

TENNANT CO
Form 10-Q
April 27, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 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
(State or other jurisdiction of incorporation or organization)

41-0572550
(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 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 | <input type="checkbox"/> | Accelerated filer |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company |

(Do not check if a 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 April 18, 2012, there were 18,843,078 shares of Common Stock outstanding.

TABLE OF CONTENTS

| PART I - FINANCIAL INFORMATION | | Page |
|--------------------------------|--|-----------|
| Item 1 | <u>Financial Statements (Unaudited)</u> | <u>3</u> |
| | <u>Condensed Consolidated Statements of Earnings</u> | <u>3</u> |
| | <u>Condensed Consolidated Statements of Comprehensive Income</u> | <u>4</u> |
| | <u>Condensed Consolidated Balance Sheets</u> | <u>5</u> |
| | <u>Condensed Consolidated Statements of Cash Flows</u> | <u>6</u> |
| | <u>Notes to the Condensed Consolidated Financial Statements</u> | <u>7</u> |
| | <u>1 Basis of Presentation</u> | <u>7</u> |
| | <u>2 Newly Adopted Accounting Pronouncements</u> | <u>7</u> |
| | <u>3 Management Actions</u> | <u>8</u> |
| | <u>4 Acquisitions</u> | <u>8</u> |
| | <u>5 Inventories</u> | <u>9</u> |
| | <u>6 Goodwill and Intangible Assets</u> | <u>9</u> |
| | <u>7 Debt</u> | <u>10</u> |
| | <u>8 Warranty</u> | <u>11</u> |
| | <u>9 Fair Value Measurements</u> | <u>12</u> |
| | <u>10 Retirement Benefit Plans</u> | <u>13</u> |
| | <u>11 Commitments and Contingencies</u> | <u>13</u> |
| | <u>12 Income Taxes</u> | <u>13</u> |
| | <u>13 Stock-Based Compensation</u> | <u>13</u> |
| | <u>14 Earnings Per Share</u> | <u>14</u> |
| | <u>15 Segment Reporting</u> | <u>14</u> |
| | <u>16 Related Party Transactions</u> | <u>14</u> |
| Item 2 | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>15</u> |
| Item 3 | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>21</u> |
| Item 4 | <u>Controls and Procedures</u> | <u>21</u> |
| PART II - OTHER INFORMATION | | |
| Item 1 | <u>Legal Proceedings</u> | <u>21</u> |
| Item 1A | <u>Risk Factors</u> | <u>21</u> |
| Item 2 | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>22</u> |
| Item 6 | <u>Exhibits</u> | <u>23</u> |
| | <u>Signatures</u> | <u>24</u> |

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 March 31 | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| Net Sales | \$173,712 | \$172,591 |
| Cost of Sales | 98,393 | 100,660 |
| Gross Profit | 75,319 | 71,931 |
| Operating Expense: | | |
| Research and Development Expense | 7,270 | 6,280 |
| Selling and Administrative Expense | 59,714 | 57,459 |
| Total Operating Expense | 66,984 | 63,739 |
| Profit from Operations | 8,335 | 8,192 |
| Other Income (Expense): | | |
| Interest Income | 310 | 68 |
| Interest Expense | (712) | (415) |
| Net Foreign Currency Transaction (Losses) Gains | (230) | 527 |
| Other Income, Net | 35 | 31 |
| Total Other (Expense) Income, Net | (597) | 211 |
| Profit Before Income Taxes | 7,738 | 8,403 |
| Income Tax Expense | 2,414 | 2,537 |
| Net Earnings | \$5,324 | \$5,866 |
| Earnings per Share: | | |
| Basic | \$0.28 | \$0.31 |
| Diluted | \$0.28 | \$0.30 |
| Weighted Average Shares Outstanding: | | |
| Basic | 18,722,156 | 18,963,177 |
| Diluted | 19,228,272 | 19,556,036 |
| Cash Dividend Declared per Common Share | \$0.17 | \$0.17 |

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 March 31 | |
|--|--------------------------------|---------|
| | 2012 | 2011 |
| Net Earnings | \$5,324 | \$5,866 |
| Other Comprehensive Income, net of tax: | | |
| Foreign currency translation adjustments | 2,166 | 3,085 |
| Pension adjustments | 255 | 33 |
| Total Other Comprehensive Income, net of tax | 2,421 | 3,118 |
| Comprehensive Income | \$7,745 | \$8,984 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (In thousands, except shares and per share data) | March 31, 2012 | December 31, 2011 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 39,537 | \$ 52,339 |
| Restricted Cash | 3,292 | 3,279 |
| Accounts Receivable, less Allowances of \$4,902 and \$4,828, respectively | 123,981 | 128,873 |
| Inventories | 68,128 | 65,912 |
| Prepaid Expenses | 11,687 | 10,320 |
| Deferred Income Taxes, Current Portion | 10,483 | 10,358 |
| Other Current Assets | 115 | 1,015 |
| Total Current Assets | 257,223 | 272,096 |
| Property, Plant and Equipment | 292,347 | 286,949 |
| Accumulated Depreciation | (205,053) | (199,795) |
| Property, Plant and Equipment, Net | 87,294 | 87,154 |
| Deferred Income Taxes, Long-Term Portion | 16,365 | 15,014 |
| Goodwill | 20,442 | 20,303 |
| Intangible Assets, Net | 23,532 | 23,758 |
| Other Assets | 5,717 | 5,937 |
| Total Assets | \$ 410,573 | \$ 424,262 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | \$ 4,156 | \$ 4,166 |
| Accounts Payable | 44,238 | 46,869 |
| Employee Compensation and Benefits | 23,295 | 32,934 |
| Income Taxes Payable | 354 | 619 |
| Other Current Liabilities | 36,401 | 39,404 |
| Total Current Liabilities | 108,444 | 123,992 |
| Long-Term Liabilities: | | |
| Long-Term Debt | 31,836 | 32,289 |
| Employee-Related Benefits | 38,542 | 40,089 |
| Deferred Income Taxes, Long-Term Portion | 3,551 | 3,189 |
| Other Liabilities | 3,897 | 3,851 |
| Total Long-Term Liabilities | 77,826 | 79,418 |
| Total Liabilities | 186,270 | 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; 18,803,242 and 18,834,940 shares issued and outstanding, respectively | 7,061 | 7,063 |
| Additional Paid-In Capital | 15,922 | 15,082 |

Edgar Filing: TENNANT CO - Form 10-Q

| | | |
|--|------------|------------|
| Retained Earnings | 228,137 | 227,944 |
| Accumulated Other Comprehensive Loss | (26,817) | (29,237) |
| Total Shareholders' Equity | 224,303 | 220,852 |
| Total Liabilities and Shareholders' Equity | \$ 410,573 | \$ 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) | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2012 | 2011 |
| OPERATING ACTIVITIES | | |
| Net Earnings | \$5,324 | \$5,866 |
| Adjustments to reconcile Net Earnings to Net Cash Used for Operating Activities: | | |
| Depreciation | 4,464 | 4,391 |
| Amortization | 776 | 832 |
| Deferred Income Taxes | (998) | 2,071 |
| Stock-Based Compensation Expense | 1,690 | 1,299 |
| Allowance for Doubtful Accounts and Returns | 286 | 329 |
| Other, Net | (25) | (6) |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 5,107 | (3,943) |
| Inventories | (2,851) | (3,425) |
| Accounts Payable | (1,176) | 5,199 |
| Employee Compensation and Benefits | (10,310) | (9,436) |
| Other Current Liabilities | (3,056) | (4,999) |
| Income Taxes | 3,477 | (3,075) |
| Other Assets and Liabilities | (5,638) | (2,350) |
| Net Cash Used for Operating Activities | (2,930) | (7,247) |
| INVESTING ACTIVITIES | | |
| Purchases of Property, Plant and Equipment | (4,219) | (1,634) |
| Proceeds from Disposals of Property, Plant and Equipment | 138 | 175 |
| Net Cash Used for Investing Activities | (4,081) | (1,459) |
| FINANCING ACTIVITIES | | |
| Payment of Long-Term Debt | (967) | (934) |
| Issuance of Long-Term Debt | - | 10,000 |
| Purchases of Common Stock | (4,109) | - |
| Proceeds from Issuance of Common Stock | 1,624 | 1,393 |
| Tax Benefit on Stock Plans | 612 | 377 |
| Dividends Paid | (3,203) | (3,244) |
| Net Cash (Used for) Provided by Financing Activities | (6,043) | 7,592 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 252 | 504 |
| Net Decrease in Cash and Cash Equivalents | (12,802) | (610) |
| Cash and Cash Equivalents at Beginning of Period | 52,339 | 39,529 |
| Cash and Cash Equivalents at End of Period | \$39,537 | \$38,919 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid for Income Taxes | \$1,180 | \$2,865 |
| Cash Paid for Interest | \$675 | \$365 |
| Supplemental Non-cash Investing and Financing Activities: | | |
| Capital Expenditures Funded Through Capital Leases | \$309 | \$542 |
| Collateralized Borrowings | \$86 | \$345 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

6

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 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 will require 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 | - |
| Foreign currency adjustments | (7) |
| March 31, 2012 balance | \$ 99 |

4. 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 is 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. 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 |

Table of Contents

5. Inventories

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

| | March 31, 2012 | December 31, 2011 |
|---|-------------------|----------------------|
| Inventories carried at LIFO: | | |
| Finished goods | \$ 35,125 | \$ 32,648 |
| Raw materials, production parts and work-in-process | 17,588 | 16,611 |
| LIFO reserve | (27,926) | (27,926) |
| Total LIFO inventories | 24,787 | 21,333 |
| Inventories carried at FIFO: | | |
| Finished goods | 28,617 | 31,912 |
| Raw materials, production parts and work-in-process | 14,724 | 12,667 |
| Total FIFO inventories | 43,341 | 44,579 |
| Total inventories | \$ 68,128 | \$ 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 three months ended March 31, 2012 were as follows:

| | Goodwill | Accumulated Impairment Losses | Total |
|-------------------------------------|------------------|-------------------------------------|------------------|
| Balance as of December 31, 2011 | \$ 66,523 | \$ (46,220) | \$ 20,303 |
| Foreign currency fluctuations | 1,537 | (1,398) | 139 |
| Balance as of March 31, 2012 | \$ 68,060 | \$ (47,618) | \$ 20,442 |

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

| | Customer Lists and Service Contracts | Trade Name | Technology | Total |
|---|--|---------------|------------|-----------|
| Balance as of March 31, 2012: | | | | |
| Original cost | \$ 24,465 | \$ 4,701 | \$ 7,234 | \$ 36,400 |
| Accumulated amortization | (9,022) | (1,325) | (2,521) | (12,868) |
| Carrying value | \$ 15,443 | \$ 3,376 | \$ 4,713 | \$ 23,532 |
| 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) |

Edgar Filing: TENNANT CO - Form 10-Q

| | | | | |
|---|-----------|----------|----------|-----------|
| Carrying value | \$ 15,600 | \$ 3,374 | \$ 4,784 | \$ 23,758 |
| Weighted-average original life (in years) | 14 | 14 | 13 | |

Amortization expense on Intangible Assets for the three months ended March 31, 2012 and 2011 was \$776 and \$832, respectively.

Table of Contents

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 | \$1,792 |
| 2013 | 2,385 |
| 2014 | 2,322 |
| 2015 | 2,309 |
| 2016 | 2,269 |
| Thereafter | 12,455 |
| Total | \$23,532 |

7. Debt

Debt outstanding is summarized as follows:

| | March 31, 2012 | December 31, 2011 |
|----------------------------|-------------------|----------------------|
| Long-Term Debt: | | |
| Bank borrowings | \$ 42 | \$ 49 |
| Credit facility borrowings | 30,000 | 30,000 |
| Notes payable | 1,500 | 1,500 |
| Collateralized borrowings | 86 | 127 |
| Capital lease obligations | 4,364 | 4,779 |
| Total Long-Term Debt | 35,992 | 36,455 |
| Less: Current Portion | 4,156 | 4,166 |
| Long-Term Portion | \$ 31,836 | \$ 32,289 |

As of March 31, 2012, we had committed lines of credit totaling \$125,000 and uncommitted lines of credit totaling \$82,669. There was \$10,000 in outstanding borrowings under our JPMorgan facility and \$20,000 in outstanding borrowings under our Prudential facility as of March 31, 2012. In addition, we had stand alone letters of credit of \$1,764 outstanding and bank guarantees in the amount of \$1,048. Commitment fees on unused lines of credit for the three months ended March 31, 2012 were \$79.

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 March 31, 2012, our indebtedness to EBITDA ratio was 0.54 to 1 and our EBITDA to interest expense ratio was 28.73 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.

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.

Table of Contents

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 March 31, 2012, we were in compliance with all covenants under the 2011 Credit Agreement. There was \$10,000 in outstanding borrowings under this facility at March 31, 2012, with a weighted average interest rate of 1.77%.

Prudential Investment Management, Inc.

On May 5, 2011, we entered into Amendment No. 1 to our Private Shelf Agreement (the "Amendment"), 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 Amendment 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.

As of March 31, 2012, there was \$20,000 in outstanding borrowings under this facility; 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 of the Shelf Agreement as of March 31, 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 \$2,669. There was no balance outstanding on this facility as of March 31, 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, which remains outstanding as of March 31, 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.

Table of Contents

The changes in warranty reserves for the three months ended March 31, 2012 and 2011 were as follows:

| | Three Months Ended March 31 | |
|-------------------------------|--------------------------------|----------|
| | 2012 | 2011 |
| Beginning balance | \$8,759 | \$7,043 |
| Additions charged to expense | 2,927 | 2,880 |
| Foreign currency fluctuations | 53 | 50 |
| Claims paid | (2,929) | (2,590) |
| Ending balance | \$8,810 | \$7,383 |

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 March 31, 2012 is as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---------------|-------------|---------------|-------------|
| Assets: | | | | |
| Foreign currency forward exchange contracts | 115 | - | 115 | - |
| Total Assets | \$ 115 | \$ - | \$ 115 | \$ - |
| Liabilities: | | | | |
| Foreign currency forward exchange contracts | \$ 420 | \$ - | \$ 420 | \$ - |
| Total Liabilities | \$ 420 | \$ - | \$ 420 | \$ - |

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

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 March 31, 2012, the fair value of such contracts outstanding was an asset of \$115 and a liability of \$420. As of March 31, 2011, the fair value of such contracts outstanding was an asset of \$28 and a liability of \$222. We recognized a net gain of \$645 and a net loss of \$2,412 on these contracts during the first three months of 2012 and 2011, respectively. At March 31, 2012 and 2011, the notional amounts of foreign currency forward exchange contracts outstanding were \$41,247 and \$44,923, 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.

Table of Contents

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 \$921 and \$134 during the first quarter of 2012 to our pension plans and to our postretirement medical plan, respectively.

The components of the net periodic benefit cost for the three months ended March 31, 2012 and 2011 were as follows:

| | Three Months Ended March 31 | | | | | |
|------------------------------------|--------------------------------|--------|------------------------------------|--------|--------|--------|
| | Pension Benefits | | Postretirement Medical Benefits | | | |
| | U.S. Plans | | Non-U.S. Plans | | 2012 | 2011 |
| | 2012 | 2011 | 2012 | 2011 | | |
| Service cost | \$ 165 | \$ 166 | \$ 33 | \$ 25 | \$ 35 | \$ 33 |
| Interest cost | 478 | 513 | 130 | 122 | 140 | 162 |
| Expected return on plan assets | (571) | (580) | (117) | (108) | - | - |
| Amortization of net actuarial loss | 286 | 26 | - | - | 17 | 15 |
| Amortization of prior service cost | 97 | 137 | 38 | 39 | (145) | (145) |
| Foreign currency | - | - | (22) | 61 | - | - |
| Net periodic cost | \$ 455 | \$ 262 | \$ 62 | \$ 139 | \$ 47 | \$ 65 |

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 March 31, 2012, of those leases that contain residual value guarantees, the aggregate residual value at lease expiration was \$7,644, of which we have guaranteed \$5,964. As of March 31, 2012, we have recorded a liability for the estimated end of term loss related to this residual value guarantee of \$1,030 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.

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 2008 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. Included in the liability of \$3,476 for unrecognized tax benefits as of March 31, 2012 was approximately \$406 for accrued interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2012 was \$3,258. 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 \$61 during the first three months of 2012 for expiration of the statute of limitations in various jurisdictions.

We are currently under examination by the Internal Revenue Service for the 2009 tax year. Although the outcome of this matter cannot currently be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact. We are currently undergoing income tax examinations in various foreign jurisdictions covering 2004 to 2008 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 March 31, 2012 and 2011 we recognized total Stock-Based Compensation Expense of \$1,690 and \$1,299, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements during the three months ended March 31, 2012 and 2011 was \$612 and \$377, respectively.

During the first three months of 2012 we granted 22,449 restricted shares. The weighted average grant date fair value of each share awarded was \$43.65. 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 three months ended March 31, 2012 and 2011 was \$293 and \$592, respectively.

Table of Contents

14. Earnings Per Share

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

| | Three Months Ended March 31 | |
|---|--------------------------------|------------|
| | 2012 | 2011 |
| Numerator: | | |
| Net Earnings | \$ 5,324 | \$ 5,866 |
| Denominator: | | |
| Basic - Weighted Average Shares Outstanding | 18,722,156 | 18,963,177 |
| Effect of dilutive securities: | | |
| Employee stock options | 506,116 | 592,859 |
| Diluted - Weighted Average Shares Outstanding | 19,228,272 | 19,556,036 |
| Basic Earnings per Share | \$ 0.28 | \$ 0.31 |
| Diluted Earnings per Share | \$ 0.28 | \$ 0.30 |

Excluded from the dilutive securities shown above were options to purchase 177,414 and 83,368 shares of Common Stock during the three months ended March 31, 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 months ended March 31, 2012 and 2011 were as follows:

| | Three Months Ended March 31 | |
|-----------------------------|--------------------------------|------------|
| | 2012 | 2011 |
| Americas | \$ 111,413 | \$ 108,142 |
| Europe, Middle East, Africa | 43,804 | 45,610 |
| Asia Pacific | 18,495 | 18,839 |
| Total | \$ 173,712 | \$ 172,591 |

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

16. Related Party Transactions

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 specialty 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 first quarter of 2012 were \$5.3 million, or \$0.28 per diluted share, as compared to Net Earnings of \$5.9 million, or \$0.30 per diluted share, in the first quarter of 2011. Net Earnings during the first quarter of 2012 benefited from higher gross profit which was nearly off-set by higher Selling and Administrative ("S&A") Expense than usual in the quarter and investments in process improvement projects and Research and Development Expense. Net Earnings for the first quarter of 2012 were also impacted by \$0.2 million of net foreign currency transaction losses, versus \$0.5 million of net foreign currency transaction gains in the prior year quarter, due to the volatility of foreign exchange rates.

Historical Results

The following table compares the historical results of operations for the three months ended March 31, 2012 and 2011, respectively, and as a percentage of Net Sales (in thousands, except per share data and percentages):

| | Three Months Ended | | | |
|---|--------------------|--------|------------|--------|
| | 2012 | | March 31 | |
| | | % | 2011 | % |
| Net Sales | \$ 173,712 | 100.0 | \$ 172,591 | 100.0 |
| Cost of Sales | 98,393 | 56.6 | 100,660 | 58.3 |
| Gross Profit | 75,319 | 43.4 | 71,931 | 41.7 |
| Operating Expense: | | | | |
| Research and Development Expense | 7,270 | 4.2 | 6,280 | 3.6 |
| Selling and Administrative Expense | 59,714 | 34.4 | 57,459 | 33.3 |
| Total Operating Expense | 66,984 | 38.6 | 63,739 | 36.9 |
| Profit from Operations | 8,335 | 4.8 | 8,192 | 4.7 |
| Other Income (Expense): | | | | |
| Interest Income | 310 | 0.2 | 68 | - |
| Interest Expense | (712) | (0.4) | (415) | (0.2) |
| Net Foreign Currency Transaction (Losses) | | | | |
| Gains | (230) | (0.1) | 527 | 0.3 |
| Other Income, Net | 35 | - | 31 | - |
| Total Other (Expense) Income, Net | (597) | (0.3) | 211 | 0.1 |
| Profit Before Income Taxes | 7,738 | 4.5 | 8,403 | 4.9 |
| Income Tax Expense | 2,414 | 1.4 | 2,537 | 1.5 |
| Net Earnings | \$ 5,324 | 3.1 | \$ 5,866 | 3.4 |
| Earnings per Diluted Share | \$ 0.28 | | \$ 0.30 | |

Net Sales

Consolidated Net Sales for the first quarter of 2012 totaled \$173.7 million, a 0.6% increase as compared to consolidated Net Sales of \$172.6 million in the first quarter of 2011.

15

Table of Contents

The components of the consolidated Net Sales change for the three months ended March 31, 2012 as compared to the same periods in 2011 were as follows:

| | 2012 v. 2011 Three Months Ended March 31 |
|------------------|---|
| Growth Elements | |
| Organic Growth: | |
| Volume | (0.4%) |
| Price | 2.0% |
| Organic Growth | 1.6% |
| Foreign Currency | (1.0%) |
| Total | 0.6% |

The 0.6% increase in consolidated Net Sales in the first quarter of 2012 as compared to the same period in 2011 was driven by:

- an organic sales increase of approximately 1.6%, excluding the effects of acquisitions and foreign currency exchange, primarily due to an approximate 2.0% increase in pricing somewhat offset by an approximate 0.4% volume decrease primarily in equipment sales; and
- an unfavorable direct foreign currency exchange impact of approximately 1.0%.

The following table sets forth the Net Sales by geographic area for the three months ended March 31, 2012 and 2011 and the percentage change from the prior year (in thousands, except percentages):

| | Three Months Ended March 31 | | |
|--------------------------------|--------------------------------|-----------|-------|
| | 2012 | 2011 | % |
| Americas | \$111,413 | \$108,142 | 3.0 |
| Europe, Middle East and Africa | 43,804 | 45,610 | (4.0) |
| Asia Pacific | 18,495 | 18,839 | (1.8) |
| Total | \$173,712 | \$172,591 | 0.6 |

Americas

Net Sales in the Americas were \$111.4 million for the first quarter of 2012, an increase of 3.0% from the first quarter of 2011. Net Sales in the first quarter of 2012 benefited from sales of industrial scrubbers equipped with ec-H₂O technology and outdoor equipment as well as increased selling prices in both North America and Latin America. The direct impact of foreign currency translation exchange effects within the Americas unfavorably impacted Net Sales by approximately 0.5% during the first quarter of 2012. Organic sales growth was approximately 3.5% in the first quarter of 2012.

Europe, Middle East and Africa

In our markets within Europe, the Middle East and Africa (“EMEA”), Net Sales decreased 4.0% for the first quarter of 2012 compared to the first quarter of 2011. Direct foreign currency exchange fluctuations unfavorably impacted EMEA Net Sales by approximately 3.5% in the first quarter of 2012. Organic sales declined approximately 0.5% in

the first quarter of 2012. EMEA Net Sales in the first quarter of 2012 were unfavorably impacted by the European debt crisis, making it more difficult for customers to obtain credit to purchase our equipment. This was somewhat offset by higher sales of outdoor city cleaning equipment as well as increased selling prices.

Asia Pacific

Net Sales in the Asia Pacific market for the first quarter of 2012 totaled \$18.5 million, a decrease of 1.8% from the first quarter of 2011. Favorable direct foreign currency translation exchange effects increased sales by approximately 3.5% in the first quarter of 2012. Organic sales declined for the first quarter of 2012 by approximately 5.3%. Net Sales in the first quarter of 2012 benefited from strong volume growth in China as well as increased selling prices, but these were not sufficient to offset large shipments in the 2011 first quarter in Australia.

Gross Profit

Gross margin was 43.4% for the first quarter of 2012, as compared with 41.7% for the same periods of 2011. Gross margin increased by 170 basis points in the first quarter of 2012, primarily from improvement in the Americas region due to product mix and production efficiencies.

Table of Contents

Operating Expense

Research & Development Expense

Research and Development (“R&D”) Expense in the first quarter of 2012 was up 15.8% to \$7.3 million as compared with \$6.3 million in the first quarter of 2011. R&D Expense as a percentage of Net Sales was 4.2% for the first quarter of 2012, an increase as compared to 3.6% of Net Sales for R&D Expense in the first quarter of 2011, primarily due to increased investment in both our traditional core business and our Orbio business.

Selling & Administrative Expense

S&A Expense in the first quarter of 2012 was \$59.7 million as compared to \$57.5 million in the first quarter of 2011. The increase in S&A Expense was primarily attributable to higher than usual expenses in the quarter for self-insured medical, workers’ compensation and auto claims which tend to be infrequent and difficult to predict. We also continued to invest in our process improvement projects. S&A Expense as a percentage of Net Sales was 34.4% for the first quarter of 2012, up 110 basis points from 33.3% in the comparable 2011 quarter.

Other Income (Expense), Net

Interest Income

Interest Income increased \$0.2 million in the first quarter of 2012, as compared to the same period in 2011. The increase between 2012 and 2011 is due to higher interest rates on higher levels of cash and cash equivalents.

Interest Expense

Interest Expense increased \$0.3 million in the first quarter 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 first quarter of 2012 were \$0.2 million as compared to Net Foreign Currency Transaction Gains of \$0.5 million in the same period in the prior year. The unfavorable change in the impact from foreign currency transactions in the first quarter of 2012 was due to fluctuations in foreign currency rates in the normal course of business.

Other Income, Net

There was no significant change in Other Income, Net in the first quarter of 2012 as compared to the same period in 2011.

Income Taxes

The effective tax rate in the first quarter of 2012 was 31.2% compared to the effective rate in the first quarter of the prior year of 30.2%. The increase in the effective rate between quarters 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 first 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 \$39.5 million at March 31, 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 2.4 as of March 31, 2012 and 2.2 as of December 31, 2011, based on working capital of \$148.8 million and \$148.1 million, respectively. Our debt-to-capital ratio was 13.8% and 14.2% at March 31, 2012 and December 31, 2011, respectively.

Table of Contents

Cash Flow Summary

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

| | Three Months Ended March 31 | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| Operating Activities | \$(2,930) | \$(7,247) |
| Investing Activities: | | |
| Purchases of Property, Plant and Equipment, Net of Disposals | (4,081) | (1,459) |
| Financing Activities | (6,043) | 7,592 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 252 | 504 |
| Net Decrease in Cash and Cash Equivalents | \$(12,802) | \$(610) |

Operating Activities

Operating activities used \$2.9 million of cash for the three months ended March 31, 2012. Cash used by operating activities was driven primarily from the payment of Employee Compensation and Benefit liabilities and decreased Other Assets and Liabilities, partially offset by \$5.3 million of Net Earnings as well as decreased Accounts Receivable.

Operating activities used \$7.2 million of cash for the three months ended March 31, 2011. Cash used by operating activities was driven primarily from the payment of Employee Compensation and Benefit liabilities and decreased Other Current Liabilities, and increased Accounts Receivable and Inventories, primarily due to increased sales volume, partially offset by \$5.9 million of Net Earnings as well as an increase in Accounts Payable. The increase in Accounts Payable was primarily due to timing of payments.

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):

| | March 31, 2012 | December 31, 2011 | March 31, 2011 |
|------|----------------|----------------------|----------------|
| DSO | 61 | 58 | 64 |
| DIOH | 93 | 88 | 87 |

As of March 31, 2012, DSO decreased 3 days as compared to March 31, 2011 due to proactively managing our receivables by enforcing tighter credit limits and continuing to successfully collect past due balances. As of March 31, 2012, DSO increased 3 days as compared to December 31, 2011, primarily due to a higher level of sales in the fourth quarter of 2011 compared to the first quarter of 2012.

As of March 31, 2012, DIOH increased 6 days as compared to March 31, 2011 and increased 5 days as compared to December 31, 2011, primarily due to increased levels of Inventory to support the anticipated higher level of pre-price increase orders, majority of which will be shipped in the second quarter of 2012.

Investing Activities

Investing activities during the three months ended March 31, 2012 used \$4.1 million in cash. Net capital expenditures used \$4.1 million. Capital expenditures included investments in tooling related to new product development and manufacturing and information technology and infrastructure upgrades.

Investing activities during the three months ended March 31, 2011 used \$1.5 million in cash, almost entirely due to net capital expenditures. Capital expenditures included investments in tooling related to new product development and manufacturing and information technology and infrastructure upgrades.

Financing Activities

Net cash used by financing activities was \$6.0 million during the first three months of 2012. The purchases of our Common Stock per our authorized buy back program used \$4.1 million, dividend payments used \$3.2 million and the payment of Long-Term Debt used \$1.0 million, partially offset by proceeds from the issuance of Common Stock of \$1.6 million and the tax benefit on stock plans of \$0.6 million.

Net cash provided by financing activities was \$7.6 million during the first three months of 2011. The issuance of Long-Term Debt provided \$10.0 million, proceeds from issuance of common stock provided \$1.4 million and a \$0.4 million tax benefit of stock plans partially offset by \$3.2 million in dividend payments and \$0.9 million of repayments of Long-Term Debt.

Table of Contents

Indebtedness

As of March 31, 2012, we had committed lines of credit totaling \$125.0 million and uncommitted lines of credit totaling \$82.7 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 March 31, 2012. In addition, we had stand alone letters of credit of \$1.8 million outstanding and bank guarantees in the amount of \$1.0 million. Commitment fees on unused lines of credit for the three months ended March 31, 2012 were \$0.1 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 March 31, 2012, our indebtedness to EBITDA ratio was 0.54 to 1 and our EBITDA to interest expense ratio was 28.73 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 \$125.0 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 \$0.1 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 March 31, 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 March 31, 2012, with a weighted average interest rate of 1.77%.

Prudential Investment Management, Inc.

On May 5, 2011, we entered into Amendment No. 1 to our Private Shelf Agreement (the "Amendment"), 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 Amendment 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;

Table of Contents

- 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.

As of March 31, 2012, there was \$20.0 million in outstanding borrowings under this facility; the \$10.0 million 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 \$10.0 million 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 of the Shelf Agreement as of March 31, 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 \$2.7 million. There was no balance outstanding on this facility as of March 31, 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, which remains outstanding as of March 31, 2012.

Contractual Obligations

Except as noted above, there have been no material changes with respect to contractual obligations as disclosed in our 2011 annual report on Form 10-K.

Table of Contents

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 or 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.

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 March 31, 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.

Table of Contents

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 is in addition to the 618,050 shares remaining under our current 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 | 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 |
|-----------------------|--------------------------------------|------------------------------|--|--|
| March 31, 2012 | | | | |
| January 1 - 31, 2012 | 104 | \$ 38.87 | - | 719,570 |
| February 1 - 29, 2012 | 9,813 | 42.97 | - | 719,570 |
| March 1 - 31, 2012 | 101,520 | 40.47 | 101,520 | 618,050 |
| Total | 111,437 | \$ 40.69 | 101,520 | 618,050 |

(1) Includes 9,917 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

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 3iii to the Company's Form 8-K dated December 14, 2010. |
| 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 March 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Earnings for the three months ended March 31, 2012 and 2011; (ii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011; (iii) Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements.* | Filed herewith electronically. |

* 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: April 27, 2012

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

Date: April 27, 2012

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

