TENNANT CO
Form 10-K
February 24, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[ü] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number 001-16191

TENNANT COMPANY
(Exact name of registrant as specified in its charter)

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

701 North Lilac Drive, P.O. Box 1452
Minneapolis, Minnesota 55440
(Address of principal executive offices) (Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.	ü	Yes		No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.		Yes	ü	No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	ü	Yes		No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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).	ü	Yes		No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ü]

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

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 Act).	Yes	ü	No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2011, was $744,989,320.

As of February 16, 2012, there were 18,866,419 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2012 annual meeting of shareholders (the "2012 Proxy Statement") are incorporated by reference in Part III.

Tennant Company
Form 10–K
Table of Contents

Table of Contents

TENNANT COMPANY
2011
ANNUAL REPORT

Form 10–K

(Pursuant to Securities Exchange Act of 1934)

PART I

ITEM 1 – Business

General Development of Business

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

Segment and Geographic Area Financial Information

The Company has one reportable business segment. Sales to customers geographically located in the United States were $392.5 million, $354.5 million and $313.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. Additional financial information on the Company's segment and geographic areas is provided in Note 18 of the Consolidated Financial Statements.

Principal Products, Markets and Distribution

The Company offers products and solutions mainly consisting of mechanized cleaning equipment targeted at commercial and industrial markets; parts, consumables and service maintenance and repair; business solutions such as pay-for-use offerings, rental and leasing programs; and water-based cleaning technologies that reduce the need for chemicals in the cleaning process. Adjacent products include coatings and floor preservation products. Tennant Company's suite of offerings are marketed and sold under a variety of brands, including Tennant®, Nobles®, Green Machines®, Alfa and Orbio®. The Orbio brand of products and solutions is developed and managed by Orbio Technologies, a group created by Tennant to focus on expanding the opportunities for water-based sustainable technologies such as ec-H2O™ technology and Orbio 5000-Sc. Tennant Company's products are sold through direct and distribution channels in various regions around the world. In North America, Brazil, Australia, China, Japan and most of Western Europe products are sold through a direct sales organization and independent distributors. In more than 80 other countries, Tennant relies on a broad network of independent distributors.

Raw Materials

The Company has not experienced any significant or unusual problems in the availability of raw materials or other product components. The Company has sole-source vendors for certain components. A disruption in supply from such vendors may disrupt the Company's operations. However, the Company believes that it can find alternate sources in the event there is a disruption in supply from such vendors.

Intellectual Property

Although the Company considers that its patents, proprietary technologies, customer relationships, licenses, trademarks, trade names and brand names in the aggregate constitute a valuable asset, it does not regard its business as being materially dependent upon any single intellectual property.

Seasonality

Although the Company’s business is not seasonal in the traditional sense, historically revenues and earnings have been more concentrated in the fourth quarter of each year reflecting the tendency of customers to increase capital spending during such quarter and the Company’s efforts to close those orders which then reduces order backlogs. In addition, the Company offers annual distributor rebates and sales commissions which tend to drive sales in the fourth quarter. In 2011, the highest sales quarter was the second quarter due primarily to very strong sales of scrubbers, most equipped with ec-H2O technology.

Working Capital

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

Major Customers

The Company sells its products to a wide variety of customers, none of which is of material importance in relation to the business as a whole. The customer base includes several governmental entities which generally have terms similar to other customers.

Competition

While there is no publicly available industry data concerning market share, the Company believes, through its own market research, that it is a world-leading manufacturer of floor maintenance and cleaning equipment. Significant competitors exist in all key geographic regions. However, the key competitors vary by region. The Company competes primarily on the basis of offering a broad line of high-quality, innovative products supported by an extensive sales and service network in major markets.

The Company’s competition has initiated legal and/or regulatory challenges in multiple jurisdictions challenging Tennant’s advertising claims pertaining to its ec-H2O water-based technology. The Company does not currently view these proceedings as material and does not expect the outcome to have a material adverse effect on operating results or financial condition.

Table of Contents

Research and Development

The Company strives to be an industry leader in innovation and is committed to investing in research and development. The Company's Global Innovation Center in Minnesota and engineers throughout the global locations are dedicated to various activities including researching new technologies to create meaningful product differentiation, development of new products, improvements of existing product design or manufacturing processes and exploring new product applications with customers. In 2011, 2010 and 2009, the Company spent $27.9 million, $26.0 million and $23.0 million on research and development, respectively.

Environmental Compliance

Compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and the Company does not expect it to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

Employees

The Company employed 2,865 people in worldwide operations as of December 31, 2011.

Available Information

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

ITEM 1A – Risk Factors

The following are significant factors known to us that could materially adversely affect our business, financial condition or operating results.

We may encounter additional financial difficulties if the United States or other global economies continue to experience a significant long-term economic downturn, decreasing the demand for our products.

To the extent that the U.S. and other global economies experience a continued significant long-term economic downturn, our revenues could decline to the point that we may have to take additional cost-saving measures to reduce our fixed costs to a level that is in line with a lower level of sales in order to stay in business long-term in a depressed economic environment. Our product sales are sensitive to declines in capital spending by our customers. Decreased demand for our products could result in decreased revenues, profitability and cash flows and may impair our ability to maintain our operations and fund our obligations to others.

We are subject to competitive risks associated with developing innovative products and technologies, including but not limited to, the risk that customers do not continue to pay for innovation and the risk of competitive challenges to our products and technology and the underlying intellectual property.

Our products are sold in competitive markets throughout the world. Competition is based on product features and design, brand recognition, reliability, durability, technology, breadth of product offerings, price, customer relationships and after-sale service. Although we believe that the performance and price characteristics of our products will produce competitive solutions for our customers' needs, because of our dedication to innovation and continued investments in research and development, our products generally cost more than our competitors' products. We believe that customers will pay for the innovations and quality in our products; however, in the current economic environment, it may be difficult for us to compete with lower cost products offered by our competitors and there can be no assurance that our customers will continue to choose our products over products offered by our competitors. If our products, markets and services are not competitive, we may experience a decline in sales, pricing and market share, which adversely impacts revenues, margin and the success of our operations.

In addition, we may be vulnerable to competitors who attempt to challenge our technology and our products or diminish the reputation of our brand, all of which could adversely affect our business. Our competition has recently initiated legal and regulatory proceedings and launched a negative media campaign in multiple jurisdictions challenging certain advertising claims made pertaining to our ec-H2O™ technology. While we do not view these challenges to be material, defense of such claims may require substantial commitment of time and money and divert resources from other ongoing projects and the claims may influence new customers from readily accepting products with our ec-H2O technology, which could adversely affect our business.

Competitors may also initiate litigation to challenge the validity of our patents or claims, allege that we infringe upon their patents, or they may use their resources to design comparable products that do not infringe upon our patents. Regardless of whether such litigation is successful, the litigation could significantly increase our costs and divert management's attention from the operation of our business, which could adversely affect our results of operations and financial condition.

We may not be able to effectively manage organizational changes which could negatively impact our operating results or financial condition.

We are continuing to implement global standardized processes in our business and asking our workforce to perform at a high level despite reduced staffing levels as a result of our prior workforce reduction and restructuring actions. This consolidation and reallocation of resources is part of our ongoing efforts to optimize our cost structure in the current economy. Our operating results may be negatively impacted if we are unable to manage these organizational changes by failing to assimilate the work of the positions that are eliminated or redeployed as part of our actions to reduce headcount and restructure positions. In addition, if we do not effectively manage the transition of these positions, we may not fully realize the anticipated savings of these actions or they may negatively impact our ability to serve our customers or meet our strategic objectives.

We are subject to many laws and regulations and any non-compliance could negatively impact our financial condition or business operations.

Our policies and procedures are designed to comply with applicable laws and regulations in all countries in which we operate and conduct business. U.S. as well as foreign government regulations continue to become increasingly stringent and are impacting more areas of our business operations each year. Failure to comply with present or future laws, rules and regulations of any kind that govern our business could result in suspension of all or a portion of our operations or the imposition of significant regulatory, administrative, civil or criminal penalties or sanctions.

We may encounter difficulties as we invest in changes to our processes and computer systems that are foundational to our ability to maintain and manage the data in our systems.

We rely on our computer systems to effectively manage our business, serve our customers and report financial data. Our current systems are adequate for our current business operations; however, we are in the process of standardizing our processes and the way we utilize our computer systems with the objective that we will improve our ability to effectively maintain and manage our systems data so that as our business grows, our processes will be able to more efficiently handle this growth. There are inherent risks in changing processes and systems data and if we are not successful in our attempts to improve our data and system processes, we may experience higher costs or an interruption in our business which could adversely impact our ability to serve our customers and our operating results.

Table of Contents

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

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

Inadequate funding of new technologies may result in an inability to develop new innovative products and services.

We strive to develop new and innovative products and services to differentiate ourselves in the marketplace. New product development relies heavily on our financial and resource investments in both the short term and long term. If we fail to adequately fund product development projects we risk not meeting our customer expectations, which could result in decreased revenues, declines in margin and loss of market share.

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

Our continued success will depend on, among other things, the skills and services of our executive officers and other key personnel. Our ability to attract and retain other highly qualified managerial, technical, manufacturing, research, sales and marketing personnel also impacts our ability to effectively operate our business. As the economy recovers and companies grow and increase their hiring activities, there is an inherent risk of increased employee turnover and the loss of valuable employees in key positions, especially in emerging markets throughout the world. We believe the increased loss of key personnel within a concentrated region could adversely affect our sales growth.

We may encounter difficulties as we upgrade and evolve the capabilities of our computer systems, which could adversely impact our abilities to accomplish anticipated future cost savings and better serve our customers.

We have many information technology systems that are important to the operation of our business. Significantly upgrading and evolving the capabilities of our existing systems could lead to inefficient or ineffective use of our technology due to lack of training or expertise in these evolving technology systems. These factors could lead to significant expenses, adversely impacting our results of operations and hinder our ability to offer better technology solutions to our customers.

We may be unable to conduct business if we experience a significant business interruption in our computer systems, manufacturing plants or distribution facilities for a significant period of time.

We rely on our computer systems, manufacturing plants and distribution facilities to efficiently operate our business. If we experience an interruption in the functionality in any of these items for a significant period of time, we may not have adequate business continuity planning contingencies in place to allow us to continue our normal business operations on a long-term basis. Significant long-term interruption in our business could cause a decline in sales, an increase in expenses and could adversely impact our operating results.

ITEM 1B – Unresolved Staff Comments

None.

ITEM 2 – Properties

The Company's corporate offices are owned by the Company and are located in the Minneapolis, Minnesota, metropolitan area. Manufacturing facilities are located in Minneapolis, Minnesota; Holland, Michigan; Louisville, Kentucky; Uden, The Netherlands; Falkirk, United Kingdom; São Paulo, Brazil; and Shanghai, China. Sales offices, warehouse and storage facilities are leased in various locations in North America, Europe, Japan, China, Asia, Australia, New Zealand and Latin America. The Company's facilities are in good operating condition, suitable for their respective uses and adequate for current needs. Further information regarding the Company's property and lease commitments is included in the Contractual Obligations section of Item 7 and in Note 13 of the Consolidated Financial Statements.

ITEM 3 – Legal Proceedings

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

ITEM 4 – Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

ITEM 5 – Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION – Tennant common stock is traded on the New York Stock Exchange, under the ticker symbol TNC. As of January 31, 2012, there were 488 shareholders of record. The common stock price was $38.48 per share on January 31, 2012.

The accompanying chart shows the high and low sales prices for the Company's shares for each full quarterly period over the past two years as reported by the New York Stock Exchange:

	2011		2010	
	High	Low	High	Low
First	$43.24	$35.66	$28.38	$21.84
Second	42.82	33.51	37.42	27.17
Third	44.25	34.36	38.13	28.82
Fourth	41.98	32.92	38.82	30.30

DIVIDEND INFORMATION – Cash dividends on Tennant's common stock have been paid for 67 consecutive years. Tennant's annual cash dividend payout increased for the 40th consecutive year to $0.68 per share in 2011, an increase of $0.09 per share over 2010. Dividends are generally declared each quarter. On February 15, 2012, the Company announced a quarterly cash dividend of $0.17 per share payable March 15, 2012, to shareholders of record on February 29, 2012.

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

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

Wells Fargo Bank, N.A.
Shareowner Services
P.O. Box 64854
South St. Paul, MN 55164-0854
(800) 468-9716

EQUITY COMPENSATION PLAN INFORMATION – Information regarding equity compensation plans required by Regulation S-K Item 201(d) is incorporated by reference in Item 12 of this annual report on Form 10-K from the 2012 Proxy Statement.

Table of Contents

SHARE REPURCHASES – On February 21, 2011, the Board of Directors authorized the repurchase of an additional 1,000,000 shares of our common stock. This was in addition to the 188,874 shares remaining under our previous repurchase program at that time. 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 Credit Agreement limits the payment of dividends and repurchases of stock to an amount ranging from $50.0 million to $75.0 million per fiscal year based on our leverage ratio after giving effect to such payments.

For the Quarter Ended December 31, 2011	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
October 1–31, 2011	283	$ 35.37	-	731,235
November 1–30, 2011	11,665	37.50	11,665	719,570
December 1–31, 2011	-	-	-	719,570
Total	11,948	$ 37.45	11,665	719,570

(1) Includes 283 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.

STOCK PERFORMANCE GRAPH – The following graph compares the cumulative total shareholder return on Tennant's common stock to three indices: Morningstar U.S. Market, S&P SmallCap 600 and Morningstar Industrials Sector. The graph below compares the performance for the last five fiscal years, assuming an investment of $100 on December 31, 2006, including the reinvestment of all dividends.

5-YEAR CUMULATIVE TOTAL RETURN COMPARISON

	2006	2007	2008	2009	2010	2011
Tennant Company	$100	$155	$55	$96	$143	$147
Morningstar U.S. Market*	$100	$106	$67	$86	$100	$102
S&P SmallCap 600*	$100	$100	$69	$86	$109	$110
Morningstar Industrials Sector**	$100	$112	$68	$84	$104	$104

* The Morningstar U.S. Market Index is being retired in favor of the S&P SmallCap 600 Index, as a result of Tennant's inclusion within the S&P SmallCap 600 Index during 2011. We feel that the S&P SmallCap 600 Index includes companies that are more comparable than the Morningstar U.S Market Index. For 2011 we will show both of these indices for consistency. Going forward, we will include only the S&P SmallCap 600 Index.

** In prior years, we used the Morningstar Manufacturing Sector Index as our industry index; however, that index has been reconstituted and historical information is no longer available. Accordingly, this year we used the Morningstar Industrials Sector Index, in which Tennant is included, to replace the Morningstar Manufacturing Sector Index as our industry market index. Because historical information for the Morningstar Manufacturing Sector Index is no longer available, we cannot provide a concurrent comparison to that index.

7

Table of Contents

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

Years Ended December 31	2011		2010		2009		2008		2007	
Financial Results:										
Net Sales	$ 753,998		$ 667,667		$ 595,875		$ 701,405		$ 664,218	
Cost of Sales	434,817	(1)	383,341	(2)	349,767		415,155		385,234	
Gross Margin - %	42.3		42.6		41.3		40.8		42.0	
Research and Development Expense	27,911		25,957		22,978		24,296		23,869	
% of Net Sales	3.7		3.9		3.9		3.5		3.6	
Selling and Administrative Expense	241,625	(1)	221,235	(2)	245,623	(3)	243,385	(4)	200,270	(5)
% of Net Sales	32.0		33.1		41.2		34.7		30.2	
Profit (Loss) from Operations	49,645	(1)	37,134	(2)	(22,493	)(3)	18,569	(4)	54,845	(5)
% of Net Sales	6.6		5.6		(3.8	)	2.6		8.3	
Total Other (Expense) Income, Net	(915	)	(2,407	)	(1,827	)	(994	)	2,867	(5)
Income Tax Expense	16,017	(1)	(76	)(2)	1,921	(3)	6,951	(4)	17,845	(5)
Effective Tax Rate - %	32.9		(0.2	)	7.9		39.6		30.9	
Net Earnings (Loss)	32,713	(1)	34,803	(2)	(26,241	)(3)	10,624	(4)	39,867	(5)
% of Net Sales	4.3		5.2		(4.4	)	1.5		6.0	
Per Share Data:										
Basic Net Earnings (Loss)	$ 1.74	(1)	$ 1.85	(2)	$ (1.42	)(3)	$ 0.58	(4)	$ 2.41	(5)
Diluted Net Earnings (Loss)	$ 1.69	(1)	$ 1.80	(2)	$ (1.42	)(3)	$ 0.57	(4)	$ 2.08	(5)
Diluted Weighted Average Shares	19,360,428		19,332,103		18,507,772		18,581,840		19,146,000	
Cash Dividends	$ 0.68		$ 0.59		$ 0.53		$ 0.52		$ 0.48	
Financial Position:										
Total Assets	$ 424,262		$ 403,668		$ 377,726		$ 456,604		$ 382,070	
Total Debt	36,455		30,828		34,211		95,339		4,597	
Total Shareholders' Equity	220,852		216,133		184,279		209,904		252,431	
Current Ratio	2.2		2.1		1.9		2.3		2.5	
Debt-to-Capital Ratio	14.2	%	12.5	%	15.7	%	31.2	%	1.8	%
Cash Flows:										
Net Cash Provided by Operations	$ 56,909		$ 42,530		$ 75,185		$ 37,394		$ 39,640	
Capital Expenditures, Net of Disposals	(13,301	)	(9,934	)	(11,172	)	(19,982	)	(21,466	)
Free Cash Flow	43,608		32,596		64,013		17,412		18,174	

Other Data:					
Depreciation and Amortization	$ 21,418	$ 21,192	$ 22,803	$ 22,959	$ 18,054
Number of employees at year-end	2,865	2,793	2,786	3,002	2,774

The results of operations from our 2011, 2009 and 2008 acquisitions have been included in the Consolidated Financial Statements, as well as the Selected Financial Data presented above, since each of their respective dates of acquisition.

(1) 2011 includes a Product Line Obsolescence charge of $4,300 pretax ($3,811 aftertax or $0.20 per diluted share) and an international executive severance charge of $1,217 (or $0.06 per diluted share).

(2) 2010 includes a tax benefit from the international entity restructuring of $10,913 (or $0.56 per diluted share), a workforce redeployment charge of $1,671 pretax ($1,196 aftertax or $0.06 per diluted share), inventory revaluation from change in functional currency designation due to international entity restructuring of $647 pretax ($453 aftertax or $0.02 per diluted share) and a revision of our 2008 workforce reduction reserve of $277 pretax ($173 aftertax or $0.01 per diluted share).

(3) 2009 includes a goodwill impairment charge of $43,363 pretax ($42,289 aftertax or $2.29 per diluted share), a benefit from a revision during the first quarter of 2009 to the 2008 workforce reduction charge of $1,328 pretax ($1,249 aftertax or $0.07 per diluted share) and a net tax benefit, primarily from a United Kingdom business reorganization, of $1,864 aftertax (or $0.10 per diluted share).

(4) 2008 includes a workforce reduction charge and associated expenses of $14,551 pretax ($12,003 aftertax or $0.65 per diluted share), increase in Allowance for Doubtful Accounts of $3,361 pretax ($3,038 aftertax or $0.16 per diluted share), write-off of technology investments of $1,842 pretax ($1,246 aftertax or $0.07 per diluted share) and a gain on sale of Centurion assets of $229 pretax ($143 aftertax or $0.01 per diluted share).

(5) 2007 includes a restructuring charge and associated expenses of $2,507 pretax ($1,656 aftertax or $0.09 per diluted share), a one-time tax benefit relating to a reduction in valuation reserves, net of the impact of tax rate changes in foreign jurisdictions on deferred taxes of $3,644 aftertax (or $0.19 per diluted share) and a gain on the sale of the Maple Grove, Minnesota facility of $5,972 pretax ($3,720 aftertax or $0.19 per diluted share).

Table of Contents

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

Overview

Tennant Company is a world leader in designing, manufacturing and marketing solutions that help create a cleaner, safer, 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 floors and other 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 2011 were $32.7 million, or $1.69 per diluted share, compared to Net Earnings of $34.8 million, or $1.80 per diluted share, for 2010. Net Earnings for 2011 were $2.1 million lower than 2010 due primarily to the large favorable tax benefit of $10.9 million in 2010 from an international entity restructuring which was nearly offset by increased Net Sales and improved profitability in 2011. Net Sales totaled $754.0 million, up 12.9% from 2010 due primarily to sales unit volume increases with continued growth of scrubbers equipped with our ec-H2O technology. Gross Profit margins decreased 30 basis points to 42.3% as a result of cost increases. Selling and Administrative Expense ("S&A Expense") decreased 110 basis points as a percentage of Net Sales to 32.0% as compared to 33.1% due to continued tight cost controls and improved operating efficiencies.

Tennant continues to invest in innovative product development with 3.7% of 2011 Net Sales spent on Research and Development. During 2011 there were increased investments in electrically-activated water technology platforms to further expand our chemical-free and other sustainable cleaning technologies offerings as well as investments in our core business including the work to redesign our large equipment portfolio. Sales of new products introduced in the past three years generated approximately 35% of our equipment sales during 2011, exceeding our long-stated goal of 30%.

We ended 2011 with a Debt-to-Capital ratio of 14.2%, $52.3 million in Cash and Cash Equivalents compared to $39.5 million at the end of 2010, and Shareholders' Equity of $220.9 million. During 2011, we generated operating cash flows of $56.9 million. Total debt was $36.5 million as of December 31, 2011 compared to $30.8 million at the end of 2010.

Historical Results

The following table compares the historical results of operations for the years ended December 31, 2011, 2010 and 2009 in dollars and as a percentage of Net Sales (in thousands, except per share amounts and percentages):

	2011	%	2010	%	2009	%
Net Sales	$ 753,998	100.0	$ 667,667	100.0	$ 595,875	100.0
Cost of Sales	434,817	57.7	383,341	57.4	349,767	58.7
Gross Profit	319,181	42.3	284,326	42.6	246,108	41.3
Operating Expense:						
Research and Development Expense	27,911	3.7	25,957	3.9	22,978	3.9
Selling and Administrative Expense	241,625	32.0	221,235	33.1	202,260	33.9
Goodwill Impairment Charge	-	-	-	-	43,363	7.3
Total Operating Expenses	269,536	35.7	247,192	37.0	268,601	45.1
Profit (Loss) from Operations	49,645	6.6	37,134	5.6	(22,493)	(3.8)

Other Income (Expense):							
Interest Income	752	0.1	133	-	393	0.1
Interest Expense	(2,238)	(0.3)	(1,619)	(0.2)	(2,830)	(0.5)
Net Foreign Currency Transaction Gains (Losses)	559	0.1	(902)	(0.1)	(412)	(0.1)
ESOP Income	-	-	-	-	990	0.2
Other Income (Expense), Net	12	-	(19)	-	32	-
Total Other (Expense) Income, Net	(915)	(0.1)	(2,407)	(0.4)	(1,827)	(0.3)
Profit (Loss) Before Income Taxes	48,730	6.5	34,727	5.2	(24,320)	(4.1)
Income Tax Expense	16,017	2.1	(76)	-	1,921	0.3
Net Earnings (Loss)	$ 32,713	4.3	$ 34,803	5.2	$ (26,241)	(4.4)
Net Earnings (Loss) per Diluted Share	$ 1.69		$ 1.80		$ (1.42)	

Consolidated Financial Results

Net Earnings for 2011 were $32.7 million, or $1.69 per diluted share, compared to $34.8 million, or $1.80 per diluted share for 2010. Net Earnings were impacted by:

- An increase in Net Sales of 12.9%, primarily driven by equipment unit volume increases.
- A decrease in S&A Expense as a percentage of Net Sales of 110 basis points due to continued tight cost controls and improved operating efficiencies.

Net Earnings for 2010 were $34.8 million, or $1.80 per diluted share, compared to a Net Loss of $26.2 million, or $1.42 loss per diluted share for 2009. Net Earnings were impacted by:

- An increase in Net Sales of 12.0%, primarily driven by equipment unit volume increases.
- A 130 basis point increase in Gross Profit margin to 42.6% due to higher sales volume, continued tight spending controls and flexible production management.
- A decrease in S&A Expense as a percentage of Net Sales of 80 basis points due to continued tight spending controls and leveraging our existing resources.
- A tax benefit from an international entity restructuring contributed $0.56 per diluted share.

Table of Contents

Net Sales

In 2011, consolidated Net Sales were $754.0 million, an increase of 12.9% as compared to 2010. Consolidated Net Sales were $667.7 million in 2010, an increase of 12.0% as compared to 2009.

The components of the consolidated Net Sales change for 2011 as compared to 2010, and 2010 as compared to 2009, were as follows:

Growth Elements	2011 v. 2010	2010 v. 2009
Organic Growth:		
Volume	8.9%	12.0%
Price	1.5%	-
Organic Growth	10.4%	12.0%
Foreign Currency	2.5%	-
Acquisitions	-	-
Total	12.9%	12.0%

The 12.9% increase in consolidated Net Sales for 2011 as compared to 2010 was primarily driven by an increase in equipment unit sales volume.

The 12.0% increase in consolidated Net Sales for 2010 as compared to 2009 was primarily driven by an increase in equipment unit sales volume.

The following table sets forth annual Net Sales by operating segment and the related percent change from the prior year (in thousands, except percentages):

	2011	%	2010	%	2009	%
Americas	$ 481,426	13.4	$ 424,462	16.0	$ 366,034	(15.2)
Europe, Middle East and Africa	188,338	9.1	172,619	(2.9)	177,829	(18.3)
Asia Pacific	84,234	19.3	70,586	35.7	52,012	(0.5)
Total	$ 753,998	12.9	$ 667,667	12.0	$ 595,875	(15.0)

Americas – In 2011, Americas Net Sales increased 13.4% to $481.4 million as compared with $424.5 million in 2010. The primary driver of the increase in Net Sales was attributable to sales unit volume increases with continued growth of scrubbers equipped with our ec-H2O technology in North America and growth of industrial equipment in Latin America. Favorable direct foreign currency translation exchange effects increased Net Sales by approximately 0.5%.

In 2010, Americas Net Sales increased 16.0% to $424.5 million as compared with $366.0 million in 2009. The primary driver of the increase in Net Sales is attributable to sales unit volume increases, primarily from industrial equipment and scrubbers equipped with our ec-H2O technology. Favorable direct foreign currency translation exchange effects increased Net Sales by approximately 1%.

Europe, Middle East and Africa – Europe, Middle East and Africa (“EMEA”) Net Sales in 2011 increased 9.1% to $188.3 million as compared to 2010 Net Sales of $172.6 million. Favorable direct foreign currency exchange effects increased EMEA Net Sales by approximately 4.5% in 2011. An organic sales increase of approximately 4.6% was primarily due to growth of indoor equipment, in particular increased sales of scrubbers equipped with our ec-H2O technology, which was somewhat offset by lower sales of outdoor equipment.

EMEA Net Sales in 2010 decreased 2.9% to $172.6 million as compared to 2009 Net Sales of $177.8 million. Unfavorable direct foreign currency exchange effects decreased EMEA Net Sales by approximately 4.5% in 2010. An organic sales increase of approximately 1.6% was primarily due to increased unit volume in our service, parts and consumables business, partially offset by lower equipment unit volume.

Asia Pacific – Asia Pacific Net Sales in 2011 increased 19.3% to $84.2 million over 2010 Net Sales of $70.6 million. An organic sales increase of approximately 10.3% was primarily due to strong growth of industrial scrubbers, especially in China, which was somewhat offset by selling price decreases in some mature markets related to movements in foreign exchange rates. Favorable direct foreign currency exchange effects increased Net Sales by approximately 9.0% in 2011.

Asia Pacific Net Sales in 2010 increased 35.7% to $70.6 million over 2009 Net Sales of $52.0 million. An organic sales increase of approximately 25.2% was primarily due to equipment unit volume increases in both Australia and China. Favorable direct foreign currency exchange effects increased Net Sales by approximately 10.5% in 2010.

Gross Profit

Gross Profit margin was 42.3% in 2011, a decrease of 30 basis points as compared to 2010. Gross Profit margin in 2011 was adversely impacted by 30 basis points due to an unfavorable net adjustment to LIFO inventory resulting from an increase in inventories and higher cost indices. Raw material cost inflation in 2011 was mitigated by selling price increases, productivity improvements, tight cost controls and leverage from higher production levels.

Gross Profit margin was 42.6% in 2010, an increase of 130 basis points as compared to 2009. Gross Profit margin was favorably impacted by manufacturing efficiencies from increased sales volume, somewhat offset by higher commodity costs.

Operating Expenses

Research and Development Expense – Research and Development Expense (“R&D Expense”) increased $2.0 million, or 7.5%, in 2011 as compared to 2010. As a percentage of Net Sales, 2011 R&D Expense decreased 20 basis points to 3.7% in 2011 from 3.9% in the prior year. R&D Expense increased in 2011 as we made additional investments in our chemical-free and other sustainable cleaning technologies as well as our core business.

R&D Expense increased $3.0 million, or 13.0%, in 2010 as compared to 2009 and remained consistent with the prior year at 3.9% as a percentage of Net Sales. Higher sales and improved profitability in 2010 allowed increased investment levels in key research and development projects, primarily for our chemical-free technologies.

Selling and Administrative Expense – Selling and Administrative Expense (“S&A Expense”) increased by $20.4 million, or 9.2%, in 2011 compared to 2010 due to higher variable costs related to the increased sales volume, $4.0 million related to the Hofmans product obsolescence and international executive severance, and investments in our sustainable cleaning business. As a percentage of Net Sales, 2011 S&A Expense decreased 110 basis points to 32.0% due to continued tight cost controls and improved operating efficiencies.

S&A Expense increased by $19.0 million, or 9.4%, in 2010 as compared to 2009 due primarily to higher variable selling expenses and incentives. As a percentage of Net Sales, 2010 S&A Expense decreased 80 basis points to 33.1%. S&A Expense benefited from tight spending controls and leveraging our existing resources as we have kept our employee headcount consistent with 2009 year end levels.

Goodwill Impairment Charge – During the first quarter of 2009, we recorded a non-cash pretax goodwill impairment charge of $43.4 million related to our EMEA reporting unit. Only $3.8 million of this charge was tax deductible.

Total Other Income (Expense), Net

Interest Income – Interest Income was $0.8 million in 2011, an increase of $0.6 million from 2010. The increase between 2011 and 2010 is due to higher interest rates on higher cash investments.

Interest Income was $0.1 million in 2010, a decrease of $0.3 million from 2009. The decrease between 2010 and 2009 mainly reflects the impact of no ESOP interest income in 2010 as the ESOP loan matured on December 31, 2009.

Table of Contents

Interest Expense – Interest Expense was $2.2 million in 2011 as compared to $1.6 million in 2010. This increase is primarily due to a higher level of debt with a higher interest rate related to long-term fixed rate borrowings initiated in 2011.

Interest Expense was $1.6 million in 2010 as compared to $2.8 million in 2009. This decline is primarily due to a lower level of borrowings against our revolving credit facility in 2010 as compared to 2009.

Net Foreign Currency Transaction Gains (Losses) – Net Foreign Currency Transaction Gains were $0.6 million in 2011 as compared to Losses of $0.9 million in 2010. The favorable increase from the prior year was due to fluctuations in foreign currency rates in the normal course of business.

Net Foreign Currency Transaction Losses were $0.9 million in 2010 as compared to $0.4 million in 2009. The decrease from the prior year was due to fluctuations in foreign currency rates in the normal course of business.

ESOP Income – There was no ESOP Income during 2011 and 2010. On December 31, 2009, the term for this ESOP program expired.

Other (Expense) Income, Net – There was no significant change in Other (Expense) Income, Net in 2011 as compared to 2010 or in 2010 as compared to 2009.

Income Taxes

The overall effective income tax rate was 32.9%, (0.2%) and 7.9% in 2011, 2010 and 2009 respectively. The tax expense for 2011 includes only a $0.5 million tax benefit in the second quarter associated with the $5.5 million pre-tax charges related to Hofmans product obsolescence and international executive severance which contributed to an increased overall effective rate. Excluding these charges, the overall effective tax rate would have been 30.4%. The decrease in the 2011 overall effective tax rate as compared to the prior year, excluding the effect of these one-time charges, was primarily related to changes in our full year taxable earnings by country, and a decrease in the statutory tax rates in various foreign jurisdictions.

The 2010 net tax benefit included a $10.9 million tax benefit associated with a restructuring and realignment of international operations recorded in the fourth quarter, materially impacting the overall effective rate. Excluding the tax benefit associated with the fourth quarter restructuring and realignment of international operations, the 2010 overall rate would have been 31.3%.

Liquidity and Capital Resources

Liquidity – Cash and Cash Equivalents totaled $52.3 million at December 31, 2011, as compared to $39.5 million of Cash and Cash Equivalents as of December 31, 2010. Cash and Cash Equivalents held by our foreign subsidiaries totaled $11.3 million as of December 31, 2011 as compared to $10.6 million of Cash and Cash Equivalents held by our foreign subsidiaries as of December 31, 2010. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to subsidiaries as needed. Our current ratio was 2.2 and 2.1 as of December 31, 2011 and 2010, respectively, based on working capital of $148.1 million and $132.1 million, respectively.

Our Debt-to-Capital ratio was 14.2% as of December 31, 2011, compared with 12.5% as of December 31, 2010. Our capital structure was comprised of $36.5 million of Long-Term Debt and $220.9 million of Shareholders' Equity as of December 31, 2011.

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

	2011	2010	2009
Operating Activities	$ 56,909	$ 42,530	$ 75,185
Investing Activities:			
Purchases of Property, Plant and Equipment, Net of Disposals	(13,301)	(9,934)	(11,172)
Acquisitions of Businesses, Net of Cash Acquired	(2,917)	(86)	(2,162)
Restricted Cash	(3,279)	-	-
Financing Activities	(24,247)	(10,342)	(74,068)
Effect of Exchange Reate Changes on Cash and Cash Equivalents	(355)	(701)	994
Net Increase (Decrease) in Cash and Cash Equivalents	$ 12,810	$ 21,467	$ (11,223)

Operating Activities – Cash provided by operating activities was $56.9 million in 2011, $42.5 million in 2010 and $75.2 million in 2009. In 2011, cash provided by operating activities was driven by $32.7 million of Net Earnings and increased Accounts Payable, somewhat offset by increases in Inventories and Receivables. The increase in Inventories is due to sales and service initiatives. The increases in Accounts Payable and Receivables is due to higher levels of sales. Cash provided by operating activities was $14.4 million higher in 2011 as compared to 2010 primarily due to the smaller increase in Deferred Income Taxes in 2011 as compared to 2010 which was impacted by the international entity restructuring that occurred in the 2010 fourth quarter.

In 2010, cash provided by operating activities was driven by $34.8 million of Net Earnings as well as increased Accrued Expenses, primarily from sales and management incentives, somewhat offset by increases in Receivables and Inventories, both increasing at year end due to strong fourth quarter Net Sales. Cash provided by operating activities was $32.7 million lower in 2010 as compared to 2009. This decrease was primarily driven by higher working capital related to higher sales levels as of year end 2010 as compared to year end 2009.

For 2011, we used operating profit and working capital as key indicators of financial performance and the primary metrics for performance-based incentives.

Two metrics used by management to evaluate how effectively we utilize our net assets are “Accounts Receivable Days Sales Outstanding” (“DSO”) and “Days Inventory on Hand” (“DIOH”), on a FIFO basis. 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 December 31 were as follows (in days):

	2011	2010	2009
DSO	58	59	67
DIOH	88	83	87

DSO decreased 1 day in 2011 as compared to 2010 primarily due to increased Net Sales as well as our continued focus on proactively managing Accounts Receivable by enforcing tighter credit limits and collecting past due balances.

DIOH increased 5 days in 2011 as compared to 2010 primarily due to higher levels of inventories to support fourth quarter 2011 sales and service initiatives.

Table of Contents

Investing Activities – Net cash used for investing activities was $19.5 million in 2011, $10.0 million in 2010 and $13.3 million in 2009. Net capital expenditures were $13.3 million during 2011 as compared to $9.9 million in 2010. Net capital expenditures were $11.2 million in 2009. Our 2011 capital expenditures included tooling related to new product development, investments in our facilities including the new plant in China, technology upgrades, and manufacturing and lab equipment.

Capital expenditures in 2010 included technology upgrades and tooling related to new product development and manufacturing equipment. Capital expenditures in 2009 included technology upgrades, tooling related to new product development and investments in our Minnesota facilities to complete the Global Innovation Center to support new product innovation efforts.

Financing Activities – Net cash used for financing activities was $24.2 million in 2011 and $10.3 million in 2010. Net cash used for financing activities was $74.1 million in 2009. In 2011, payments of floating rate Long-Term Debt used $19.3 million, which was more than offset by $20.0 million issuance of fixed rate Long-Term Debt, and payments of dividends used $12.9 million. In 2010, payments of dividends used $11.2 million and payments of Long-Term Debt used $4.2 million. In 2009, payments of Long-Term Debt used $67.2 million and dividend payments used $9.9 million. Our annual cash dividend payout increased for the 40th consecutive year to $0.68 per share in 2011, an increase of $0.09 per share over 2010.

Proceeds from the issuance of Common Stock generated $4.2 million in 2011, $6.5 million in 2010 and $0.9 million in 2009.

On May 3, 2007, the Board of Directors authorized the repurchase of 1,000,000 shares of our Common Stock. On February 21, 2011, the Board of Directors authorized the repurchase of an additional 1,000,000 shares of our common stock. At December 31, 2011, there were 719,570 remaining shares authorized for repurchase.

There were 469,304 shares repurchased in 2011, 100,000 shares repurchased during 2010 and no shares repurchased in 2009, at average repurchase prices of $37.51 during 2011 and $31.53 during 2010. Our Credit Agreement with JPMorgan Chase Bank limits the payment of dividends and repurchases of stock to amounts ranging from $50.0 million to $75.0 million per fiscal year based on our leverage ratio after giving effect to such payments for the life of the agreement.

Indebtedness – As of December 31, 2011, we had committed lines of credit totaling approximately $125.0 million and uncommitted lines of credit totaling $82.6 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 December 31, 2011. In addition, we had stand alone letters of credit of approximately $1.8 million outstanding and bank guarantees in the amount of approximately $1.0 million. Commitment fees on unused lines of credit for the year ended December 31, 2011 were $0.3 million.

Our most restrictive covenants are part of our Credit Agreement with JPMorgan, which are the same covenants in the Shelf Agreement with Prudential, 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 December 31, 2011, our indebtedness to EBITDA ratio was 0.54 to 1 and our EBITDA to interest expense ratio was 32.82 to 1.

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 December 31, 2011 we were in compliance with all covenants under the Credit Agreement. There was $10.0 million in outstanding borrowings under this facility at December 31, 2011, 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 (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 $50.0 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.

Table of Contents

As of December 31, 2011, 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 December 31, 2011.

The Royal Bank of Scotland Citizens, N.A.

On September 14, 2010, we entered into an overdraft facility with The Royal Bank of Scotland N.V. in the amount of 2.0 million Euros or approximately $2.6 million. There was no balance outstanding on this facility as of December 31, 2011.

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 December 31, 2011.

Contractual Obligations – Our contractual obligations as of December 31, 2011, are summarized by period due in the following table (in thousands):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-term debt (1)	$ 31,549	$ 775	$ 2,774	$ 16,857	$ 11,143
Interest payments on long-term debt (1)	5,162	995	1,927	1,388	852
Capital leases	4,779	3,321	1,458	-	-
Interest payments on capital leases	285	194	91	-	-
Retirement benefit plans(2)	1,008	1,008	-	-	-
Deferred compensation arrangements(3)	6,713	537	944	450	4,782
Operating leases (4)	18,629	7,937	7,439	2,396	857
Purchase obligations (5)	46,867	46,867	-	-	-
Other (6)	1,021	731	290	-	
Total contractual obligations	$ 116,013	$ 62,365	$ 14,923	$ 21,091	$ 17,634

(1) Long-term debt represents bank borrowings and borrowings through our Credit Agreement with JPMorgan and our Private Shelf Agreement with Prudential. Our Credit Agreement with JPMorgan does not have specified repayment terms; therefore, repayment is due upon expiration of the agreement on May 5, 2016. Interest payments on our Credit Agreement were calculated using the December 31, 2011 LIBOR rate based on the assumption that the principal would be repaid in full upon the expiration of the agreement. Our borrowings under our Private Shelf Agreement with Prudential have 7 and 10 year terms, serially maturing from 2014 to 2021 with fixed interest rates of 4.00% and 4.10%, respectively.

(2) Our retirement benefit plans, as described in Note 11 of the Consolidated Financial Statements, require us to make contributions to the plans from time to time. Our plan obligations totaled $30.8 million as of December 31, 2011. Contributions to the various plans are dependent upon a number of factors including the market performance of plan assets, if any, and future changes in interest rates, which impact the actuarial measurement of plan obligations. As a result, we have only included our 2012 expected contribution in the contractual obligations table.

(3) The unfunded deferred compensation arrangements covering certain current and retired management employees totaled $6.7 million as of December 31, 2011. Our estimated distributions in the contractual obligations table are based upon a number of assumptions including termination dates and participant distribution elections.

(4) Operating lease commitments consist primarily of office and warehouse facilities, vehicles and office equipment as discussed in Note 13 of the Consolidated Financial Statements.

(5) Purchase obligations include all known open purchase orders, contractual purchase commitments and contractual obligations as of December 31, 2011.

(6) Other obligations include collateralized borrowings as discussed in Note 8 of the Consolidated Financial Statements and residual value guarantees as discussed in Note 13 of the Consolidated Financial Statements.

Total contractual obligations exclude our gross unrecognized tax benefits of $3.4 million and accrued interest and penalties of $0.4 million as of December 31, 2011. We expect to make cash outlays in the future related to uncertain tax positions. However, due to the uncertainty of the timing of future cash flows, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. For further information related to unrecognized tax benefits, see Note 14 of the Consolidated Financial Statements.

Newly Issued Accounting Guidance

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. This guidance is effective for interim and annual periods beginning after December 15, 2011. We do not expect this guidance to have a material 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. This guidance requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This amended guidance will not impact our results of operations or financial position.

Table of Contents

Testing Goodwill for Impairment

In September 2011, the FASB issued updated accounting guidance on the periodic testing of goodwill for impairment. This updated accounting guidance permits companies to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If a company determines 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 perform the two-step impairment test. This guidance is effective for annual and interim periods beginning after December 15, 2011, however early adoption is permitted. We elected to early adopt this guidance for the annual fiscal year ended December 31, 2011. The adoption of this guidance did not have an impact on our results of operations or financial position.

Offsetting Assets and Liabilities Disclosures

In December 2011, the FASB issued updated accounting guidance on disclosures about offsetting assets and liabilities. This update adds certain additional disclosure requirements about financial instruments and derivative instruments that are subject to netting arrangements. The new disclosures are required for interim and annual reporting periods beginning on or after January 1, 2013. We do not expect this guidance to have a material impact on our results of operations or financial position.

Critical Accounting Estimates

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

Allowance for Doubtful Accounts – We record a reserve for accounts receivable that are potentially uncollectible. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers’ financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information becomes available. Our reserves are also based on amounts determined by using percentages applied to trade receivables. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. We are not able to predict changes in the financial condition of our customers and if circumstances related to these customers deteriorate, our estimates of the recoverability of accounts receivable could be materially affected and we may be required to record additional allowances. Alternatively, if more allowances are provided than are ultimately required, we may reverse a portion of such provisions in future periods based on the actual collection experience. Bad debt write-offs as a percentage of Net Sales were approximately 0.2% in 2011, 0.3% in 2010 and 0.7% in 2009. As of December 31, 2011, we had $3.7 million reserved against Accounts Receivable for doubtful accounts.

Inventory Reserves – We value our inventory at the lower of the cost of inventory or fair market value through the establishment of a reserve for excess, slow moving and obsolete inventory. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed by comparing our inventory levels to our projected demand requirements based on historical demand, market conditions and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there are significant declines in demand for certain products. This reserve creates a new cost basis for these products and is considered permanent. As of December 31, 2011, we had $4.2 million reserved against Inventories.

Goodwill – Goodwill represents the excess of cost over the fair value of net assets of businesses acquired and is allocated to our reporting units at the time of the acquisition. We analyze Goodwill on an annual basis and when an event occurs or circumstances change that may reduce the fair value of one of our reporting units below its carrying amount. A goodwill impairment loss occurs if the carrying amount of a reporting unit's goodwill exceeds its fair value.

Beginning in 2011, we performed an analysis of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Prior to 2011, the analysis of qualitative factors was not an option and the two-step impairment testing was performed. The first step is used as an indicator to identify if there is potential goodwill impairment. If the first step indicates there may be an impairment, the second step is performed which measures the amount of the goodwill impairment, if any. We perform our goodwill impairment analysis as of year end and use our judgment to develop assumptions for the discounted cash flow model that we use. Management assumptions include forecasting revenues and margins, estimating capital expenditures, depreciation, amortization and discount rates.

If our goodwill impairment testing resulted in one or more of our reporting units' carrying amount exceeding its fair value, we would write down our reporting units' carrying amount to its fair value and would record an impairment charge in our results of operations in the period such determination is made. Subsequent reversal of goodwill impairment charges is not permitted. During the first quarter of 2009, we recorded a goodwill impairment loss of $43.4 million. Each of our reporting units were analyzed for impairment as of December 31, 2011 and based upon our analysis, the estimated fair values of our reporting units substantially exceeded their carrying amounts. We had Goodwill of $20.3 million as of December 31, 2011.

Warranty Reserves – We record a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of claims to net sales, the historical length of time between the sale and resulting warranty claim, new product introductions and other factors. Future claims experience could be materially different from prior results because of the introduction of new, more complex products, a change in our warranty policy in response to industry trends, competition or other external forces, or manufacturing changes that could impact product quality. In the event we determine that our current or future product repair and replacement costs exceed our estimates, an adjustment to these reserves would be charged to earnings in the period such determination is made. Warranty expense as a percentage of Net Sales was 1.7% in 2011, 1.6% in 2010 and 1.4% in 2009. As of December 31, 2011, we had $8.8 million reserved for future estimated warranty costs.

Table of Contents

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

Tax law requires certain items to be included in our tax return at different times than the items are reflected in our results of operations. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences will reverse over time, such as depreciation expense on property, plant and equipment. These temporary differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheets. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years but have already been recorded as an expense in our Consolidated Statements of Operations. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, based on management's judgment, to the extent we believe that recovery is not more likely than not, we establish a valuation reserve against those deferred tax assets. The deferred tax asset valuation allowance could be materially different from actual results because of changes in the mix of future taxable income, the relationship between book and taxable income and our tax planning strategies. As of December 31, 2011, a valuation allowance of $3.2 million was recorded against foreign tax loss carryforwards and state credit carryforwards.

Cautionary Factors Relevant to Forward-Looking Information

This annual report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2, contain certain statements that are considered "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," "belie "project," or "continue" or similar words or the negative thereof. These 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.
- Competition in our business.
- Ability to effectively manage organizational changes.
- Ability to comply with laws and regulations.
- Ability to effectively maintain and manage the data in our computer systems.
- Unforeseen product liability claims or product quality issues.
- Ability to develop and fund new innovative products and services.
- Ability to attract and retain key personnel.
- Ability to successfully upgrade and evolve the capabilities of our computer systems.

- Occurrence of a significant business interruption.
- Fluctuations in the cost or availability of raw materials and purchased components.
- Ability to acquire, retain and protect proprietary intellectual property rights.
- 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. 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 7A – Quantitative and Qualitative Disclosures About Market Risk

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

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

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

During 2011, our raw materials and other purchased component costs were unfavorably impacted by commodity prices although we are able to somewhat mitigate these higher costs with pricing actions and cost reduction activities. We continue to focus on mitigating the risk of continued future raw material or other product component cost increases through product pricing, negotiations with our vendors and cost reduction actions. The success of these efforts will depend upon our ability to increase our selling prices in a competitive market and our ability to achieve cost savings. If the commodity prices increase significantly and we are not able to offset the increases with higher selling prices, our results may be unfavorably impacted in 2012.

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

Because a substantial portion of our products are manufactured or sourced primarily from the United States, a stronger U.S. dollar generally has a negative impact on results from operations outside the United States while a weaker dollar generally has a positive effect. Our objective in managing the exposure to foreign currency fluctuations is to minimize the earnings effects associated with foreign exchange rate changes on certain of our foreign currency-denominated assets and liabilities. We periodically enter into various contracts, principally forward exchange contracts, to protect the value of certain of our foreign currency-denominated assets and liabilities. The gains and losses on these contracts generally approximate changes in the value of the related assets and liabilities. We had forward exchange contracts outstanding in the notional amounts of $45.5 million and $40.3 million at the end of 2011 and 2010, respectively. The potential for material loss in fair value of foreign currency contracts outstanding and the related underlying exposures as of December 31, 2011, from a 10% adverse change is unlikely due to the short-term nature of our forward contracts. Our policy prohibits us from entering into transactions for speculative purposes.

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

Table of Contents

ITEM 8 – Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Tennant Company:

We have audited the accompanying consolidated balance sheets of Tennant Company and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and comprehensive (loss) income, and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as included in Item 15.A.2. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.