compensation Reduction Contributions to the Plan for a Plan Year according to the rules set forth in this Section 4.2.

An Eligible Employee wishing to make a Compensation Reduction Contribution under the Plan for a Plan Year shall enter into a Deferral Election Agreement during the Enrollment Period for the Plan Year. In order to be effective, the Deferral Election Agreement must be completed and submitted to the Company at the time and in the manner specified by the Committee, which may be no later than the last day of the Enrollment Period.

Notwithstanding anything in the preceding paragraph to the contrary, for the Plan Year in which an individual first becomes eligible to participate in the Plan, he or she may enter into a Deferral Election Agreement within 30 days after he or she first becomes eligible. In this case, for Compensation that is earned based upon a specified performance period where a Deferral Election Agreement is entered into in the first year of eligibility but after the beginning of the service period, the Deferral Election Agreement will be deemed to apply to Compensation paid for services performed subsequent to the date the Deferral Election Agreement is entered into if the Deferral Election Agreement applies to the portion of the Compensation equal to the total amount of the Compensation for the service period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period. In order to be effective, the Deferral Election Agreement described in this paragraph must be completed and submitted to the Committee within 30 days after the Participant first becomes eligible to participate. If the eligible individual fails to complete a Deferral Election Agreement by such time, he or she may enter into a Deferral Election Agreement during any succeeding Enrollment Period in accordance with the rules described in the preceding paragraph. For purposes of the exception described in this paragraph, the term "Plan" shall mean the Plan and any other plan required to be aggregated with the Plan pursuant to Code Section 409A, and the regulations and other guidance thereunder. Accordingly, if an Eligible Employee has previously been eligible to participate in a plan required to be aggregated with the Plan, then the 30-day exception described in this paragraph shall not apply to him or her.

Except as specified in the prior paragraph and in the following paragraph, a Deferral Election Agreement will be effective to defer Compensation earned after the Deferral Election Agreement is entered into, and not before.

Deferral Election Agreements for Base Salary, Incentive Compensation other than Performance-Based Compensation, if any, and Director Compensation shall be completed and submitted to the Company at the time described above that is ordinarily applicable to Deferral Election Agreements (subject to the exception for individuals who are newly eligible to participate). Deferral Election Agreements for Incentive Compensation that is Performance-Based Compensation shall be completed and submitted to the Company no later than six months before the end of the performance period for the Incentive Compensation. The Committee shall determine from time to time whether an item of Incentive Compensation is considered Performance-Based Compensation for these purposes, and when the Deferral Election Agreement with respect to such Incentive Compensation must be submitted to the Company.

The Deferral Election Agreement shall specify the amount of Compensation the Participant wishes to have deducted from his or her pay and contributed to the Plan by type and percentage, subject to the following rules:

(a) Base Compensation . Each employee Participant may elect to make a Compensation Reduction Contribution under the Plan for a Plan Year in an amount equal to any whole percentage (up to 25%) of his or her Base Compensation for the Plan Year, determined on a pay period basis.

(b) STIP Compensation. Each employee Participant may elect to make a Compensation Reduction Contribution under the Plan for a Plan Year in an amount equal to any whole percentage (up to 100%) of his or her STIP Compensation for the Plan Year.

(c) LTIP Compensation . Each employee Participant may elect to make a Compensation Reduction Contribution under the Plan for a Plan Year in an amount equal to any whole percentage (up to 100%) of his or her LTIP Compensation for the Plan Year (provided that the LTIP Compensation is Performance-Based Compensation with respect to the Participant for such Plan Year).

For Plan Years commencing before January 1, 2007, the election to make a Compensation Reduction Contribution with respect to LTIP Compensation may be made only with respect to the cash portion of the Participant's LTIP Compensation. For Plan Years commencing on or after January 1, 2007, a Participant may make a Compensation Reduction Contribution with respect to the Stock portion as well as the cash portion of the Participant's LTIP Compensation. A Participant who wishes to make an election with respect to the Stock portion of his or her LTIP Compensation for a Plan Year shall specify the percentage of shares of Stock in which he or she will vest during the Plan Year that he or she wishes to have contributed to the Plan. Only whole shares may be contributed and in the event that the election yields a fractional

share contribution, the Company shall round down to the nearest whole share. Shares that a Participant elects to contribute to the Plan in this manner shall be converted to Deferred Stock Units on a one to one basis (i.e., one share of Stock shall be converted to one Deferred Stock Unit) as of the date on which such shares would otherwise have been distributed to the Participant. The Stock Units shall be held under the Plan in the Account (Account A or Account B) designated by the Participant in his or her Deferral Election Agreement until distributed to him or her pursuant to Article 6.

(d) Director Compensation.

(i) Annual Retainer . Each Director Participant may elect to make a Compensation Reduction Contribution under the Plan for a Plan Year in an amount equal to 0%, 50% or 100% of his or her annual retainer for such Plan Year.

(ii) Meeting Fees . Each Director Participant may elect to make a Compensation Reduction Contribution under the Plan for a Plan Year in an amount equal to 0% or 100% of his or her meeting fees for such Plan Year.

An employee Participant shall specify in his or her Deferral Election Agreement the proportions, as a percentage, in which his or her Compensation Reduction Contributions are to be allocated between his or her Account A and Account B. A Participant may elect to allocate any percentage (from 0% to 100%) for this purpose. At the time an employee Participant first elects to allocate a percentage of his or her Contribution Reduction Contributions to an Account, the Participant shall, as part of his or her Deferral Election Agreement, elect the manner of distribution of the Account in accordance with Section 6.2, and with respect to his or her Account B, the date on which distribution will commence pursuant to Section 6.1. At the time a Director Participant first enters into a Deferral Election Agreement under the Plan, the Participant shall, as part of his or her Deferral Election Agreement, elect the manner of distribution of his or her Account A in accordance with Section 6.2.

In general, a Deferral Election Agreement shall become irrevocable as of the last day of the Enrollment Period applicable to it. However, if a Participant incurs an "unforeseeable emergency," as defined in Section 6.4.(d)(ii), or becomes entitled to receive a hardship distribution pursuant to Treas. Reg. Sec. 1.401(k)-1(d)(3) under the Profit Sharing Plan after the Deferral Election Agreement otherwise becomes irrevocable, the Deferral Election Agreement shall be cancelled as of the date on which the Participant is determined to have incurred the unforeseeable emergency or becomes eligible to receive the hardship distribution and no further Compensation Reduction Contributions will be made under it.

Section 4.3 . Discretionary Contributions . The Company may from time to time, in its discretion, make contributions to the Plan on behalf of one or more Participants in addition to those specified in Sections 4.2, above, and 4.4, below. The Committee shall determine, in its discretion, the Participants, if any, entitled to such a contribution and the amount of each such contribution. A contribution on behalf of a Participant pursuant to this Section 4.3 shall be credited to the Account A of the Participant at the time specified by the Committee in its discretion.

Section 4.4 . Supplemental Profit Sharing Plan Contributions . Each Plan Year, the Account A of each Participant who is also a participant in the Profit Sharing Plan shall be credited with an amount equal to the amount in (a) less the amount in (b), below:

(a) The aggregate Profit Sharing Contributions and Matching Contribution that would have been allocated to the Participant under the Profit Sharing Plan if:

(i) The amount the Participant elected to contribute under the Profit Sharing Plan as a 401(k) Contribution had not been reduced as a result of the application of the 402(g) Limit or 401(k) Limit;

(ii) The Matching Contribution allocated to the Participant under the Profit Sharing Plan had not been reduced as a result of the application of the 401(m) Limit;

(iii) The Participant's Certified Earnings under the Profit Sharing Plan were not reduced as a result of the application of the 401(a)(17) Limit;

(iv) The Participant's Annual Additions under the Profit Sharing Plan were not reduced as a result of the application of the 415 Limit;

(v) The amount of the Participant's Base Compensation and Bonus contributed to the Plan which would have been included in the Participant's Certified Earnings under the Profit Sharing Plan but for such contribution to the Plan were included in Certified Earnings.

(b) The amount of Profit Sharing Contributions and Matching Contributions actually allocated to the Participant under the Profit Sharing Plan for such Plan Year.

(c) For purposes of Section 4.4(a):

(i) If a Participant's total 401(k) Contributions to the Profit Sharing Plan for a particular year are less than the 402(g) Limit, his or her Matching Contributions for that year shall be determined on the basis of the 401(k) Contributions that the Participant actually elects to be made to the Profit Sharing Plan (rather than on the basis of the maximum 401(k) Contributions the Participant could have elected to make), and on the matching percentage rate actually received by the Participant under the Profit Sharing Plan for his or her 401(k) Contributions.

(ii) If a Participant's total 401(k) Contributions to the Profit Sharing Plan for a particular year equal the 402(g) Limit, his or her Matching Contributions for that year shall be the amount he or she would have received but for the limits described in Section 4.4(a), above, if he or she had made 401(k) Contributions to the Profit Sharing Plan equal to four percent of his or her Certified Earnings (as adjusted pursuant to Sections 4.4(a)(iii) and (v)), calculated using the percentage rate actually received by the Participant under the Profit Sharing Plan for his or her 401(k) Contributions.

(iii) Any amount deferred from Base Compensation or Incentive Compensation under the Plan (or the Prior Plan or Deferred Compensation Plan) that are subsequently paid to the Participant shall be excluded from Certified Earnings at the time of payment. Performance Share payouts and deferrals of such payouts shall be excluded from Certified Earning at all times .

A contribution on behalf of a Participant pursuant to this Section 4.4 shall be credited to the Participant's Account A at the time specified by the Committee in its discretion. For purposes of this Section 4.4, the terms "Matching Contribution," "Profit Sharing Contribution," “401(k) Contribution,” “Annual Addition,” and “Certified Earnings” shall have the same meaning as in the Profit Sharing Plan, except as otherwise specified in this Section 4.4.

Section 4.5 . Crediting Rate .

(a) In General . The Committee shall designate the manner in which a Participant’s Accounts are to be credited with gains and losses as described on Exhibit B hereto, which Exhibit may be amended from time to time in the Committee’s discretion. If the Committee designates specific investment funds to serve as an index for crediting gains and losses to a Participant’s Accounts: (a) the Participant shall be entitled to designate which such fund or funds shall be used to measure gains and losses on his or her Accounts in accordance with rules established by the Committee; (b) the Participant’s Accounts will be credited with gains and losses as if invested in such fund or funds in accordance with the Participant’s designation and the rules established by the Committee; and (c) the Committee may, in its sole discretion, eliminate any investment fund or funds previously designated by it, substitute a new investment fund or funds therefore, or add investment fund or funds, at any time. If the Committee makes any such investment funds available for this purpose, the Committee shall have no obligation to actually invest any amounts in any such investment funds.

(b) Dividend Equivalents Credited to Deferred Stock Units . On each date on which the Company pays a cash dividend (the “dividend date”) a Participant’s Stock Sub-Account (or Stock Sub-Accounts as the case may be) shall be credited with an additional number of Deferred Stock Units determined by dividing the dollar amount that the Corporation would have paid as a dividend if the Deferred Stock Units held in the Participant’s Stock Account as of the record date for the dividend were actual shares of Stock divided by the Fair Market Value of a share of Stock on the dividend date. Appropriate adjustments in the Stock Sub-Account shall be made as equitably required to prevent dilution or enlargement of the Sub-Account from any Stock dividend, Stock split, reorganization or other such corporate transaction or event. For purposes hereof “Fair Market Value,” of a share of Stock, has the same meaning as in the Tennant Company amended and Restated 1999 Stock Incentive Plan.

ARTICLE 5. VESTING IN ACCOUNTS

A Participant’s Accounts under the Plan shall be 100% vested at all times. Notwithstanding the preceding sentence, if a Participant’s employment with any Affiliate is terminated for Cause, the Participant shall immediately forfeit any portion of his or her Account attributable to contributions made by the Company pursuant to Sections 4.3 and 4.4 (adjusted for gains and losses thereon pursuant to Section 4.5). For purposes of the preceding sentence, the term “Cause” shall mean: (i) the Participant’s gross negligence, fraud, disloyalty, dishonesty or willful violation of any law or significant policy or staff by-law of an Affiliate, committed in connection with the position and resulting in a material adverse effect on an Affiliate; or (ii) the Participant’s failure to substantially perform (for reasons other than disability) the duties reasonably assigned or appropriate to the position, in a manner reasonably consistent with the practices in the industry which failure results in a material adverse effect on an Affiliate; provided, however, that “Cause” will not include ordinary negligence or failure to act, whether due to an error in judgment or otherwise, if the Participant has exercised substantial efforts in good faith to perform the duties reasonably assigned or appropriate to the position.

ARTICLE 6. DISTRIBUTION OF ACCOUNTS

Section 6.1 . Benefit Commencement . Distribution of a Participant’s Account A shall commence to him or her within an administratively practicable period of time following the date on which he or she has a Separation from Service. Distribution of a Participant’s Account B shall commence to him or her at the date specified in his or her Deferral Election Agreement entered into for the Plan Year in which the Participant first allocates Compensation Reduction Contributions to Account B. This date (the “specified distribution date”) must be at least two years following the beginning of the Plan Year in which Compensation Reduction Contributions under Account B commence. However, if the Participant terminates employment prior to the specified distribution date, distribution of his or her Account B shall commence within an administratively practicable period of time following his or her termination of employment, notwithstanding the Participant’s election to commence distribution at the specified distribution date.

Section 6.2 . Form of Benefit Payment . A Participant shall elect the manner in which each of his or her Accounts is to be distributed from the available distribution options set forth below:

(a) a lump sum; or

(b) substantially equal quarterly installments over a period of years elected by the Participant (not exceeding ten), with the Participant’s Account balance credited with gains and losses (and dividend equivalents, as the case may be) pursuant to

Section 4.5 during the payment period.

The election shall be made with respect to each Account at the time the Participant first allocates his or her Compensation Reduction Contributions to the Account. Notwithstanding the foregoing, for contributions made pursuant to Section 4.3 and 4.4, if the Participant has not yet elected the form of distribution of his or her Account A prior to the Plan Year that he or she performs the services for the Company giving rise to the contribution, the Committee shall specify the form of distribution at the time the Participant first has a legally binding right to the contributions.

Notwithstanding anything in the Plan to the contrary, distributions from Stock Sub-Accounts shall be made in the form of Stock, with each Stock Unit converted to a share of Stock at the time of distribution; provided, however, that the Company may, in its discretion, withhold such number of whole or partial shares of Stock from any such distribution as it, in its discretion, deems necessary or desirable to satisfy any applicable withholding requirements pursuant to Section 11.5. All other distributions from the Plan shall be made in the form of cash.

Section 6.3 . Exception to Payment Terms . Notwithstanding anything in this Article 6 or a Participant's Deferral Election Agreement to the contrary, the following terms, if applicable, shall apply to the payment of a Participant's Accounts.

(a) Death

(i) Death After Benefit Commencement . In the event a Participant dies after distribution of an Account has commenced to him or her pursuant to Section 6.1, and the Participant has elected to receive his or her benefits in the manner described in paragraph (b) of Section 6.2, the Participant's remaining annual installments shall be paid to the Participant's Beneficiary; provided, however, that if the Participant's Beneficiary is the Participant's estate, the Participant's remaining Account balance shall be paid to the estate in the form of a lump sum. If a Beneficiary (other than the Participant's estate) should die while further payments are due, and after having received at least one payment, such further payments shall be made to any person designated by the Participant as an alternate surviving Beneficiary, or, in the absence of an alternate surviving Beneficiary, the remaining Account balance shall be paid to the estate of the deceased Beneficiary in the form of a lump sum.

(ii) Death Prior to Benefit Commencement . In the event a Participant dies prior to the date on which distribution of an Account has commenced to him or her pursuant to Section 6.1, the Participant's Account shall be paid to the Participant's Beneficiary in a lump sum as soon as administratively reasonable following the Participant's death.

(iii) Designation by Participant . Each Participant has the right to designate primary and contingent Beneficiaries for death benefits payable under the Plan. Such Beneficiaries may be individuals or trusts for the benefit of individuals. A Beneficiary designation by a Participant shall be in writing on a form acceptable to the Committee and shall only be effective upon delivery to the Company. A Beneficiary designation may be revoked by a Participant at any time by delivering to the Company either written notice of revocation or a new Beneficiary designation form. The Beneficiary designation form last delivered to the Company prior to the death of a Participant shall control.

(iv) Failure to Designate Beneficiary . In the event there is no Beneficiary designation on file with Company at the Participant's death, or if all Beneficiaries designated by a Participant have predeceased the Participant, the Beneficiary shall be the beneficiary designated by the Participant under the Company's group life insurance program. If a Beneficiary has not been designated under Company's group life insurance program, the Beneficiary shall be the Participant's spouse, and if there is no spouse, the Beneficiary shall be the Participant's estate.

(b) Delay in Distributions

(i) If the Participant is a Specified Employee, any Plan distribution of the Participant's Accounts that are otherwise to commence on the Participant's Separation from Service shall commence as soon as administratively reasonable after the six month anniversary of the Participant's Separation from Service, or if earlier, the Participant's death. In such event, the first payment due the Participant shall include any payments that would have been paid to the Participant under the Plan, but for the application of this paragraph (c)(i).

(ii) The Company shall delay the distribution of a Participant's Accounts otherwise required to be distributed under the Plan if, and to the extent that, the Company reasonably anticipates that the Company's deduction with respect to such distribution otherwise would be limited or eliminated by application of Section 162(m) of the Code. In such event, the distribution will be made at the earliest date on which the Company reasonably anticipates that the deduction of the distribution will not be limited or eliminated by Section 162(m) of the Code.

(iii) The Company shall delay the distribution of a Participant's Accounts otherwise required to be distributed under the Plan if, and to the extent that, the Company reasonably anticipates that the making of the distribution would violate Federal securities laws or other applicable law. In such event, the distribution will be made at the earliest date on which the Company reasonably anticipates that the making of the distribution will not cause such a violation.

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(c) Acceleration of Distributions . All or a portion of a Participant's Accounts may be distributed at an earlier time and in a different form than specified under the prior provisions of this Article 6:

(i) As may be necessary to fulfill a Qualified Domestic Relations Order or a certificate of divestiture (as defined in Code Section 1043(b)(2)).

(ii) If the Participant or Beneficiary has an unforeseeable emergency. For these purposes an "unforeseeable emergency" is a severe financial hardship of the Participant or Beneficiary, resulting from an illness or accident of the Participant or Beneficiary, the Participant's or Beneficiary's spouse, or the Participant's or Beneficiary's dependent (as defined in Section 152(a) of the Code), loss of the Participant's or Beneficiary's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or Beneficiary. For example, the imminent foreclosure of or eviction from the Participant's or Beneficiary's primary residence may constitute an unforeseeable emergency. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the cost of prescription drug medication, may constitute an unforeseeable emergency. Finally, the need to pay for funeral expenses of a spouse or a dependent (as defined in Section 152(a) of the Code) may also constitute an unforeseeable emergency. Except as otherwise provided in this paragraph (d)(ii), the purchase of a home and the payment of college tuition are not unforeseeable emergencies. Whether a Participant or Beneficiary is faced with an unforeseeable emergency permitting a distribution under this paragraph (d)(ii) is to be determined based on the relevant facts and circumstances of each case, but, in any case a distribution on account of an unforeseeable emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of Compensation Reduction Contributions.

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Distributions because of an unforeseeable emergency must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution). Determinations of the amounts reasonably necessary to satisfy the emergency need must take into account any additional compensation that is available due to the Participant's cancellation of a Deferral Election Agreement due to unforeseeable emergency pursuant to Section 4.2.

ARTICLE 7. PENSION PLAN SUPPLEMENTAL BENEFIT

Benefits that would have accrued under Article 7 of the Plan, as in effect prior to this Restatement, but for the fact that they accrue or vest on or after January 1, 2005, shall accrue under, and be subject to, the following terms:

(a) Such benefit shall accrue according to the same formula as set forth in Article 7 of the Plan as in effect prior to the Restatement.

(b) Notwithstanding paragraph (b), above:

(i) Distributions to a Specified Employee that are otherwise to commence on the Participant's Separation from

Service shall commence as soon as administratively reasonable after the six month anniversary of the Participant's Separation from Service, or if earlier, the Participant's death. In the case of such delay, the amount of each periodic payment to the Participant shall be actuarially increased to reflect the delay.

(ii) The Company shall delay the distribution of any benefit under this Article 7 if, and to the extent that, the Company reasonably anticipates that the Company's deduction with respect to such distribution otherwise would be limited or eliminated by application of Section 162(m) of the Code. In such event, the distribution will be made at the earliest date on which the Company reasonably anticipates that the deduction of the distribution will not be limited or eliminated by Section 162(m) of the Code.

(iii) The Company shall delay the distribution of any benefit under this Article 7 if, and to the extent that, the Company reasonably anticipates that the making of the distribution would violate Federal securities laws or other applicable law. In such event, the distribution will be made at the earliest date on which the Company reasonably anticipates that the making of the distribution will not cause such a violation.

(iv) All or a portion of any benefit under this Article 7 may be distributed at an earlier time or in different form than otherwise required under the Plan as may be necessary to fulfill a Qualified Domestic Relations Order or a certificate of divestiture (as defined in Code Section 1043(b)(2)).

ARTICLE 8. FUNDING

Section 8.1 . Source of Benefits . All benefits under the Plan shall be paid when due by the Company out of its assets. Any amounts set aside by the Company for payment of benefits under the Plan are the property of the Company.

Section 8.2 . No Claim on Specific Assets . No Participant or Beneficiary shall be deemed to have, by virtue of being a Participant or Beneficiary in the Plan, any claim on any specific assets of the Company such that the Participant or Beneficiary would be subject to income taxation on his or her benefits under the Plan prior to distribution and the rights of Participants and Beneficiaries to benefits to which they are otherwise entitled under the Plan shall be those of an unsecured general creditor of the Company.

ARTICLE 9. ADMINISTRATION AND FINANCES

Section 9.1 . Administration . The Plan shall be administered by the Committee. The Company shall bear all administrative costs of the Plan other than those specifically charged to a Participant or Beneficiary.

Section 9.2 . Powers of Committee . In addition to the other powers granted under the Plan, the Committee shall have all powers necessary to administer the Plan, including, without limitation, powers:

(a) to interpret the provisions of the Plan;

(b) to establish and revise the method of accounting for the Plan and to maintain the Accounts; and

(c) to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

Section 9.3 . Actions of the Committee . The Committee (including any person or entity to whom the Committee has delegated duties, responsibilities or authority, to the extent of such delegation) has total and complete discretionary authority to determine conclusively for all parties all questions arising in the administration of the Plan, to interpret and construe the terms of the Plan, and to determine all questions of eligibility and status of employees, Participants and Beneficiaries under the Plan and their respective interests. Subject to the claims procedures of Section 9.7, all determinations, interpretations, rules and decisions of the Committee (including those made or established by any person or entity to whom the Committee has delegated duties, responsibilities or authority, if made or established pursuant to such delegation) are conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

Section 9.4 . Delegation . The Committee, or any officer or other employee of the Company designated by the Committee, shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation may be rescinded by the Committee at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.

Section 9.5 . Reports and Records . The Committee, and those to whom the Committee has delegated duties under the Plan, shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

Section 9.6 . Valuation of Accounts and Account Statements . As of each valuation date, the Committee shall adjust the previous Account balances of each Participant for Compensation Reduction Contributions, Company contributions pursuant to Sections 4.3 and 4.4, if any, forfeitures, distributions, and investment gains and losses, including dividend equivalents. A "valuation date," for these purposes, is the last day of each calendar quarter, and such other dates as the Committee may designate from time to time in its discretion. The Committee shall provide each Participant with a statement of his or her Account balances at least annually.

Section 9.7 . Claims Procedure . The following shall apply with respect to the claims of Participants for benefits under the Plan. The Committee shall notify a Participant in writing within 90 days of the Participant's written application for benefits of his or her eligibility or noneligibility for benefits under the Plan. If the Committee determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth: (a) the specific reasons for such denial; (b) a specific reference to the provision of the Plan on which the denial is based; (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed; and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have his or her claim reviewed. If the Committee determines that there are special circumstances requiring additional time to make a decision, the Committee shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90-day period. If a Participant is

determined by the Committee to be not eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, the Participant shall have the opportunity to have his or her claim reviewed by the Committee by filing a petition for review with the Committee within 60 days after receipt by the Participant of the notice issued by the Committee. If a Participant does not appeal on time, the Participant will lose the right to appeal the denial and the right to file suit under ERISA, and the Participant will have failed to exhaust the Plan's internal administrative appeal process, which is generally a prerequisite to bringing suit. Said petition shall state the specific reasons the Participant believes he or she is entitled to benefits or greater or different benefits. Within 60 days after receipt by the Committee of said petition, the Committee shall afford the Participant (and the Participant's counsel, if any) an opportunity to present his or her position to the Committee orally or in writing, and said Participant (or his or her counsel) shall have the right to review the pertinent documents, and the Committee shall notify the Participant of its decision in writing within said 60-day period, stating specifically the basis of said decision written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If, because of the need for a hearing, the 60-day period is not sufficient, the decision may be deferred for up to another 60-day period at the election of the Committee, but notice of this deferral shall be given to the Participant. **In the event an appeal of a denial of a claim for benefits is denied, any lawsuit to challenge the denial of such claim must be brought within one year of the date the Committee has rendered a final decision on the appeal.**

ARTICLE 10. AMENDMENTS AND TERMINATION

Section 10.1 . Amendments . The Company, by action of the Committee, may amend the Plan, in whole or in part, at any time and from time to time. The Vice President of Human Resources may amend the Plan, without approval or authorization of the Board or the Committee, provided that any such amendment: (a) does not materially increase the cost of the Plan to the Company; or (b) is required in order to comply with the law, in which case the Vice President of Human Resources shall amend the Plan in such manner as he or she deems necessary or desirable to comply with the law. The Committee shall from time to time specify, by resolution, the criteria to be used by the Vice President of Human Resources in determining whether an amendment materially increases the cost of the Plan to the Company. No amendment may be effective to eliminate or reduce any Account balance (other than as may result from a change in Plan investments pursuant to Section 4.5), or benefit that has accrued pursuant to Article 7, determined as of the date of such amendment, of any Participant or of any Beneficiary then eligible for benefits without such Participant's or Beneficiary's consent. Any Plan amendment shall be filed with the Plan documents.

Section 10.2 . Termination . The Company expects the Plan to remain in place, but necessarily must, and hereby does, reserve the right to terminate the Plan at any time by action of the Board. Upon termination of the Plan, all Compensation Reduction Contributions and Company contributions will cease and no future Compensation Reduction Contributions or Company contributions will be made, and all benefit accruals under Article 7 will cease. Termination of the Plan shall not operate to eliminate or reduce any Account balance, or benefit that has accrued pursuant to Article 7, determined as of the date of such termination, of any Participant or of any Beneficiary then eligible for benefits, without such Participant's or Beneficiary's consent. If the Plan is terminated, payments from the Accounts of all Participants and Beneficiaries shall be made at the time and in the manner specified in Article 6.

Notwithstanding the foregoing, the Board of Directors may, in its discretion, terminate the Plan within 30 days preceding or 12 months following a Change in Control; provided that all substantially similar arrangements sponsored by the Company or an Affiliate are also terminated at such time, so that Participants and all participants under substantially similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within 12 months of the date of termination of the arrangements.

ARTICLE 11. MISCELLANEOUS

Section 11.1 . No Guarantee of Employment . Neither the adoption and maintenance of the Plan nor the execution by the Company of a Deferral Election Agreement with any Participant shall be deemed to be a contract of employment between the Company and any Participant. Nothing contained herein shall give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any Participant at any time, nor shall it give the Company the right to require any Participant to remain in its employ or to interfere with the Participant's right to terminate his or her employment at any time.

Section 11.2 . Release . Any payment of benefits to or for the benefit of a Participant or a Participant's Beneficiaries that is made in good faith by the Company in accordance with the Company's interpretation of its obligations hereunder shall be in full satisfaction of all claims against the Company for benefits under the Plan to the extent of such payment.

Section 11.3 . Notices . Any notice permitted or required under the Plan shall be in writing and shall be hand-delivered or sent, postage prepaid, by first class mail, or by certified or registered mail with return receipt requested, to both the office of the Committee and the office of the General Counsel of the Company, if to the Company, or to the address last shown on the records of the Company, if to a Participant or Beneficiary. Any such notice shall be effective as of the date of hand-delivery or mailing.

Section 11.4 . Nonalienation . No benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, levy, attachment, or encumbrance of any kind by any Participant or Beneficiary.

Section 11.5 . Withholding . The Company may withhold from any payment of benefits or other compensation payable to a Participant or Beneficiary such amounts as the Company determines are reasonably necessary to pay any taxes or other amounts required to be withheld under applicable law.

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Section 11.6 . Captions . Article and section headings and captions are provided for purposes of reference and convenience only and shall not be relied upon in any way to construe, define, modify, limit, or extend the scope of any provision of the Plan.

Section 11.7 . Binding Agreement . This Plan shall be binding on the parties hereto, their heirs, executors, administrators, and successors in interest.

Section 11.8 . Invalidity of Certain Provisions . If any provision of the Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of the Plan and the Plan shall be construed and enforced as if such provision had not been included. The Plan is intended to comply in form and operation with Section 409A of the Code, and shall be construed accordingly. If any provision of the Plan does not conform to the requirements of Section 409A, the Plan shall be construed and enforced as if such provision had not been included.

Section 11.9 . No Other Agreements . The terms and conditions set forth herein, together with Exhibits A and B hereto and the Deferral Election Agreements entered into between the Company and Participants, constitute the entire understanding of the Company and the Participants with respect to the matters addressed herein.

Section 11.10 . Incapacity . In the event that any Participant is unable to care for his or her affairs because of illness or accident, any payment due may be paid to the Participant's spouse, parent, brother, sister or other person deemed by the Committee to have incurred expenses for the care of such Participant, unless a duly qualified guardian or other legal representative has been appointed.

Section 11.11 . Counterparts . This Plan may be executed in any number of counterparts, each of which when duly executed by the Company shall be deemed to be an original, but all of which shall together constitute but one instrument, which may be evidenced by any counterpart.

Section 11.12 . Participating Affiliates . Any Affiliate may adopt the Plan with the permission of the Company and according to such rules as may be established from time to time by the Company in its discretion, and thereby become a "participating affiliate" in the Plan.

Section 11.13 . Applicable Law . The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Minnesota, except to the extent such laws are preempted by the laws of the United States of America.

Dated: _______________

TENNANT COMPANY

By ________________________________
Its ______________________________

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EXHIBIT A

Change in Control Events
(from Proposed Treasury Regulations, Section 1.409A-3(g)(5)(v), (vi) and (vii))

(5) Change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation.

(i) In general. Pursuant to section 409A(a)(2)(A)(v), an arrangement may permit a payment upon the occurrence of a change in the ownership of the corporation (as defined in paragraph (g)(5)(v) of this section), a change in effective control of the corporation (as defined in paragraph (g)(5)(vi) of this section), or a change in the ownership of a substantial portion of the assets of the corporation (as defined in paragraph (g)(5)(vii) of this section) (collectively referred to as a change in control event). To qualify as a change in control event, the occurrence of the event must be objectively determinable and any requirement that any other person, such as a plan administrator or board of directors compensation committee, certify the occurrence of a change in control event must be strictly ministerial and not involve any discretionary authority. The arrangement may provide for a payment on any change in control event, and need not provide for a payment on all such events, provided that each event upon which a payment is provided qualifies as a change in control event. For rules regarding the ability of the service recipient to terminate the arrangement and pay amounts of deferred compensation upon a change in control event, see paragraph (h)(2)(viii)(B) of this section.

(ii) Identification of relevant corporation.

(A) In general. To constitute a change in control event as to the service provider, the change in control event must relate to—

(1) The corporation for whom the service provider is performing services at the time of the change in control event;

(2) The corporation that is liable for the payment of the deferred compensation (or all corporations liable for the payment if more than one corporation is liable); or

(3) A corporation that is a majority shareholder of a corporation identified in paragraph (g)(5)(ii)(A)(1) or (2) of this section, or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in paragraph (g)(5)(ii)(A)(1) or (2) of this section.

(B) Majority shareholder. For purposes of this paragraph (g)(5)(ii), a majority shareholder is a shareholder owning more than 50 percent of the total fair market value and total voting power of such corporation.

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(C) Example. The following example illustrates the rules of this paragraph (g)(5)(ii):

Example. Corporation A is a majority shareholder of Corporation B, which is a majority shareholder of Corporation C. A change in ownership of Corporation B constitutes a change in control event to service providers performing services for Corporation B or Corporation C, and to service providers for which Corporation B or Corporation C is solely liable for payments under the plan (for example, former employees), but is not a change in control event as to Corporation A or any other corporation of which Corporation A is a majority shareholder. Notwithstanding the foregoing, a sale of Corporation B may constitute an independent change in control event for Corporation A, Corporation B and Corporation C if the sale constitutes a change in the ownership of a substantial portion of Corporation A's assets (see paragraph (g)(5)(vii) of this section).

(iii) Attribution of stock ownership. For purposes of paragraph (g)(5) of this section, section 318(a) applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by §1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

(iv) Special rule for certain delayed payments pursuant to a change in control event. Compensation payable pursuant to the purchase by the service recipient of service recipient stock or a stock right held by a service provider, or payment of amounts of deferred compensation calculated by reference to the value of service recipient stock, may be treated as paid at a specified time or pursuant to a fixed schedule in conformity with the requirements of section 409A if paid on the same schedule and under the same terms and conditions as payments to shareholders generally pursuant to a change in control event described in paragraph (g)(5)(v) of this section (change in the ownership of a corporation) or as payments to the service recipient pursuant to a change in control event described in paragraph (g)(5)(vii) of this section (change in the ownership of a substantial portion of a corporation's assets), and any amounts paid pursuant to such a schedule and such terms and conditions will not be treated as violating the initial or subsequent deferral elections rules, to the extent that such amounts are paid not later than five years after the change in control event.

(v) Change in the ownership of a corporation.

(A) In general. For purposes of section 409A, a change in the ownership of a corporation occurs on the date that any one person, or more than one person acting as a group (as defined in paragraph (g)(5)(v)(B) of this section), acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such corporation. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation (within the meaning of paragraph (g)(5)(vi) of this section)). An increase in the percentage of stock

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owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this section. This section applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction (see paragraph (g)(5)(vii) of this section for rules regarding the transfer of assets of a corporation).

(B) Persons acting as a group. For purposes of paragraph (g)(5)(v)(A) of this section, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. See §1.280G-1, Q&A-27(d), Example 4.

(vi) Change in the effective control of a corporation.

(A) In general. For purposes of section 409A, notwithstanding that a corporation has not undergone a change in ownership under paragraph (g)(5)(v) of this section, a change in the effective control of a corporation occurs only on the date that either—

(1) Any one person, or more than one person acting as a group (as determined under paragraph (g)(5)(v)(B) of this section), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing 35 percent or more of the total voting power of the stock of such corporation; or

(2) A majority of members of the corporation's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this paragraph (g)(5)(vi)(A) the term corporation refers solely to the relevant corporation identified in paragraph (g)(5)(ii) of this section, for which no other corporation is a majority shareholder for purposes of that paragraph (for example, if Corporation A is a publicly held corporation with no majority shareholder, and Corporation A is the majority shareholder of Corporation B, which is the majority shareholder of Corporation C, the term corporation for purposes of this paragraph (g)(5)(vi)(A)(2) would refer solely to Corporation A).

(B) Multiple change in control events. A change in effective control also may occur in any transaction in which either of the two corporations involved in the transaction has a change in control event under paragraphs (g)(5)(v) or (g)(5)(vii) of this section. Thus, for example, assume Corporation P transfers more than 40 percent of the total gross fair market value of its assets to Corporation O in exchange for 35 percent of O's stock. P has undergone a change in ownership of a substantial portion of its assets under paragraph (g)(5)(vii) of this section and O has a change in effective control under this paragraph (g)(5)(vi) of this section.

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(C) Acquisition of additional control. If any one person, or more than one person acting as a group, is considered to effectively control a corporation (within the meaning of this paragraph (g)(5)(vi)), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation (or to cause a change in the ownership of the corporation within the meaning of paragraph (g)(5)(v) of this section).

(D) Persons acting as a group. Persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. See §1.280G-1, Q&A-27(d), Example 4.

(vii) Change in the ownership of a substantial portion of a corporation's assets.

(A) In general. Change in the ownership of a substantial portion of a corporation's assets. For purposes of section 409A, a change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in paragraph (g)(5)(v)(B) of this section), acquires (or has acquired during the 12- month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(B) Transfers to a related person.

(1) There is no change in control event under this paragraph (g)(5)(vii) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer, as provided in this paragraph (g)(5)(vii)(B). A transfer of assets by a corporation is not treated as a change in the ownership of such assets if the assets are transferred to—

(i) A shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock;

(ii) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the corporation;

(iii) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the corporation; or

(iv) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (g)(5)(vii)(B)(1)(iii) of this section.

(2) For purposes of this paragraph (g)(5)(vii)(B) and except as otherwise provided, a person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the transferor corporation has no ownership interest before the transaction, but which is a majority-owned subsidiary of the transferor corporation after the transaction is not treated as a change in the ownership of the assets of the transferor corporation.

(C) Persons acting as a group. Persons will not be considered to be acting as a group solely because they purchase assets of the same corporation at the same time. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the corporation. If a person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. See 1.280G-1, Q&A-27(d), Example 4.

EXHIBIT B

Method of Crediting Gains and Losses to Accounts
(Plan Section 4.5)

Until and unless changed by the Committee or the Board pursuant to a resolution:

A Participant's Accounts will be credited with interest on a monthly basis. The applicable rate of interest for a Plan Year will be specified by the Executive Compensation Committee of the Board at its last meeting immediately prior to the commencement of the Plan Year. The rate will be one (1) percentage point over the U.S. 10-year Treasury bond rate.

Exhibit 10.17

TENNANT COMPANY

2007 STOCK INCENTIVE PLAN

Certificate Evidencing Deferred Stock Units

Name of Holder: «First_Name_Last_Name»	
No. of Units: «DSU_Shares»	**Date of Grant:**
Payment Date:	

This Certificate evidences deferred stock units ("Units") granted to the individual identified above (the "Holder") pursuant to the Tennant Company 2007 Stock Incentive Plan (the "Plan") and is an Agreement between Tennant Company (the "Company") and the Holder, effective as of the date of grant specified above.

Recitals

WHEREAS, the Company maintains the Plan; and

WHEREAS, pursuant to the Plan, the Compensation Committee ("Committee") of the Board of Directors has the authority to issue Units in payment of awards granted under the Plan; and

WHEREAS, the Committee has determined that the Holder has earned an award under the Plan and that such award should be paid in Units in lieu of cash as authorized by Section 4.4 of the Plan;

NOW, THEREFORE, the Company hereby grants Units to the Holder under the terms and conditions as follows:

Terms and Conditions

1. **Grant** . The Holder is granted the number of Units specified at the beginning of this Agreement.

2. **Fair Market Value of Units** . The fair market value of a Unit subject to this Agreement shall at all times be equal to the fair market value of a share of common stock of the Company, par value $.375 per share ("Common Stock"). For purposes of this Agreement, the fair market value of a share of Common Stock at a specified date shall mean the closing sale price of a share of Common Stock on the date immediately preceding such date, or, if no such sale shall have occurred on that date, on the next preceding day on which a sale occurred, on the principal market for the Common Stock.

3. **Payment of Benefits** .

(a) *Generally* . Payment of Units subject to this Agreement shall be made by the Company's delivering shares of Common Stock having a fair market value at the date of payment, equal in the aggregate to the fair market value at such date of such Units; provided, however, that the amount payable in shares of Common Stock shall be reduced by an amount necessary to cover the Company's tax withholding obligation or as otherwise provided in Section 5.

(b) *Timing* . Units subject to this Agreement shall be paid on the earlier of the payment date specified at the beginning of this Agreement, the Holder's death, or the Holder's termination of employment with the Company (whether by reason of Disability, Retirement, voluntary termination, or involuntary termination with or without cause). Payments made due to death or termination of employment shall be paid on the fifth business day following such termination of employment (or by such later date as the Committee shall determine is reasonable under the circumstances, but no later than the end of the year in which the termination of employment occurs).

Notwithstanding anything to the contrary herein, a termination of employment must be a "separation from service" as defined in Treas. Reg. § 1.409A-1(h) for payment to be made. In addition, if the Company determines that, as of the Holder's separation from service (for reasons other than death), the Holder is a "specified employee" (within the meaning of Code § 409A(a)(2)(B)(i) and determined in accordance with Treas. Reg. § 1.409A-1(i) and the Company's Specified Employee Identification Policy, if any, in effect on the Participant's termination date (which policy is incorporated herein by reference)), then the Units will be paid on the first business day of the seventh month following the Separation from Service.

(c) *Effect* . Whenever the Company shall become obligated to make payment in respect of a Unit subject to this

Agreement, all rights of the Holder with respect to such Unit, other than the right to such payment, shall terminate and be of no further force or effect and such Unit shall be cancelled.

(d) *Payments on Death* . Any payment due under this Agreement following the death of the Holder shall be paid to the estate of the Holder.

4. **Adjustment in Number of Units Upon Payment of Cash Dividends** . In the event the Company shall pay cash dividends on its Common Stock on or after the date of this Agreement and prior to payment under Section 3 or 6, then the Holder shall be entitled to receive additional Units with respect to such cash dividends. The number of additional Units shall be determined by multiplying the number of Units credited to the Holder's account as of the dividend record date pursuant to this Agreement times the dollar amount of the cash dividend per share of Common Stock, and then divided by the fair market value of a share of the Common Stock (calculated as set forth in Section 2 of this Agreement) as of the dividend payment date. The additional Units credited to the Holder's account upon payment of any cash dividends shall be included in the total number of Units subject to this Agreement and shall be paid pursuant to this Agreement. In the event a payment is otherwise due under the terms of Section 3 or 6 of this Agreement after the dividend record date, but prior to the dividend payment date, a subsequent payment shall be made as necessary to account for any additional Units credited as of the dividend payment date under this Section 4. Such payment will be paid on the fifth business day following the dividend payment date.

5. **Adjustment in Number of Units Upon Early Termination of Employment** .

(a) *Generally* . The Units initially subject to this Agreement have a fair market value, as of the date of grant, equal to 120% of the cash bonus in lieu of which such Units were granted.

(b) *Adjustments* . If, prior to the payment date specified at the beginning of this Agreement (or, if earlier, the occurrence of a Change in Control), the employment of the Holder with the Company is terminated for any reason other than death, Disability or Retirement, then the number of Units subject to this Agreement shall be reduced so that the number of Units subject to this Agreement is equal to that number of Units that would have resulted had there originally been granted to the Holder Units having a fair market value, as of the date of grant, equal to 100% of such cash bonus (the "Base Number"). If, prior to the payment date specified at the beginning of this Agreement (or, if earlier, the occurrence of a Change in Control), the employment of the Holder with the Company is terminated by reason of death, Disability or Retirement, then the number of Units subject to this Agreement shall be reduced so that the number of Units subject to this Agreement is equal to the sum of (i) the Base Number, plus (ii) a pro rata portion of the difference between the number of Units subject to this Agreement immediately prior to such reduction and the Base Number (such proration being based on the number of days occurring prior to such termination of employment in the three-year period beginning on January 1 of the year in which the date of grant occurred and ending on the payment date specified at the beginning of this Agreement).

(c) *Definitions* . As used in this Agreement, Disability means a medical condition that the Committee has determined renders the Holder unable to perform the normal duties of the Holder's position with the Company. The Committee may, in its sole discretion, obtain a medical opinion from a physician selected by the Committee before any determination of Disability is made. As used in this Agreement, Retirement means termination of employment at or after age 55, provided that the Holder has given the Company at least six months' prior written notice of such termination, or as otherwise determined by the Committee. As used in this Agreement, Change in Control shall have the meaning ascribed thereto in the Company's 2007 Stock Incentive Plan.

6. **Change in Control** . Notwithstanding anything to the contrary stated herein, upon the occurrence of a Change in Control, all of the Units subject to this Agreement shall be paid in full immediately, except as provided below. However, payment will not be made pursuant to this Section 6, but will instead by made pursuant to Section 3, to a Holder who was a specified employee at the time of his/her separation from service prior to the Change in Control. Notwithstanding anything in this Agreement to the contrary, no Change in Control shall be deemed to occur for purposes of payment of Units unless the change would be deemed to constitute a change in ownership or effective control, or a change in the ownership of a substantial portion of the assets, of a business under Section 409A of the Code.

7. **Adjustments in Character and Number of Units Upon Certain Corporate Events** . In the event of any stock split, stock dividend, spin-off, reclassification, recapitalization, reorganization, merger, consolidation, combination, exchange or the like that changes the character or amount of the Common Stock of the Company, the Committee, or the board of directors of any surviving or resulting corporation, shall make such adjustments in the character and number of Units subject to this Agreement and may take such other actions as shall, in the reasonable judgment of the Committee or such board of directors, be equitable and appropriate in order to make the Units equivalent, after such change, as nearly as may be practicable, to the Units immediately prior to such change.

8. **No Transfer** . The Units may not be pledged, assigned or transferred.

9. **No Shareholder Rights** . The Holder shall not have any of the rights of a shareholder of the Company.

10. **Code Section 409A Compliance** . The Company and the Holder intend that any deferred compensation amounts payable under this Agreement comply in full with paragraphs (2), (3) and (4) of Section 409A(a) of the Code, and the provisions of the Agreement shall be interpreted consistent with such intent, and the parties each agree that further modifications to the Agreement will be made if and as necessary to comply in form and substance with Section 409A of the Code.

11. **No Right to Employment** . This Agreement shall not give the Holder a right to continued employment with the Company or any parent or subsidiary of the Company, and the Company or any such parent or subsidiary employing the Holder may terminate the Holder's employment and otherwise deal with the Holder without regard to this Agreement.

12. **Tax Withholding** . As a condition precedent to making a payment hereunder, the Company may require the Holder to pay an amount equal to the amount of any required tax withholdings.

13. **Binding Effect** . This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Holder.

14. **Choice of Law** . This Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted thereunder (without regard to its conflict of law principles).

IN WITNESS WHEREOF, the Holder and the Company have executed this Agreement effective as of the date of grant specified above.

HOLDER

____
«First_Name_Last_Name»

TENNANT COMPANY

By ____________________________________
Thomas J. Dybsky

Its Vice President

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Tennant Company:

We consent to the incorporation by reference in the registration statements No. 33-59054 on Form S-8 relating to the Tennant Company 1992 Stock Incentive Plan, No. 333-84374 on Form S-8 relating to the Tennant Company Restricted Stock Plan for Non-Employee Directors, No. 33-62003 on Form S-8 relating to the Tennant Company 1995 Stock Incentive Plan, No. 333-28641 on Form S-8 relating to the Tennant Company Non-Employee Director Stock Option Plan, No. 333-73706 on Form S-8 relating to the Tennant Company 1999 Stock Incentive Plan, No. 333-51531 on Form S-8 relating to the Tennant Commercial Retirement Savings Plan, No. 333-84372 on Form S-8 relating to the 1998 Management Incentive Plan, No. 333-114884 on Form S-8 relating to the Tennant Company Profit Sharing and Employee Stock Ownership Plan, and No. 333-142581 on Form S-8 relating to the Tennant Company 2007 Stock Incentive Plan of our reports dated February 29, 2008, with respect to the consolidated balance sheets of Tennant Company and subsidiaries as of December 31, 2007 and 2006, 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, 2007, the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in or are incorporated by reference in the December 31, 2007 annual report on Form 10-K of Tennant Company.

Our report dated February 29, 2008 with respect to the consolidated balance sheets of Tennant Company and subsidiaries as of December 31, 2007 and 2006, 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, 2007, states that the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* , as of January 1, 2006, Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* , as of December 31, 2006, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* , as of January 1, 2007.

/s/ KPMG LLP

Minneapolis, Minnesota
March 5, 2008

Exhibit 31.1

CERTIFICATIONS

I, H. Chris Killingstad, certify that:

1. I have reviewed this annual report on Form 10-K of Tennant Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2008

/s/ H. Chris Killingstad

H. Chris Killingstad
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Thomas Paulson, certify that:

1. I have reviewed this annual report on Form 10-K of Tennant Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2008

/s/ Thomas Paulson

Thomas Paulson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Tennant Company.

Date:	March 5, 2008	/s/ H. Chris Killingstad
		H. Chris Killingstad President and Chief Executive Officer
Date:	March 5, 2008	/s/ Thomas Paulson
		Thomas Paulson Chief Financial Officer (Principal Financial and Accounting Officer)