TENNANT CO
Form 10-Q
October 30, 2012
Table of Contents

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[ü]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2012
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 1-16191

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)

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

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	ü	No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes	ü	No

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ü	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 Exchange Act).

Yes	No	ü

As of October 24, 2012, there were 18,585,300 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION		Page
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Statements of Earnings	3
	Condensed Consolidated Statements of Comprehensive Income	4
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to the Condensed Consolidated Financial Statements	6
	1. Basis of Presentation	6
	2. Newly Adopted Accounting Pronouncements	6
	3. Management Actions	7
	4. Acquisitions and Divestitures	8
	5. Inventories	9
	6. Goodwill and Intangible Assets	9
	7. Debt	10
	8. Warranty	12
	9. Fair Value Measurements	12
	10. Retirement Benefit Plans	13
	11. Commitments and Contingencies	14
	12. Income Taxes	14
	13. Stock-Based Compensation	14
	14. Earnings Per Share	15
	15. Segment Reporting	15
	16. Related Party Transactions	16
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	25
Item 4.	Controls and Procedures	25
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	25
Item 1A.	Risk Factors	25
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 6.	Exhibits	26
Signatures		27

Table of Contents

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except shares and per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net Sales	$178,268	$186,990	$551,473	$560,839
Cost of Sales	100,705	106,737	309,640	325,188
Gross Profit	77,563	80,253	241,833	235,651
Operating Expense:				
Research and Development Expense	7,353	7,240	21,558	20,236
Selling and Administrative Expense	57,193	57,250	177,326	181,222
Gain on Sale of Business	(784)	—	(784)	—
Total Operating Expense	63,762	64,490	198,100	201,458
Profit from Operations	13,801	15,763	43,733	34,193
Other Income (Expense):				
Interest Income	229	224	871	476
Interest Expense	(640)	(654)	(2,021)	(1,614)
Net Foreign Currency Transaction (Losses) Gains	(385)	(1,390)	(1,496)	49
Other Income (Expense), Net	99	—	175	(33)
Total Other Expense, Net	(697)	(1,820)	(2,471)	(1,122)
Profit Before Income Taxes	13,104	13,943	41,262	33,071
Income Tax Expense	4,359	4,215	13,522	11,622
Net Earnings	$8,745	$9,728	$27,740	$21,449
Earnings per Share:				
Basic	$0.47	$0.52	$1.49	$1.14
Diluted	$0.46	$0.50	$1.45	$1.10
Weighted Average Shares Outstanding:				
Basic	18,468,546	18,741,524	18,594,508	18,881,132
Diluted	19,040,875	19,271,074	19,154,844	19,417,061
Cash Dividend Declared per Common Share	$0.17	$0.17	$0.51	$0.51

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net Earnings	$8,745	$9,728	$27,740	$21,449
Other Comprehensive Income (Loss), net of tax:				
Foreign currency translation adjustments	1,424	(7,614)	(433)	(2,249)
Pension adjustments	246	(12)	750	1,605
Total Other Comprehensive Income (Loss), net of tax	1,670	(7,626)	317	(644)
Comprehensive Income	$10,415	$2,102	$28,057	$20,805

See accompanying Notes to the Condensed Consolidated Financial Statements.

TENNANT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except shares and per share data)	September 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$62,699	$52,339
Restricted Cash	187	3,279
Accounts Receivable, less Allowances of $4,778 and $4,828, respectively	124,125	128,873
Inventories	60,953	65,912
Prepaid Expenses	11,653	10,320
Deferred Income Taxes, Current Portion	10,521	10,358
Other Current Assets	53	1,015
Total Current Assets	270,191	272,096
Property, Plant and Equipment	297,496	286,949
Accumulated Depreciation	(210,608)	(199,795)
Property, Plant and Equipment, Net	86,888	87,154
Deferred Income Taxes, Long-Term Portion	15,568	15,014
Goodwill	19,779	20,303
Intangible Assets, Net	21,912	23,758
Other Assets	8,736	5,937
Total Assets	$423,074	$424,262
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current Liabilities:		
Current Portion of Long-Term Debt	$2,731	$4,166
Accounts Payable	43,537	46,869
Employee Compensation and Benefits	32,300	32,934
Income Taxes Payable	1,304	619
Other Current Liabilities	37,519	39,404
Total Current Liabilities	117,391	123,992
Long-Term Liabilities:		
Long-Term Debt	30,917	32,289
Employee-Related Benefits	38,022	40,089
Deferred Income Taxes, Long-Term Portion	3,240	3,189

Other Liabilities	3,895	3,851
Total Long-Term Liabilities	76,074	79,418
Total Liabilities	193,465	203,410
Commitments and Contingencies (Note 11)		
Shareholders' Equity:		
Preferred Stock, $0.02 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, $0.375 par value; 60,000,000 shares authorized; 18,578,029 and 18,834,940 shares issued and outstanding, respectively	6,967	7,063
Additional Paid-In Capital	20,061	15,082
Retained Earnings	231,501	227,944
Accumulated Other Comprehensive Loss	(28,920)	(29,237)
Total Shareholders’ Equity	229,609	220,852
Total Liabilities and Shareholders’ Equity	$423,074	$424,262

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30	
	2012	2011
OPERATING ACTIVITIES		
Net Earnings	$27,740	$21,449
Adjustments to reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	13,239	12,800
Amortization	2,096	2,533
Impairment of Intangible Assets	—	1,805
Deferred Income Taxes	(731)	945
Stock-Based Compensation Expense	7,175	3,569
Allowance for Doubtful Accounts and Returns	1,528	747
Gain on Sale of Business	(784)	—
Other, Net	130	400
Changes in Operating Assets and Liabilities:		
Accounts Receivable	1,756	(2,672)
Inventories	(3,097)	(17,461)
Accounts Payable	(2,348)	11,277
Employee Compensation and Benefits	(2,767)	134
Other Current Liabilities	(84)	2,433
Income Taxes	4,902	1,628
Other Assets and Liabilities	(5,473)	(3,568)
Net Cash Provided by Operating Activities	43,282	36,019
INVESTING ACTIVITIES		
Purchases of Property, Plant and Equipment	(11,110)	(7,663)
Proceeds from Disposals of Property, Plant and Equipment	280	485
Acquisition of Businesses, Net of Cash Acquired	(750)	(2,916)
Proceeds from the Sale of Business	1,014	—
Decrease in Restricted Cash	3,089	—
Net Cash Used for Investing Activities	(7,477)	(10,094)
FINANCING ACTIVITIES		
Change in Short-Term Borrowings, Net	—	(35)
Payment of Long-Term Debt	(2,450)	(18,099)
Issuance of Long-Term Debt	—	20,000
Purchases of Common Stock	(18,567)	(17,134)
Proceeds from Issuance of Common Stock	2,798	3,257
Tax Benefit on Stock Plans	1,213	801
Dividends Paid	(9,508)	(9,660)
Net Cash Used for Financing Activities	(26,514)	(20,870)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,069	(311)
Net Increase in Cash and Cash Equivalents	10,360	4,744
Cash and Cash Equivalents at Beginning of Period	52,339	39,529
Cash and Cash Equivalents at End of Period	$62,699	$44,273
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Income Taxes	$10,319	$8,110

Cash Paid for Interest	$1,905	$1,450
Supplemental Non-cash Investing and Financing Activities:		
Capital Expenditures Funded Through Capital Leases	$847	$2,621
Collateralized Borrowings	$60	$194
Notes Payable Related to Water Star, Inc. Acquisition	$750	$1,500

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except shares and per share data)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the Securities and Exchange Commission (“SEC”) requirements for interim reporting, which allows certain footnotes and other financial information normally required by accounting principles generally accepted in the United States of America to be condensed or omitted. In our opinion, the Condensed Consolidated Financial Statements contain all adjustments (consisting of only normal recurring adjustments) necessary for the fair presentation of our financial position and results of operations.

These statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our annual report on Form 10-K for the year ended December 31, 2011. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

2. Newly Adopted Accounting Pronouncements

Fair Value Measurements and Disclosures

In May 2011, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance for fair value measurements providing common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. While the guidance is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but the carrying amount is on some other basis. We adopted this guidance January 1, 2012. This guidance did not have an impact on our results of operations or financial position.

Comprehensive Income

In June 2011, the FASB issued guidance on the presentation of comprehensive income that requires us to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued an amendment to this standard which defers the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements and requires retrospective application. We adopted this guidance January 1, 2012. Since this standard impacts presentation and disclosure requirements only, this adopted guidance did not have an impact on our results of operations or financial position.

Table of Contents

3. Management Actions

2010 Action - During the fourth quarter of 2010, we implemented a restructuring action. A pretax charge of $1,671 was recognized in the fourth quarter as a result of this action. The pretax charge consisted of severance and outplacement services and was included within Selling and Administrative Expense in the 2010 Consolidated Statements of Earnings.

A reconciliation of the beginning and ending liability balances is as follows:

	Severance, Early Retirement and Related Costs
2010 restructuring action	$1,671
Cash payments	(87)
December 31, 2010 balance	$1,584
2011 utilization:	
Cash payments	(1,534)
Foreign currency adjustments	(54)
Change in estimate	110
December 31, 2011 balance	$106
2012 utilization:	
Cash payments	(64)
Foreign currency adjustments	(4)
September 30, 2012 balance	$38

2012 Action - During the third quarter of 2012, we implemented a restructuring action. A pretax charge of $760 was recognized in the third quarter as a result of this action. The pretax charge consisted primarily of severance and outplacement services and was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Earnings.

A reconciliation of the beginning and ending liability balances is as follows:

	Severance and Related Costs
2012 restructuring action	$760
Cash payments	(138)
Foreign currency adjustments	17
September 30, 2012 balance	$639

Table of Contents

4. Acquisitions and Divestitures

Acquisitions

On May 31, 2011, we acquired Water Star, Inc. ("Water Star"), a Newbury, Ohio firm specializing in electrochemistry for $4,456. The total purchase price of $4,456 was comprised of $2,956 paid at closing and two $750 installment payments which will be paid in cash on the first and second anniversary dates of the acquisition. The first installment payment was made on May 31, 2012. These installment payments are not contingent on any future services or other financial targets. This acquisition is consistent with our strategy to expand our intellectual property in support of our long-term vision to deliver sustainable, breakthrough innovations.

The components of the purchase price of the business combination described above have been allocated as follows:

Current Assets	$426
Property, Plant and Equipment, net	167
Identified Intangible Asset	3,800
Goodwill	472
Total Assets Acquired	4,865
Current Liabilities	409
Total Liabilities Assumed	409
Net Assets Acquired	$4,456

Divestitures

On July 31, 2012, we entered into a Share Purchase Agreement ("SPA") with M&F Management and Financing GmbH ("M&F") for the sale of ownership of our subsidiary, Tennant CEE GmbH and our minority interest in a joint venture, OOO Tennant. In exchange for the ownership of these entities, we received €815, or $1,014 as of the date of sale, in cash and financed the remaining purchase price of €6,166. A total of €2,126, or $2,738 as of September 30, 2012, will be received in equal quarterly payments during 2013 and the remaining €3,225, or $4,153 as of September 30, 2012, will be received in equal installments on the first, second and third anniversary dates of the divestiture. As a result of this divestiture, we recorded a pre-tax gain of $784 in our Profit from Operations in the Condensed Consolidated Statements of Earnings.

M&F is now a master distributor of Tennant products in the Central Eastern Europe, Middle East and Africa markets. In addition, as further discussed in Note 16, M&F is a related party to Tennant. We have identified M&F as a variable interest entity ("VIE") and have performed a qualitative assessment that considered M&F's purpose and design, our involvement and the risks and benefits and determined that Tennant is not the primary beneficiary of this VIE. The only financing Tennant has provided to M&F was related to the SPA as noted above and there are no arrangements that would require us to provide significant financial support in the future.

The assets and liabilities transferred under the Share Purchase Agreement on the date of sale were as follows:

Accounts Receivable	$4,398
Inventory	4,271
Other Current Assets	87
Current Assets	8,756
Property, Plant and Equipment, net	170
Total Assets Divested	8,926
Current Liabilities	1,121
Total Liabilities Divested	1,121
Net Assets Divested	$7,805

Table of Contents

5. Inventories

Inventories are valued at the lower of cost or market. Inventories at September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
Inventories carried at LIFO:		
Finished goods	$36,005	$32,648
Raw materials, production parts and work-in-process	15,072	16,611
LIFO reserve	(27,926)	(27,926)
Total LIFO inventories	23,151	21,333
Inventories carried at FIFO:		
Finished goods	25,514	31,912
Raw materials, production parts and work-in-process	12,288	12,667
Total FIFO inventories	37,802	44,579
Total inventories	$60,953	$65,912

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

6. Goodwill and Intangible Assets

The changes in the carrying value of Goodwill for the nine months ended September 30, 2012 were as follows:

	Goodwill	Accumulated Impairment Losses	Total
Balance as of December 31, 2011	$66,523	$(46,220)	$20,303
Foreign currency fluctuations	1,641	(2,165)	(524)
Balance as of September 30, 2012	$68,164	$(48,385)	$19,779

The balances of acquired Intangible Assets, excluding Goodwill, as of September 30, 2012 and December 31, 2011 were as follows:

	Customer Lists and Service Contracts	Trade Name	Technology	Total
Balance as of September 30, 2012				
Original cost	$23,642	$4,559	$7,115	$35,316
Accumulated amortization	(9,309)	(1,450)	(2,645)	(13,404)
Carrying value	$14,333	$3,109	$4,470	$21,912
Weighted-average original life (in years)	15	14	13	
Balance as of December 31, 2011				
Original cost	$25,987	$4,583	$7,136	$37,706
Accumulated amortization	(10,387)	(1,209)	(2,352)	(13,948)
Carrying value	$15,600	$3,374	$4,784	$23,758
Weighted-average original life (in years)	14	14	13	

The additions to Goodwill and Intangible Assets during 2011 were based on the purchase price allocation of Water Star as described in Note 4. The Water Star intangible asset consisted of technology with an estimated life of 15 years.

Table of Contents

We recorded an impairment loss on a customer list and technology intangible assets during the second quarter of 2011, totaling $1,805 due to our strategic decision to discontinue our two Hofmans outdoor city cleaning products. The impairment was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Earnings. Amortization expense on Intangible Assets for the three and nine months ended September 30, 2012 was $663 and $2,095, respectively. Amortization expense on Intangible Assets for the three and nine months ended September 30, 2011 was $829 and $2,533, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable Intangible Assets for each of the five succeeding years and thereafter is as follows:

Remaining 2012	$575
2013	2,299
2014	2,240
2015	2,228
2016	2,188
Thereafter	12,382
Total	$21,912

7. Debt

Debt outstanding is summarized as follows:

	September 30, 2012	December 31, 2011
Long-Term Debt:		
Bank borrowings	$25	$49
Credit facility borrowings	30,000	30,000
Notes payable	750	1,500
Collateralized borrowings	60	127
Capital lease obligations	2,813	4,779
Total Long-Term Debt	33,648	36,455
Less: Current Portion	2,731	4,166
Long-Term Portion	$30,917	$32,289

As of September 30, 2012, we had committed lines of credit totaling $125,000 and uncommitted lines of credit totaling $87,576. There was $10,000 in outstanding borrowings under our JPMorgan facility and $20,000 in outstanding borrowings under our Prudential facility as of September 30, 2012. In addition, we had stand alone letters of credit of $2,014 outstanding and bank guarantees in the amount of $1,025. Commitment fees on unused lines of credit for the nine months ended September 30, 2012 were $238.

Our most restrictive covenants are part of our 2011 Credit Agreement (as defined below) with JPMorgan (as defined below), which are the same covenants in the Shelf Agreement (as defined below) with Prudential (as defined below), and require us to maintain an indebtedness to EBITDA ratio of not greater than 3.00 to 1 and to maintain an EBITDA to interest expense ratio of no less than 3.50 to 1 as of the end of each quarter. As of September 30, 2012, our indebtedness to EBITDA ratio was 0.46 to 1 and our EBITDA to interest expense ratio was 30.47 to 1.

Credit Facilities

JPMorgan Chase Bank, National Association

On May 5, 2011, we entered into a Credit Agreement (the “2011 Credit Agreement”) with JPMorgan Chase Bank, N. A. (“JPMorgan”), as administrative agent and collateral agent, U.S. Bank National Association, as syndication agent, Wells Fargo Bank, National Association, and RBS Citizens, N.A., as co-documentation agents, and the Lenders (including JPMorgan) from time to time party thereto. Upon entry into the 2011 Credit Agreement, we repaid and terminated our June 19, 2007 Credit Agreement. The 2011 Credit Agreement provides us and certain of our foreign subsidiaries access to a senior unsecured credit facility until May 5, 2016, in the amount of $125,000, with an option to expand by up to $62,500 to a total of $187,500. Borrowings may be denominated in U.S. Dollars or certain other currencies. The 2011 Credit Agreement contains a $100,000 sublimit on borrowings by foreign subsidiaries.

Table of Contents

The fee for committed funds under the 2011 Credit Agreement ranges from an annual rate of 0.25% to 0.40%, depending on our leverage ratio. Borrowings under the 2011 Credit Agreement bear interest at a rate per annum equal to the greatest of (a) the prime rate, (b) the federal funds rate plus 0.50% and (c) the adjusted LIBOR rate for a one month period plus 1.0%, plus, in any such case, an additional spread of 0.50% to 1.10%, depending on our leverage ratio.

The 2011 Credit Agreement gives the lenders a pledge of 65% of the stock of certain first tier foreign subsidiaries. The obligations under the 2011 Credit Agreement are also guaranteed by our first tier domestic subsidiaries.

The 2011 Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and merge or consolidate with another entity. Further, the 2011 Credit Agreement contains the following covenants:

- a covenant requiring us to maintain an indebtedness to EBITDA ratio as of the end of each quarter of not greater than 3.00 to 1;
- a covenant requiring us to maintain an EBITDA to interest expense ratio as of the end of each quarter of no less than 3.50 to 1;
- a covenant restricting us from paying dividends or repurchasing stock if, after giving effect to such payments, our leverage ratio is greater than 2.00 to 1, in such case limiting such payments to an amount ranging from $50,000 to $75,000 during any fiscal year based on our leverage ratio after giving effect to such payments; and
- a covenant restricting our ability to make acquisitions, if, after giving pro-forma effect to such acquisition, our leverage ratio is greater than 2.75 to 1, in such case limiting acquisitions to $25,000.

As of September 30, 2012, we were in compliance with all covenants under the 2011 Credit Agreement. There was $10,000 in outstanding borrowings under this facility at September 30, 2012, with a weighted average interest rate of 1.75%.

Prudential Investment Management, Inc.

On May 5, 2011, we entered into Amendment No. 1 to our Private Shelf Agreement (“Amendment No. 1”), which amends the Private Shelf Agreement, dated as of July 29, 2009, with Prudential Investment Management, Inc. (“Prudential”) and Prudential affiliates from time to time party thereto (the “Shelf Agreement”). The Shelf Agreement provides us and our subsidiaries access to an uncommitted, senior unsecured, maximum aggregate principal amount of $80,000 of debt capital.

Amendment No. 1 principally provides the following changes to the Shelf Agreement:

- elimination of the security interest in our personal property and subsidiaries;
- an amendment to the Maximum Leverage Ratio to not greater than 3.00 to 1 for any period ending on or after March 31, 2011;
- an amendment to our restriction regarding the payment of dividends or repurchase of stock to restrict us from paying dividends or repurchasing stock if, after giving effect to such payments, our leverage ratio is greater than 2.00 to 1, in such case limiting such payments to an amount ranging from $50,000 to $75,000 during any fiscal year based on our leverage ratio after giving effect to such payments; and
- an amendment to Permitted Acquisitions restricting our ability to make acquisitions, if, after giving pro-forma effect to such acquisition, our leverage ratio is greater than 2.75 to 1, in such case limiting acquisitions to $25,000.

On July 24, 2012, we entered into Amendment No. 2 to our Private Shelf Agreement (“Amendment No. 2”), which amends the Shelf Agreement. The principal change effected by Amendment No. 2 is an extension of the Issuance Period for Shelf Notes under the Shelf Agreement. The Issuance Period now expires on July 24, 2015.

As of September 30, 2012, there was $20,000 in outstanding borrowings under this facility, consisting of the $10,000 Series A notes issued in March 2011 with a fixed interest rate of 4.00% and a 7 year term serially maturing from 2014 to 2018 and the $10,000 Series B notes issued in June 2011 with a fixed interest rate of 4.10% and a 10 year term serially maturing from 2015 to 2021. We were in compliance with all covenants under the Shelf Agreement as of September 30, 2012.

The Royal Bank of Scotland Citizens, N.A.

On September 14, 2010, we entered into an overdraft facility with The Royal Bank of Scotland Citizens, N.A., in the amount of 2,000 Euros or approximately $2,576. There was no balance outstanding on this facility as of

September 30, 2012.

Table of Contents

HSBC Bank (China) Company Limited, Shanghai Branch

On September 30, 2012, we entered into a banking facility with the HSBC Bank (China) Company Limited, Shanghai Branch in the amount of $5,000. There was no balance outstanding on this facility as of September 30, 2012.

Notes Payable

On May 31, 2011, we incurred $1,500 in debt related to installment payments due to the former owners of Water Star in connection with our acquisition of Water Star, of which $750 remains outstanding as of September 30, 2012.

8. Warranty

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 sales, the historical length of time between the sale and resulting warranty claim, new product introductions and other factors. Warranty terms on machines generally range from one to four years.

The changes in warranty reserves for the nine months ended September 30, 2012 and 2011 were as follows:

	Nine Months Ended September 30	
	2012	2011
Beginning balance	$8,759	$7,043
Additions charged to expense	9,384	9,404
Reserve (divested) acquired	(236)	10
Foreign currency fluctuations	(37)	(45)
Claims paid	(8,647)	(8,433)
Ending balance	$9,223	$7,979

9. Fair Value Measurements

Estimates of fair value for financial assets and financial liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

Our population of assets and liabilities subject to fair value measurements at September 30, 2012 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Foreign currency forward exchange contracts	53	—	53	—
Total Assets	$53	$—	$53	$—
Liabilities:				
Foreign currency forward exchange contracts	$169	$—	$169	$—
Total Liabilities	$169	$—	$169	$—

Our foreign currency forward exchange contracts are valued based on quoted forward foreign exchange prices at the reporting date.

Table of Contents

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. Gains or losses on forward foreign exchange contracts to economically hedge foreign currency-denominated assets and liabilities are recognized in Other Current Assets and Other Current Liabilities within the Condensed Consolidated Balance Sheets and are recognized in Other Income (Expense), Net under Net Foreign Currency Transaction (Losses) Gains within the Condensed Consolidated Statements of Earnings. As of September 30, 2012, the fair value of such contracts outstanding was an asset of $53 and a liability of $169. As of September 30, 2011, the fair value of such contracts outstanding was an asset of $123 and a liability of $469. We recognized a net gain of $1,059 and a net loss of $1,302 on these contracts during the first nine months of 2012 and 2011, respectively. At September 30, 2012 and 2011, the notional amounts of foreign currency forward exchange contracts outstanding were $39,814 and $40,027, respectively.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for Cash and Cash Equivalents, Accounts Receivable, Other Current Assets, Accounts Payable and Other Current Liabilities approximate fair value. The fair 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.

10. Retirement Benefit Plans

Our defined benefit pension plans and postretirement medical plan are described in Note 11 of the 2011 annual report on Form 10-K. We have contributed $517 and $186 during the third quarter of 2012 and $1,512 and $425 during the first nine months of 2012 to our pension plans and to our postretirement medical plan, respectively.

The components of the net periodic benefit cost for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30					
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Medical Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	$175	$163	$33	$25	$34	$33
Interest cost	485	503	131	122	140	153
Expected return on plan assets	(569)	(581)	(118)	(109)	—	—
Amortization of net actuarial loss	281	7	—	—	17	—
Amortization of prior service cost	94	137	38	40	(145)	(145)
Foreign currency	—	—	(10)	(325)	—	—
Net periodic cost	$466	$229	$74	$(247)	$46	$41

	Nine Months Ended September 30					
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Medical Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	$514	$489	$99	$75	$104	$99
Interest cost	1,446	1,509	392	366	419	459
Expected return on plan assets	(1,709)	(1,744)	(353)	(325)	—	—
Amortization of net actuarial loss	849	21	—	—	51	—
Amortization of prior service cost	286	412	115	118	(435)	(435)
Foreign currency	—	—	13	(248)	—	—
Net periodic cost	$1,386	$687	$266	$(14)	$139	$123

11. Commitments and Contingencies

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. As of September 30, 2012, of those leases that contain residual value guarantees, the aggregate residual value at lease expiration was $9,387, of which we have guaranteed $5,462. As of September 30, 2012, we have recorded a liability for the estimated end of term loss related to this residual value guarantee of $578 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.

During the second quarter of 2012, we entered into a three year agreement with a supplier, commencing January 1, 2013, with a total commitment of $2,102 which is still outstanding as of September 30, 2012.

12. Income Taxes

We and our subsidiaries 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 2011 and with limited exceptions, state and foreign income tax examinations for taxable years before 2004.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in Income Tax Expense. In addition to the liability of $3,404 for unrecognized tax benefits as of September 30, 2012 was approximately $476 for accrued interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of September 30, 2012 was $3,182. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be revised and reflected as an adjustment of the Income Tax Expense.

Unrecognized tax benefits were reduced by $315 during the first nine months of 2012 for expiration of the statute of limitations in various jurisdictions.

The Internal Revenue Service completed its examination of the U.S. income tax returns for the years 2009 and 2010 during the third quarter of 2012. The IRS's adjustments to certain tax positions were not material and were fully reserved.

We are currently undergoing income tax examinations in various state and foreign jurisdictions covering 2004 to 2010 for which settlement is expected prior to year end. Although the final outcome of these examinations cannot be currently determined, we believe that we have adequate reserves with respect to these examinations.

13. Stock-Based Compensation

Our stock-based compensation plans are described in Note 15 of the 2011 annual report on Form 10-K. During the three months ended September 30, 2012 and 2011 we recognized total Stock-Based Compensation Expense of $3,264 and $1,079, respectively. During the nine months ended September 30, 2012 and 2011 we recognized total Stock-Based Compensation Expense of $7,175 and $3,569, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements during the nine months ended September 30, 2012 and 2011 was $1,213 and $801, respectively. During the first nine months of 2012 we granted 34,972 restricted shares. The weighted average grant date fair value of each share awarded was $43.07. Restricted share awards generally have a 3 year vesting period from the effective date of the grant. The total fair value of shares vested during the nine months ended September 30, 2012 and 2011 was $524 and $623, respectively.

Table of Contents

14. Earnings Per Share

The computations of Basic and Diluted Earnings per Share were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Numerator:				
Net Earnings	$8,745	$9,728	$27,740	$21,449
Denominator:				
Basic - Weighted Average Shares Outstanding	18,468,546	18,741,524	18,594,508	18,881,132
Effect of dilutive securities:				
Share-based compensation plans	572,329	529,550	560,336	535,929
Diluted - Weighted Average Shares Outstanding	19,040,875	19,271,074	19,154,844	19,417,061
Basic Earnings per Share	$0.47	$0.52	$1.49	$1.14
Diluted Earnings per Share	$0.46	$0.50	$1.45	$1.10

Excluded from the dilutive securities shown above were options to purchase 251,704 and 180,551 shares of Common Stock during the three months ended September 30, 2012 and 2011, respectively. Excluded from the dilutive securities shown above were options to purchase 268,698 and 145,238 shares of Common Stock during the nine months ended September 30, 2012 and 2011, respectively. These exclusions are made if the exercise prices of these options are greater than the average market price of our Common Stock for the period, if the number of shares we can repurchase exceeds the weighted shares outstanding in the options, or if we have a net loss, as the effects are anti-dilutive.

15. Segment Reporting

We are organized into four operating segments: North America; Latin America; Europe, Middle East, Africa; and Asia Pacific. We combine our North America and Latin America operating segments into the “Americas” for reporting Net Sales by geographic area. In accordance with the objective and basic principles of the applicable accounting guidance, we aggregate our operating segments into one reportable segment that consists of the design, manufacture and sale of products used primarily in the maintenance of nonresidential surfaces.

Net Sales attributed to each geographic area for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Americas	$118,624	$121,280	$365,726	$358,912
Europe, Middle East, Africa	38,355	44,599	125,573	139,591
Asia Pacific	21,289	21,111	60,174	62,336
Total	$178,268	$186,990	$551,473	$560,839

Net Sales are attributed to each geographic area based on the country from which the product was shipped and are net of intercompany sales.

Table of Contents

16. Related Party Transactions

On July 31, 2012, we entered into a share purchase agreement with M&F, as further discussed in Note 4. Two of the M&F shareholders are individuals who were employed by Tennant prior to the transaction date and are no longer employed by Tennant as of the transaction date.

Our May 31, 2011 acquisition of Water Star includes installment payments totaling $1,500 to the former owners of Water Star, as further discussed in Note 4. The former owners of Water Star are current employees of Tennant.

We have an exclusive technology license agreement with Global Opportunities Investment Group, LLC. A current employee of Tennant owns a minority interest in Global Opportunities Investment Group, LLC. Royalties under this license agreement are not material to our financial position or results of operations.

During the second quarter of 2008, we acquired Sociedade Alfa Ltda. and entered into lease agreements for certain properties owned by or partially owned by the former owners of these entities. Some of these individuals are current employees of Tennant. Lease payments made under these lease agreements are not material to our financial position or results of operations.

Table of Contents

Item 2. 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, healthier world. Our products include equipment for maintaining surfaces in industrial, commercial and outdoor environments; chemical-free and other sustainable cleaning technologies; and coatings for protecting, repairing and upgrading surfaces. We sell our products through our direct sales and service organization and a network of authorized distributors worldwide. Geographically, our customers are located in North America, Latin America, Europe, the Middle East, Africa and Asia Pacific. We strive to be an innovator in our industry through our commitment to understanding our customers’ needs and using our expertise to create innovative products and solutions.

Net Earnings for the third quarter of 2012 were $8.7 million, or $0.46 per diluted share, as compared to Net Earnings of $9.7 million, or $0.50 per diluted share, in the third quarter of 2011. Net Earnings during the third quarter of 2012 were adversely impacted by lower Net Sales somewhat offset by favorable impacts from higher gross profit margin, driven by product mix, stable commodity costs and production efficiencies, and decreased Selling and Administrative (“S&A”) Expense, due to continued tight cost controls and improved operating efficiencies. Net Earnings for the third quarter of 2012 were favorably impacted by $0.4 million of net foreign currency transaction losses, versus $1.4 million of net foreign currency transaction losses in the prior year quarter, due to the volatility of foreign exchange rates.

Net Earnings for the first nine months of 2012 were $27.7 million, or $1.45 per diluted share, as compared to Net Earnings of $21.4 million, or $1.10 per diluted share, in the first nine months of 2011. Net Earnings during the first nine months of 2012 were favorably impacted by higher gross profit margin and lower S&A Expense.

Net Earnings for the first nine months of 2011 were impacted by our strategic decision to discontinue our two Hofmans outdoor city cleaning products in order to focus our resources on our more innovative Green Machines™ products. This decision resulted in a $3.8 million after-tax charge, or a loss of $0.20 per diluted share, during the second quarter of 2011, and consisted of the following items: increased inventory reserves and fixed asset write-offs of approximately $1.5 million; write-down of intangible assets of approximately $1.8 million; accrued severance of approximately $1.0 million; and a tax benefit of approximately $0.5 million. In addition, the severance due under the settlement agreement related to the departure of our Vice President of International resulted in a $1.2 million after-tax charge, or a loss of $0.06 per diluted share, which also impacted Net Earnings for the first nine months of 2011.

Table of Contents

Historical Results

The following table compares the historical results of operations for the three and nine months ended September 30, 2012 and 2011, respectively, and as a percentage of Net Sales (in thousands, except per share data and percentages):

	Three Months Ended September 30				Nine Months Ended September 30			
	2012	%	2011	%	2012	%	2011	%
Net Sales	$178,268	100.0	$186,990	100.0	$551,473	100.0	$560,839	100.0
Cost of Sales	100,705	56.5	106,737	57.1	309,640	56.1	325,188	58.0
Gross Profit	77,563	43.5	80,253	42.9	241,833	43.9	235,651	42.0
Operating Expense:								
Research and Development Expense	7,353	4.1	7,240	3.9	21,558	3.9	20,236	3.6
Selling and Administrative Expense	57,193	32.1	57,250	30.6	177,326	32.2	181,222	32.3
Gain on Sale of Business	(784)	(0.4)	—	—	(784)	(0.1)	—	—
Total Operating Expense	63,762	35.8	64,490	34.5	198,100	35.9	201,458	35.9
Profit from Operations	13,801	7.7	15,763	8.4	43,733	7.9	34,193	6.1
Other Income (Expense):								
Interest Income	229	0.1	224	0.1	871	0.2	476	0.1
Interest Expense	(640)	(0.4)	(654)	(0.3)	(2,021)	(0.4)	(1,614)	(0.3)
Net Foreign Currency Transaction (Losses) Gains	(385)	(0.2)	(1,390)	(0.7)	(1,496)	(0.3)	49	—
Other Income (Expense), Net	99	0.1	—	—	175	—	(33)	—
Total Other (Expense) Income, Net	(697)	(0.4)	(1,820)	(1.0)	(2,471)	(0.4)	(1,122)	(0.2)
Profit Before Income Taxes	13,104	7.4	13,943	7.5	41,262	7.5	33,071	5.9
Income Tax Expense	4,359	2.4	4,215	2.3	13,522	2.5	11,622	2.1
Net Earnings	$8,745	4.9	$9,728	5.2	$27,740	5.0	$21,449	3.8
Earnings per Diluted Share	$0.46		$0.50		$1.45		$1.10	

Net Sales

Consolidated Net Sales for the third quarter of 2012 totaled $178.3 million, a 4.7% decrease as compared to consolidated Net Sales of $187.0 million in the third quarter of 2011. Consolidated Net Sales for the first nine months of 2012 totaled $551.5 million, a decrease of 1.7% as compared to consolidated Net Sales of $560.8 million in the same period of 2011.

The components of the consolidated Net Sales change for the three and nine months ended September 30, 2012 as compared to the same periods in 2011 were as follows:

	2012 v. 2011	
	Three Months Ended September 30	Nine Months Ended September 30
Organic (Decline) Growth:		
Volume	(2.2)%	(0.7)%
Price	0.5%	1.5%
Organic (Decline) Growth	(1.7)%	0.8%
Foreign Currency	(3.0)%	(2.5)%
Total	(4.7)%	(1.7)%

18

Table of Contents

The 4.7% decrease in consolidated Net Sales in the third quarter of 2012 as compared to the same period in 2011 was driven by:

- an organic sales decrease of approximately 1.7%, excluding the effects of acquisitions and foreign currency exchange, primarily due to an approximate 0.5% increase in pricing and an approximate 2.2% volume decrease primarily in large industrial equipment sales; and
- an unfavorable direct foreign currency exchange impact of approximately 3.0%.

The 1.7% decrease in consolidated Net Sales in the first nine months of 2012 as compared to the same period in 2011 was driven by:

- an organic sales increase of approximately 0.8%, excluding the effects of acquisitions and foreign currency exchange, primarily due to an approximate 1.5% increase in pricing and an approximate 0.7% volume decrease primarily in large industrial equipment sales; and
- an unfavorable direct foreign currency exchange impact of approximately 2.5%.

The following table sets forth the Net Sales by geographic area for the three and nine months ended September 30, 2012 and 2011 and the percentage change from the prior year (in thousands, except percentages):

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	%	2012	2011	%
Americas	$118,624	$121,280	(2.2)	$365,726	$358,912	1.9
Europe, Middle East and Africa	38,355	44,599	(14.0)	125,573	139,591	(10.0)
Asia Pacific	21,289	21,111	0.8	60,174	62,336	(3.5)
Total	$178,268	$186,990	(4.7)	$551,473	$560,839	(1.7)

Americas

Net Sales in the Americas were $118.6 million and $365.7 million for the third quarter and nine months ended September 30, 2012, a decrease of 2.2% and an increase of 1.9%, respectively, from the third quarter and nine months ended September 30, 2011. Organic sales in the third quarter ended September 30, 2012 were unfavorably impacted by a volume decline, primarily in industrial equipment in North America, partially offset by robust growth in Latin America, sales of scrubbers equipped with ec-H2O™ technology and selling price increases. Organic sales for the nine months ended September 30, 2012 benefited from sales to strategic account customers and sales of scrubbers equipped with ec-H2O technology and increased selling prices. The direct impact of foreign currency translation exchange effects within the Americas unfavorably impacted Net Sales by approximately 1.5% during the third quarter and 1.5% during the first nine months of 2012. Organic sales declined approximately 0.7% in the third quarter and grew 3.4% in the first nine months of 2012.

Europe, Middle East and Africa

In our markets within Europe, the Middle East and Africa (“EMEA”), Net Sales decreased 14.0% and 10.0% to $38.4 million and $125.6 million, respectively, for the third quarter and nine months ended September 30, 2012, compared to the third quarter and nine months ended September 30, 2011. Direct foreign currency exchange fluctuations unfavorably impacted EMEA Net Sales by approximately 8.5% and 7.0%, respectively, in the third quarter and first nine months of 2012. Organic sales declined approximately 5.5% and 3.0%, respectively, in the third quarter and first nine months of 2012. EMEA organic sales in the third quarter ended September 30, 2012 were unfavorably impacted by the uncertain economic conditions in Europe and a continued tight credit environment that made it difficult for customers to obtain financing to purchase our equipment, and during the nine months ended September 30, 2012 this was somewhat offset by higher sales of outdoor city cleaning equipment.

Asia Pacific

Net Sales in the Asia Pacific market for the third quarter and nine months ended September 30, 2012 totaled $21.3 million and $60.2 million, respectively, an increase of 0.8% and decrease of 3.5%, respectively, from the third quarter and nine months ended September 30, 2011. Organic sales in the third quarter ended September 30, 2012 increased approximately 1.3% due to higher sales in most markets, partially offset by lower sales in Japan. Organic sales for the nine months ended September 30, 2012 decreased by 4.0% primarily from lower equipment volume in mature markets due to softer economic conditions, partially offset by robust volume growth in China. Direct foreign currency

translation exchange effects unfavorably impacted sales by approximately 0.5% in the third quarter and favorably increased sales by approximately 0.5% during the first nine months of 2012.

Table of Contents

Gross Profit

Gross margin was 43.5% and 43.9% for the third quarter and first nine months of 2012, as compared with 42.9% and 42.0%, respectively, for the same periods of 2011. Gross margin increased by 60 and 190 basis points in the third quarter and the first nine months of 2012, respectively, primarily driven by product mix, stable commodity costs and production efficiencies.

Gross margin for the first nine months of 2011 was impacted by increased inventory reserves and fixed asset write-offs of $1.5 million related to the Hofmans product discontinuance, which unfavorably impacted gross margin by 30 basis points in the first nine months of 2011.

Operating Expense

Research & Development Expense

Research and Development ("R&D") Expense in the third quarter of 2012 was up 1.6% to $7.4 million as compared with $7.2 million in the third quarter of 2011. R&D Expense as a percentage of Net Sales was 4.1% for the third quarter of 2012, an increase as compared to 3.9% of Net Sales for R&D Expense in the third quarter of 2011, primarily from continued investment in developing innovative new products for our traditional core business, as well as our Orbio business.

R&D Expense for the nine months ended September 30, 2012 was $21.6 million, up 6.5% from $20.2 million in the same period in 2011. R&D Expense as a percentage of Net Sales was 3.9% for the first nine months of 2012 as compared to 3.6% for the first nine months of 2011, primarily from continued investment in developing innovative new products for our traditional core business, as well as our Orbio business.

Selling & Administrative Expense

S&A Expense in the third quarter of 2012 was $57.2 million as compared to $57.3 million in the third quarter of 2011. The decrease in S&A Expense was primarily attributable to continued tight cost controls and improved operating efficiencies. S&A Expense as a percentage of Net Sales was 32.1% for the third quarter of 2012, up 150 basis points from 30.6% in the comparable 2011 quarter. Included in S&A Expense in the third quarter of 2012 was a restructuring charge of $0.8 million, or 40 basis points.

For the nine months ended September 30, 2012, S&A Expense decreased to $177.3 million from $181.2 million in the comparable period last year due to continued tight cost controls and improved operating efficiencies. S&A Expense as a percentage of Net Sales was 32.2% for the first half of 2012 versus 32.3% in the comparable period last year. S&A Expense in the first nine months of 2012 was impacted by a restructuring charge of $0.8 million, or 20 basis points. S&A Expense in the first nine months of 2011 was impacted by charges related to the Hofmans product discontinuance and international executive severance of $4.0 million, or 70 basis points.

Gain on Sale of Business

During the third quarter of 2012, we completed the sale of our Tennant CEE GmbH subsidiary and a minority ownership in a joint venture, OOO Tennant, for a pre-tax gain of $0.8 million.

Other Income (Expense), Net

Interest Income

There was no significant change in Interest Income in the third quarter of 2012 as compared to the same period in 2011. Interest Income increased $0.4 million in the first nine months of 2012 as compared to the same period in 2011. The increase between 2012 and 2011 is due to higher interest rates on higher average levels of cash and cash equivalents.

Interest Expense

There was no significant change in Interest Expense in the third quarter of 2012 as compared to the same period in 2011. Interest Expense increased $0.4 million in the first nine months of 2012 as compared to the same period in 2011. The increase in Interest Expense between periods was primarily due to a higher interest rate in the current period as compared to the same period in 2011.

Net Foreign Currency Transaction (Losses) Gains

Net Foreign Currency Transaction Losses in the third quarter and first nine months of 2012 were $0.4 million and $1.5 million, respectively, as compared to Net Foreign Currency Transaction Losses of $1.4 million and a small gain in the same periods in the prior year. The unfavorable change in the impact from foreign currency transactions in the third

quarter and first nine months of 2012 was due to fluctuations in foreign currency rates and settlement of transactional hedging activity in the normal course of business.

Table of Contents

Other Income, Net

There was no significant change in Other Income, Net in the third quarter and the first nine months of 2012 as compared to the same periods in 2011.

Income Taxes

The effective tax rate in the third quarter of 2012 was 33.3% compared to the effective rate in the third quarter of the prior year of 30.2%. The tax expense for the third quarter of 2012 included a $0.2 million tax expense associated with the $0.02 million one-time net gain related to the sale of a business in Europe and a restructuring charge which materially increased the overall effective tax rate. Excluding these charges, the 2012 third quarter overall effective tax rate would have been 31.9%.

The year-to-date overall effective tax rate was 32.8% for 2012 compared to 35.1% for 2011. Excluding the special items described above, the 2012 overall effective tax rate would have been 32.3%. The tax expense for the first nine months of 2011 included a $0.5 million tax benefit associated with the $5.5 million one-time expense related to the Hofmans product obsolescence and international executive severance which materially increased the overall effective rate. Excluding these charges, the 2011 overall effective tax rate would have been 31.4%.

The increase in the overall year-to-date effective tax rate, excluding the effect of these special items, was primarily related to the mix in expected full year taxable earnings by country and changes related to the Federal R&D tax credits. The 2012 third quarter tax rate did not include any benefit for Federal R&D tax credits as we are not allowed to consider these credits in our tax rate until they are formally reenacted.

We do not have any plans to repatriate the undistributed earnings of non-U.S. subsidiaries. Any repatriation from foreign subsidiaries that would result in incremental U.S. taxation is not being considered. It is management's belief that reinvesting these earnings outside the U.S. is the most efficient use of capital.

Liquidity and Capital Resources

Liquidity

Cash and Cash Equivalents totaled $62.7 million at September 30, 2012, as compared to $52.3 million as of December 31, 2011. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to subsidiaries as needed. Our current ratio was 2.3 as of September 30, 2012 and 2.2 as of December 31, 2011, based on working capital of $152.8 million and $148.1 million, respectively. Our debt-to-capital ratio was 12.8% and 14.2% at September 30, 2012 and December 31, 2011, respectively.

Cash Flow Summary

Cash provided by (used for) our operating, investing and financing activities is summarized as follows (in thousands):

	Nine Months Ended September 30	
	2012	2011
Operating Activities	$43,282	$36,019
Investing Activities:		
Purchases of Property, Plant and Equipment, Net of Disposals	(10,830)	(7,178)
Acquisitions of Businesses, Net of Cash Acquired	(750)	(2,916)
Proceeds from Sale of Business	1,014	—
Decrease in Restricted Cash	3,089	—
Financing Activities	(26,514)	(20,870)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,069	(311)
Net (Decrease) Increase in Cash and Cash Equivalents	$10,360	$4,744

Operating Activities

Operating activities provided $43.3 million of cash for the nine months ended September 30, 2012. Cash provided by operating activities was driven primarily from Net Earnings of $27.7 million and increased Income Tax liabilities of $4.9 million partially offset by increases in Other Assets and Liabilities and Inventories. The change in Income Taxes and Other Assets and Liabilities is primarily due to timing of payments. The increase in Inventories is a result of a slightly lower level of production in our manufacturing facilities during the third quarter of 2012.

Table of Contents

Operating activities provided $36.0 million of cash for the nine months ended September 30, 2011. Cash provided by operating activities was driven primarily by Net Earnings of $21.4 million and increased Accounts Payable of $11.3 million, partially offset by increased Inventories. The increase in Accounts Payable is primarily due to increased production in our manufacturing facilities as a result of the unit volume increase in sales as well as timing of payments. The increase in Inventories is a result of higher production levels in our manufacturing facilities.

Management evaluates how effectively we utilize two of our key operating assets, Accounts Receivable and Inventories, using Accounts Receivable "Days Sales Outstanding" (DSO) and "Days Inventory on Hand" (DIOH), on a FIFO basis. The metrics are calculated on a rolling three month basis in order to more readily reflect changing trends in the business. These metrics for the quarters ended were as follows (in days):

	September 30, 2012	December 31, 2011	September 30, 2011
DSO	63	58	63
DIOH	86	88	92

As of September 30, 2012, DSO remained the same as compared to September 30, 2011 due to continued management of our receivables by enforcing tight credit limits and continuing to successfully collect past due balances. As of September 30, 2012, DSO increased 5 days as compared to December 31, 2011, primarily due to the variety of terms offered and mix of business.

As of September 30, 2012, DIOH decreased 6 days as compared to September 30, 2011 and decreased 2 days as compared to December 31, 2011, primarily due to progress from inventory reduction initiatives.

Investing Activities

Investing activities during the nine months ended September 30, 2012 used $7.5 million in cash. Net capital expenditures used $10.8 million and the installment payment to the former owners of Water Star used $0.8 million. This was partially offset by decreases in restricted cash which provided $3.1 million. Capital expenditures included investments in tooling related to new product development and manufacturing and information technology process improvement projects.

Investing activities during the nine months ended September 30, 2011 used $10.1 million in cash. Net capital expenditures used $7.2 million and our acquisition of Water Star used $2.9 million. Capital expenditures included investments in information technology and infrastructure upgrades and tooling related to new product development and manufacturing.

Financing Activities

Net cash used by financing activities was $26.5 million during the first nine months of 2012. The purchases of our Common Stock per our authorized repurchase program used $18.6 million, dividend payments used $9.5 million and the payment of Long-Term Debt used $2.5 million, partially offset by proceeds from the issuance of Common Stock of $2.8 million and the tax benefit on stock plans of $1.2 million.

Net cash used by financing activities was $20.9 million during the first nine months of 2011. The issuance of Long-Term Debt provided $20.0 million, proceeds from issuance of Common Stock upon exercise of stock options provided $3.2 million and a $0.8 million tax benefit on stock plans also provided cash, which were more than offset by $18.1 million in repayments of Long-Term Debt, $17.1 million in purchases of Common Stock and dividend payments of $9.7 million.

Indebtedness

As of September 30, 2012, we had committed lines of credit totaling $125.0 million and uncommitted lines of credit totaling $87.6 million. There was $10.0 million in outstanding borrowings under our JPMorgan facility and $20.0 million in outstanding borrowings under our Prudential facility as of September 30, 2012. In addition, we had stand alone letters of credit of $2.0 million outstanding and bank guarantees in the amount of $1.0 million. Commitment fees on unused lines of credit for the nine months ended September 30, 2012 were $0.2 million.

Our most restrictive covenants are part of our 2011 Credit Agreement (as defined below) with JPMorgan (as defined below), which are the same covenants in the Shelf Agreement (as defined below) with Prudential (as defined below), and require us to maintain an indebtedness to EBITDA ratio of not greater than 3.00 to 1 and to maintain an EBITDA to interest expense ratio of no less than 3.50 to 1 as of the end of each quarter. As of September 30, 2012, our

indebtedness to EBITDA ratio was 0.46 to 1 and our EBITDA to interest expense ratio was 30.47 to 1.

Table of Contents

Credit Facilities

JPMorgan Chase Bank, National Association

On May 5, 2011, we entered into a Credit Agreement (the "2011 Credit Agreement") with JPMorgan Chase Bank, N. A. ("JPMorgan"), as administrative agent and collateral agent, U.S. Bank National Association, as syndication agent, Wells Fargo Bank, National Association, and RBS Citizens, N.A., as co-documentation agents, and the Lenders (including JPMorgan) from time to time party thereto. Upon entry into the 2011 Credit Agreement, we repaid and terminated our June 19, 2007 Credit Agreement. The 2011 Credit Agreement provides us and certain of our foreign subsidiaries access to a senior unsecured credit facility until May 5, 2016, in the amount of $125.0 million, with an option to expand by up to $62.5 million to a total of $187.5 million. Borrowings may be denominated in U.S. Dollars or certain other currencies. The 2011 Credit Agreement contains a $100.0 million sublimit on borrowings by foreign subsidiaries.

The fee for committed funds under the 2011 Credit Agreement ranges from an annual rate of 0.25% to 0.40%, depending on our leverage ratio. Borrowings under the 2011 Credit Agreement bear interest at a rate per annum equal to the greatest of (a) the prime rate, (b) the federal funds rate plus 0.50% and (c) the adjusted LIBOR rate for a one month period plus 1.0%, plus, in any such case, an additional spread of 0.50% to 1.10%, depending on our leverage ratio.

The 2011 Credit Agreement gives the lenders a pledge of 65% of the stock of certain first tier foreign subsidiaries. The obligations under the 2011 Credit Agreement are also guaranteed by our first tier domestic subsidiaries.

The 2011 Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and merge or consolidate with another entity. Further, the 2011 Credit Agreement contains the following covenants:

- a covenant requiring us to maintain an indebtedness to EBITDA ratio as of the end of each quarter of not greater than 3.00 to 1;
- a covenant requiring us to maintain an EBITDA to interest expense ratio as of the end of each quarter of no less than 3.50 to 1;
- a covenant restricting us from paying dividends or repurchasing stock if, after giving effect to such payments, our leverage ratio is greater than 2.00 to 1, in such case limiting such payments to an amount ranging from $50.0 million to $75.0 million during any fiscal year based on our leverage ratio after giving effect to such payments; and
- a covenant restricting our ability to make acquisitions, if, after giving pro-forma effect to such acquisition, our leverage ratio is greater than 2.75 to 1, in such case limiting acquisitions to $25.0 million.

As of September 30, 2012, we were in compliance with all covenants under the 2011 Credit Agreement. There was $10.0 million in outstanding borrowings under this facility at September 30, 2012, with a weighted average interest rate of 1.75%.

Prudential Investment Management, Inc.

On May 5, 2011, we entered into Amendment No. 1 to our Private Shelf Agreement ("Amendment No. 1"), which amends the Private Shelf Agreement, dated as of July 29, 2009, with Prudential Investment Management, Inc. ("Prudential") and Prudential affiliates from time to time party thereto (the "Shelf Agreement"). The Shelf Agreement provides us and our subsidiaries access to an uncommitted, senior unsecured, maximum aggregate principal amount of $80.0 million of debt capital.

Amendment No. 1 principally provides the following changes to the Shelf Agreement:

- elimination of the security interest in our personal property and subsidiaries;
- an amendment to the Maximum Leverage Ratio to not greater than 3.00 to 1 for any period ending on or after March 31, 2011;
- an amendment to our restriction regarding the payment of dividends or repurchase of stock to restrict us from paying dividends or repurchasing stock if, after giving effect to such payments, our leverage ratio is greater than 2.00 to 1, in such case limiting such payments to an amount ranging from $50.0 million to $75.0 million during any fiscal year based on our leverage ratio after giving effect to such payments; and
- an amendment to Permitted Acquisitions restricting our ability to make acquisitions, if, after giving pro-forma effect to such acquisition, our leverage ratio is greater than 2.75 to 1, in such case limiting acquisitions to $25.0 million.

On July 24, 2012, we entered into Amendment No. 2 to our Private Shelf Agreement ("Amendment No. 2"), which amends the Shelf Agreement. The principal change effected by Amendment No. 2 is an extension of the Issuance Period for Shelf Notes under the Shelf Agreement. The Issuance Period now expires on July 24, 2015.

Table of Contents

As of September 30, 2012, there was $20.0 million in outstanding borrowings under this facility, consisting of the $10.0 million Series A notes issued in March 2011 with a fixed interest rate of 4.00% and a 7 year term year term serially maturing from 2014 to 2018 and the $10.0 million Series B notes issued in June 2011 with a fixed interest rate of 4.10% and a 10 year term year term serially maturing from 2015 to 2021. We were in compliance with all covenants under the Shelf Agreement as of September 30, 2012.

The Royal Bank of Scotland Citizens, N.A.

On September 14, 2010, we entered into an overdraft facility with The Royal Bank of Scotland Citizens, N.A., in the amount of 2.0 million Euros or approximately $2.6 million. There was no balance outstanding on this facility as of September 30, 2012.

HSBC Bank (China) Company Limited, Shanghai Branch

On September 30, 2012, we entered into a banking facility with the HSBC Bank (China) Company Limited, Shanghai Branch in the amount of $5.0 million. There was no balance outstanding on this facility as of September 30, 2012.

Notes Payable

On May 31, 2011, we incurred $1.5 million in debt related to installment payments due to the former owners of Water Star in connection with our acquisition of Water Star, of which $0.8 million remains outstanding as of September 30, 2012.

Newly Issued Accounting Guidance

Testing Intangibles for Impairment

In July 2012, the FASB issued updated accounting guidance on the periodic testing of indefinite-lived intangible assets for impairment. This updated accounting guidance permits us to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount before applying the two step goodwill impairment test. If we determine through this qualitative analysis that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, it is not necessary to calculate annually the fair value of an indefinite-lived intangible asset. This guidance is effective for fiscal periods beginning after September 15, 2012; however, early adoption is permitted. We do not expect this guidance to have an impact on our results of operations or financial position as we do not currently hold any indefinite-lived intangible assets.

Cautionary Statement Relevant to Forward-Looking Information

This Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “project,” or “continue” or similar words or the negative thereof statements do not relate to strictly historical or current facts and provide current expectations of forecasts of future events. Any such expectations or forecasts of future events are subject to a variety of factors. Particular risks and uncertainties presently facing us include: geopolitical and economic uncertainty throughout the world; the competition in our business; our ability to effectively manage organizational changes; our ability to comply with laws and regulations; our ability to effectively maintain and manage the data in our computer systems; unforeseen product liability claims or product quality issues; our ability to develop and fund new innovative products and services; our ability to attract and retain key personnel; our ability to successfully upgrade and evolve the capabilities of our computer systems; the occurrence of a significant business interruption; fluctuations in the cost or availability of raw materials and purchased components; our ability to acquire, retain and protect proprietary intellectual property rights; and the relative strength of the U.S. dollar, which affects the cost of our materials and products purchased and sold internationally. 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. Information about factors that could materially affect our results can be found in Part I, Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011 and Part II, Item 1A of this Form 10-Q. 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.

We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Investors are advised to consult any further disclosures by us in our filings

with the Securities and Exchange Commission and in other written statements on related subjects. 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk since December 31, 2011. For additional information, refer to Item 7A of our 2011 annual report on Form 10-K for the year ended December 31, 2011.

Item 4. 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 period ended September 30, 2012 (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 accumulated and communicated to our management, including our principal executive and our principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in our internal controls 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We documented our risk factors in Item 1A of Part I of our annual report on Form 10-K for our fiscal year ended December 31, 2011. There have been no material changes to our risk factors since the filing of that report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 25, 2012, the Board of Directors authorized the repurchase of 1,000,000 shares of our common stock. This was in addition to the 618,050 shares remaining under our prior repurchase program as of March 31, 2012. 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. Our 2011 Credit Agreement and Shelf Agreement restrict the payment of dividends or repurchasing of stock if, after giving effect to such payments, our leverage ratio is greater than 2.00 to 1, in such case limiting such payments to an amount ranging from $50.0 million to $75.0 million during any fiscal year.

For the Quarter Ended September 30, 2012	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 Under the Plans or Programs
July 1 - 31, 2012	89	$39.95	—	1,359,981
August 1 - 31, 2012	67,744	42.28	66,108	1,293,873
September 1 - 30, 2012	11,800	41.93	11,800	1,282,073
Total	79,633	$42.22	77,908	1,282,073

(1) Includes 1,725 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.

Table of Contents

Item 6. Exhibits

Item #	Description	Method of Filing
3i	Restated Articles of Incorporation	Incorporated by reference to Exhibit 3i to the Company’s report on Form 10-Q for the quarterly period ended June 30, 2006.
3ii	Certificate of Designation	Incorporated by reference to Exhibit 3.1 to the Company’s Form 10-K for the year ended December 31, 2006.
3iii	Amended and Restated By-Laws	Incorporated by reference to Exhibit 3(iii) to the Company’s Form 8-K dated December 14, 2010.
10.1	Tennant Company Executive Nonqualified Deferred Compensation Plan, as restated effective January 1, 2009, as amended*	Filed herewith electronically.
10.2	Amendment No. 2 to Private Shelf Agreement dated as of July 24, 2012	Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated July 26, 2012.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO	Filed herewith electronically.
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO	Filed herewith electronically.
32.1	Section 1350 Certification of CEO	Filed herewith electronically.
32.2	Section 1350 Certification of CFO	Filed herewith electronically.
101	The following financial information from Tennant Company's Quarterly Report on Form 10-Q for the period ended September 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2012 and 2011; (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011; (iii) Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements.**	Filed herewith electronically.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this quarterly report on Form 10-Q.

** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of the registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TENNANT COMPANY

Date: October 30, 2012

/s/ H. Chris Killingstad
H. Chris Killingstad
President and Chief Executive Officer

Date: October 30, 2012

/s/ Thomas Paulson
Thomas Paulson
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)