

TENNANT CO
Form 10-Q
April 28, 2010

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, 2010

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 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 | | Accelerated filer | <input type="checkbox"/> |
| | (Do not check if a smaller | | |
| Non-accelerated filer | reporting company) | Smaller reporting company | <input type="checkbox"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 27, 2010, there were 18,877,949 shares of Common Stock outstanding.

TABLE OF CONTENTS

| | | |
|--------------------------------|--|-----------|
| PART I - FINANCIAL INFORMATION | | Page |
| Item 1 | <u>Financial Statements</u> | <u>3</u> |
| | <u>Condensed Consolidated Financial Statements</u> | <u>3</u> |
| | <u>Notes to the Condensed Consolidated Financial Statements</u> | <u>6</u> |
| | 1 <u>Basis of Presentation</u> | <u>6</u> |
| | 2 <u>Newly Adopted Accounting Pronouncements</u> | <u>6</u> |
| | 3 <u>Management Actions</u> | <u>6</u> |
| | 4 <u>Acquisitions and Divestitures</u> | <u>7</u> |
| | 5 <u>Inventories</u> | <u>8</u> |
| | 6 <u>Goodwill and Intangible Assets</u> | <u>8</u> |
| | 7 <u>Debt</u> | <u>9</u> |
| | 8 <u>Warranty</u> | <u>10</u> |
| | 9 <u>Fair Value of Financial Instruments and Derivatives</u> | <u>11</u> |
| | 10 <u>Retirement Benefit Plans</u> | <u>12</u> |
| | 11 <u>Comprehensive Income (Loss)</u> | <u>12</u> |
| | 12 <u>Commitments and Contingencies</u> | <u>12</u> |
| | 13 <u>Income Taxes</u> | <u>13</u> |
| | 14 <u>Stock-Based Compensation</u> | <u>13</u> |
| | 15 <u>Earnings (Loss) Per Share</u> | <u>14</u> |
| | 16 <u>Segment Reporting</u> | <u>14</u> |
| | 17 <u>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>22</u> |
| Item 1A | <u>Risk Factors</u> | <u>22</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 OPERATIONS (Unaudited)

(In thousands, except shares and per share data)

| | Three Months Ended March 31 | |
|---|--------------------------------|-------------|
| | 2010 | 2009 |
| Net Sales | \$ 150,106 | \$ 128,647 |
| Cost of Sales | 86,346 | 75,922 |
| Gross Profit | 63,760 | 52,725 |
| Operating Expense: | | |
| Research and Development Expense | 5,536 | 5,692 |
| Selling and Administrative Expense | 51,730 | 45,460 |
| Goodwill Impairment Charge | - | 43,363 |
| Total Operating Expense | 57,266 | 94,515 |
| Profit (Loss) from Operations | 6,494 | (41,790) |
| Other Income (Expense): | | |
| Interest Income | 45 | 111 |
| Interest Expense | (433) | (652) |
| Net Foreign Currency Transaction Losses | (186) | (361) |
| ESOP Income | - | 243 |
| Other Income, Net | - | 20 |
| Total Other Expense, Net | (574) | (639) |
| Profit (Loss) Before Income Taxes | 5,920 | (42,429) |
| Income Tax Expense (Benefit) | 1,829 | (683) |
| Net Earnings (Loss) | \$4,091 | \$(41,746) |
| Earnings (Loss) per Share: | | |
| Basic | \$0.22 | \$(2.29) |
| Diluted | \$0.21 | \$(2.29) |
| Weighted Average Shares Outstanding: | | |
| Basic | 18,682,335 | 18,262,257 |
| Diluted | 19,090,423 | 18,262,257 |
| Cash Dividend Declared per Common Share | \$0.14 | \$0.13 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
 (In thousands, except shares and per share data)

| | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 27,273 | \$ 18,062 |
| Receivables, less Allowances of \$5,264 and \$5,077, respectively | 111,198 | 121,203 |
| Inventories | 58,179 | 56,646 |
| Prepaid Expenses | 7,971 | 10,295 |
| Deferred Income Taxes, Current Portion | 8,780 | 9,362 |
| Other Current Assets | - | 344 |
| Total Current Assets | 213,401 | 215,912 |
| Property, Plant and Equipment | 284,551 | 287,915 |
| Accumulated Depreciation | (192,175) | (190,698) |
| Property, Plant and Equipment, Net | 92,376 | 97,217 |
| Deferred Income Taxes, Long-Term Portion | 6,104 | 7,911 |
| Goodwill | 19,863 | 20,181 |
| Intangible Assets, Net | 27,129 | 29,243 |
| Other Assets | 7,108 | 7,262 |
| Total Assets | \$ 365,981 | \$ 377,726 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | \$ 3,897 | \$ 4,012 |
| Short-Term Borrowings | 7 | 7 |
| Accounts Payable | 43,474 | 42,658 |
| Employee Compensation and Benefits | 20,333 | 28,092 |
| Income Taxes Payable | 4,629 | 3,982 |
| Other Current Liabilities | 36,394 | 37,401 |
| Total Current Liabilities | 108,734 | 116,152 |
| Long-Term Liabilities: | | |
| Long-Term Debt | 29,151 | 30,192 |
| Employee-Related Benefits | 31,993 | 31,848 |
| Deferred Income Taxes, Long-Term Portion | 4,520 | 7,417 |
| Other Liabilities | 7,243 | 7,838 |
| Total Long-Term Liabilities | 72,907 | 77,295 |
| Total Liabilities | 181,641 | 193,447 |
| Commitments and Contingencies (Note 12) | | |
| 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; 18,833,923 and 18,750,828 shares issued and outstanding, respectively | 7,063 | 7,032 |
| Additional Paid-In Capital | 7,801 | 7,772 |
| Retained Earnings | 195,513 | 192,584 |
| Accumulated Other Comprehensive Loss | (26,037) | (23,109) |

| | | | | |
|--|----|---------|----|---------|
| Total Shareholders' Equity | | 184,340 | | 184,279 |
| Total Liabilities and Shareholders' Equity | \$ | 365,981 | \$ | 377,726 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

| | Three Months Ended March 31 | |
|--|--------------------------------|-------------|
| | 2010 | 2009 |
| OPERATING ACTIVITIES | | |
| Net Earnings (Loss) | \$4,091 | \$(41,746) |
| Adjustments to Net Earnings (Loss) to Arrive at Operating Cash Flow: | | |
| Depreciation | 4,586 | 5,356 |
| Amortization | 792 | 639 |
| Deferred Tax (Benefit) Expense | (634) | 595 |
| Goodwill Impairment Charge | - | 43,363 |
| Stock-Based Compensation Expense | 470 | 286 |
| ESOP Expense | - | (27) |
| Tax Benefit on ESOP | - | 3 |
| Allowance for Doubtful Accounts and Returns | 512 | 166 |
| Other, Net | 202 | 11 |
| Changes in Operating Assets and Liabilities, Excluding the Impact of Acquisitions: | | |
| Accounts Receivable | 8,966 | 21,149 |
| Inventories | (3,066) | (2,386) |
| Accounts Payable | 995 | 455 |
| Employee Compensation and Benefits | (7,474) | (2,808) |
| Accrued Expenses | 1,648 | (9,794) |
| Income Taxes Payable/Prepaid | 2,741 | (2,300) |
| Other Assets and Liabilities | 272 | (1,640) |
| Net Cash Provided by Operating Activities | 14,101 | 11,322 |
| INVESTING ACTIVITIES | | |
| Purchases of Property, Plant and Equipment | (1,819) | (3,824) |
| Proceeds from Disposals of Property, Plant and Equipment | 41 | 114 |
| Acquisition of Businesses, Net of Cash Acquired | 26 | (2,295) |
| Net Cash Used for Investing Activities | (1,752) | (6,005) |
| FINANCING ACTIVITIES | | |
| Change in Short-Term Borrowings, Net | - | (1) |
| Payment of Long-Term Debt | (1,089) | (5,098) |
| Proceeds from Issuance of Common Stock | 913 | - |
| Tax Benefit on Stock Plans | 139 | (147) |
| Dividends Paid | (2,632) | (2,381) |
| Net Cash Used for Financing Activities | (2,669) | (7,627) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (469) | (276) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 9,211 | (2,586) |
| Cash and Cash Equivalents at Beginning of Period | 18,062 | 29,285 |
| Cash and Cash Equivalents at End of Period | \$27,273 | \$26,699 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash (Received) Paid During the Period for: | | |
| Income Taxes | \$(260) | \$1,128 |

| | | |
|--|---------|---------|
| Interest | \$416 | \$367 |
| Supplemental Non-cash Investing and Financing Activities: | | |
| Capital Expenditures Funded Through Capital Leases | \$1,066 | \$1,360 |
| Collateralized Borrowings Incurred for Operating Lease Equipment | \$1,075 | \$1,968 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY

NOTES TO 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 our operations. We have reclassified certain prior period amounts to conform to the proper current period presentation. For the period ended March 31, 2009, we decreased cash used for operating activities and increased cash used for investing activities by \$149 to properly reflect the non-cash transfers between Inventory and Property, Plant and Equipment. These reclassifications are not material and had no effect on previously reported consolidated Net Earnings (Loss) or Shareholders' Equity.

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, 2009. 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 January 2010, the Financial Accounting Standards Board (“FASB”) updated the disclosure requirements for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which are effective for fiscal years beginning after December 15, 2010. We will adopt the remaining guidance on January 1, 2011. The adoption of the required guidance did not have an impact on our financial position, results of operations, or disclosures. We do not expect that the adoption of the remaining guidance will have an impact on our financial position, results of operations, or disclosures.

3. Management Actions

2008 Actions – During the fourth quarter of 2008, we announced a workforce reduction program to reduce our worldwide employee base by approximately 8%, or about 240 people. A pretax charge of \$14,551, including other associated costs of \$290, was recognized in the fourth quarter of 2008 as a result of this program. The workforce reduction was accomplished primarily through the elimination of salaried positions across the organization. The pretax charge consisted primarily of severance and outplacement services and was included within Selling and Administrative Expense in the 2008 Consolidated Statement of Earnings.

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

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

| | Severance, Early Retirement and Related Costs |
|---------------------------------|---|
| 2008 workforce reduction action | \$ 14,261 |
| Cash payments | (355) |
| Foreign currency adjustments | 5 |
| Balance as of December 31, 2008 | 13,911 |
| Cash payments | (11,206) |
| Foreign currency adjustments | (56) |
| Adjustment of accrual | (2,003) |
| Balance as of December 31, 2009 | 646 |
| Cash payments | (9) |
| Foreign currency adjustments | (19) |
| Adjustment of accrual | (7) |
| Balance as of March 31, 2010 | 611 |

The 2009 change in estimate was primarily the result of an adjustment during the first quarter of 2009 due to lower than anticipated severance costs in Europe both on an employee settlement basis and also the opportunity to eliminate open positions due to employee turnover thereby avoiding some severance payments.

4. Acquisitions and Divestitures

Acquisitions

On February 27, 2009, we acquired certain assets of Applied Cleansing Solutions Pty Ltd ("Applied Cleansing"), a long-term importer and distributor for Green Machines™ products in Australia and New Zealand, in a business combination for an initial purchase price of \$379 in cash. This acquisition provides us with the opportunity to accelerate our growth in the city cleaning business within the Asia Pacific region. The purchase agreement also provided for additional contingent consideration to be paid for each of the four quarters following the acquisition date if certain future revenue targets were met. As of March 31, 2010, we have paid the first three quarterly payments following the acquisition date and the last payment will be made in the second quarter of 2010. There was no material difference between our original estimate recorded for contingent consideration of approximately \$208 and the amounts paid and the pending payment in the second quarter of 2010.

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

| | |
|------------------------------|--------|
| Current Assets | \$ 339 |
| Identified Intangible Assets | 203 |
| Total Assets Acquired | 542 |
| Current Liabilities | 158 |
| Total Liabilities Assumed | 158 |
| Net Assets Acquired | \$ 384 |

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

5. Inventories

Inventories are valued at the lower of cost or market. Inventories at March 31, 2010 and December 31, 2009 consisted of the following:

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|----------------------|
| Inventories carried at LIFO: | | |
| Finished goods | \$ 36,994 | \$ 36,528 |
| Raw materials, production parts and work-in-process | 14,421 | 16,210 |
| LIFO reserve | (28,873) | (28,873) |
| Total LIFO inventories | 22,542 | 23,865 |
| Inventories carried at FIFO: | | |
| Finished goods | 17,985 | 17,063 |
| Raw materials, production parts and work-in-process | 17,652 | 15,718 |
| Total FIFO inventories | 35,637 | 32,781 |
| Total inventories | \$ 58,179 | \$ 56,646 |

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, 2010 are as follows:

| | Goodwill | Accumulated Impairment Losses | Total |
|---------------------------------|----------|-------------------------------------|----------|
| Balance as of December 31, 2009 | \$68,706 | \$ (48,525) | \$20,181 |
| Additions (reductions) | (177) | - | (177) |
| Impairment losses | - | - | - |
| Foreign currency fluctuations | (3,088) | 2,947 | (141) |
| Balance as of March 31, 2010 | \$65,441 | \$ (45,578) | \$19,863 |

The balances of acquired Intangible Assets, excluding Goodwill, are as follows:

| | Customer Lists and Service Contracts | Trade Name | Technology | Total |
|---|--|---------------|------------|----------|
| Balance as of March 31, 2010: | | | | |
| Original cost | \$25,812 | \$4,752 | \$3,476 | \$34,040 |
| Accumulated amortization | (5,275) | (651) | (985) | (6,911) |
| Carrying value | \$20,537 | \$4,101 | \$2,491 | \$27,129 |
| Weighted-average original life (in years) | 14 | 14 | 11 | |

Edgar Filing: TENNANT CO - Form 10-Q

| | | | | |
|---|----------|---------|---------|----------|
| Balance as of December 31, 2009: | | | | |
| Original cost | \$27,018 | \$4,999 | \$3,684 | \$35,701 |
| Accumulated amortization | (4,911) | (594) | (953) | (6,458) |
| Carrying value | \$22,107 | \$4,405 | \$2,731 | \$29,243 |
| Weighted-average original life (in years) | 14 | 14 | 11 | |

8

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

The net reduction of Goodwill during the first three months of 2010 was a result of recording a portion of the Shanghai ShenTan Mechanical and Electrical Equipment Co. Ltd. (“Shanghai ShenTan”) earn-out, offset by the finalization of the valuation of the customer list acquired with the Applied Cleansing acquisition.

The Applied Cleansing customer list has a useful life of 8 years.

Amortization expense on Intangible Assets for the three months ended March 31, 2010 and 2009 was \$792 and \$688, respectively.

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

| | |
|----------------|----------|
| Remaining 2010 | \$2,266 |
| 2011 | 3,020 |
| 2012 | 2,519 |
| 2013 | 2,400 |
| 2014 | 2,257 |
| Thereafter | 14,667 |
| Total | \$27,129 |

7. Debt

Debt outstanding is summarized as follows:

| | March 31, 2010 | December 31, 2009 |
|-------------------------------|-------------------|----------------------|
| Short-Term Borrowings: | | |
| Bank borrowings | \$ 7 | \$ 7 |
| Long-Term Debt: | | |
| Bank borrowings | \$ 147 | \$ 174 |
| Credit facility borrowings | 25,000 | 25,000 |
| Collateralized borrowings | 1,080 | 1,342 |
| Capital lease obligations | 6,821 | 7,688 |
| Total Long-Term Debt | 33,048 | 34,204 |
| Less: current portion | 3,897 | 4,012 |
| Long-Term Portion | \$ 29,151 | \$ 30,192 |

As of March 31, 2010, we had committed lines of credit totaling \$133,920 and uncommitted lines of credit totaling \$80,000. There was \$25,000 in outstanding borrowings under our JPMorgan facility and no borrowings under any other facilities as of March 31, 2010. In addition, we had stand alone letters of credit of \$1,851 outstanding and bank guarantees in the amount of \$939. Commitment fees on unused lines of credit for the three months ended March 31, 2010 were \$94.

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 3.50 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, 2010, our indebtedness to EBITDA ratio was 0.76 to 1 and our EBITDA to interest expense ratio was 18.32

to 1.

Credit Facilities

JPMorgan Chase Bank, National Association

Our June 19, 2007 Credit Agreement (the “Credit Agreement”), as amended from time to time, with our bank group led by JPMorgan Chase Bank, National Association (“JPMorgan”), provides us and certain of our foreign subsidiaries access to a \$125,000 revolving credit facility until June 19, 2012. Borrowings may be denominated in U.S. dollars or certain other currencies. The facility is available for general corporate purposes, working capital needs, share repurchases and acquisitions. If we obtain additional indebtedness as permitted under the agreement, to the extent that any revolving loans under the Credit Agreement are then outstanding, we are required to prepay the revolving loans in an amount equal to 100% of the proceeds from the additional indebtedness. Additionally, proceeds over \$25,000 and under \$35,000 will reduce the revolver commitment on a 50% dollar for dollar basis and proceeds over \$35,000 will reduce the revolver commitment on a 100% dollar for dollar basis. The Credit Agreement limits the payment of dividends and repurchases of stock in fiscal years after 2009 to an amount ranging from \$12,000 to \$40,000 based on our leverage ratio after giving effect to such payments. The Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and to merge or consolidate with another entity.

We were in compliance with all covenants under the Credit Agreement as of March 31, 2010. There was \$25,000 in outstanding borrowings under this facility as of March 31, 2010, with a weighted average interest rate of 2.45%.

Prudential Investment Management, Inc.

On July 29, 2009, we entered into a Private Shelf Agreement (the “Shelf Agreement”) with Prudential Investment Management, Inc. (“Prudential”) and Prudential affiliates from time to time party thereto. The Shelf Agreement provides us and our subsidiaries access to an uncommitted, senior secured, maximum aggregate principal amount of \$80,000 of debt capital. The Shelf Agreement contains 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. The Shelf Agreement limits the payment of dividends or repurchases of stock in fiscal years after 2009 to an amount ranging from \$12,000 to \$40,000 based on our leverage ratio after giving effect to such payments.

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

As of March 31, 2010, there was no balance outstanding on this facility and therefore no requirement to be in compliance with the financial covenants under this facility. However, the financial covenants under this facility are the same as the financial covenants in the Credit Agreement, all of which we were in compliance with as of March 31, 2010. Should notes be issued under the Shelf Agreement, such notes will be pari passu with outstanding debt under the Credit Agreement.

ABN AMRO Bank N.V.

We have a revolving credit facility with ABN AMRO Bank N.V. (“ABN AMRO”) of 5,000 Euros, or approximately \$6,755, for general working capital purposes. Borrowings under this facility incur interest generally at a rate of 1.25% over the ABN AMRO base rate as calculated daily on the cleared account balance. This facility may also be used for short-term loans up to 3,000 Euros, or \$4,053. The terms and conditions of these loans would be incorporated in a separate short-term loan agreement at the time of the transaction. As of March 31, 2010, bank guarantees of \$939 reduced the amount available on this credit facility to \$5,816.

Bank of America, National Association

On August 17, 2009, we renewed our revolving credit facility with Bank of America, National Association, Shanghai Branch. This agreement will expire on August 28, 2010 and is denominated in renminbi (“RMB”) in the amount of 13,400 RMB, or approximately \$1,963, and is available for general corporate purposes, including working capital needs of our China location. As part of the March 4, 2009 amendment to the Credit Agreement with JPMorgan, this facility with Bank of America was secured with the same assets as noted above under the JPMorgan section. The interest rate on borrowed funds is equal to the People’s Bank of China’s base rate. This facility also allows for the issuance of standby letters of credit, performance bonds and other similar instruments over the term of the facility for a fee of 0.95% of the amount issued. There was no balance outstanding on this facility at March 31, 2010.

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 periods on machines generally range from one to four years.

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

The changes in the warranty liability balance for the three months ended March 31, 2010 and 2009 were as follows:

| | Three Months Ended March 31 | |
|-------------------------------|--------------------------------|----------|
| | 2010 | 2009 |
| Beginning balance | \$5,985 | \$6,018 |
| Additions charged to expense | 3,002 | 1,436 |
| Acquired liabilities | - | 17 |
| Foreign currency fluctuations | (69) | (68) |
| Claims paid | (2,008) | (1,868) |
| Ending balance | \$6,910 | \$5,535 |

9. Fair Value of Financial Instruments and Derivatives

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 financial assets and liabilities subject to fair value measurements at March 31, 2010 are as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 | Valuation Technique |
|---|---------------|-------------|---------------|---------------|------------------------|
| Assets: | | | | | |
| Applied Cleansing customer list | \$ 203 | \$ - | \$ - | \$ 203 | (c) |
| Total Assets | \$ 203 | \$ - | \$ - | \$ 203 | |
| Liabilities: | | | | | |
| Foreign currency forward exchange contracts | \$ 382 | \$ - | \$ 382 | \$ - | (a) |
| Total Liabilities | \$ 382 | \$ - | \$ 382 | \$ - | |

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The valuation techniques are identified in the table above and are as follows:

(a)

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

- (b) Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- (c) Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

We use derivative instruments to manage exposures to foreign currency only in an attempt to limit underlying exposures from currency fluctuations and not for trading purposes. As of March 31, 2010 and 2009, the fair values of such contracts outstanding were net losses of \$382 and \$596, respectively. Gains or losses on forward foreign exchange contracts to economically hedge foreign currency-denominated net assets and liabilities are recognized in Other Income (Expense) under Net Foreign Currency Transaction Losses within the Condensed Consolidated Statements of Operations. At March 31, 2010 and 2009, the notional amounts of foreign currency forward exchange contracts outstanding were \$50,712 and \$57,463, respectively.

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

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

The fair market value of our Long-Term Debt approximates cost, based on the borrowing rates currently available to us for bank loans with similar terms and remaining maturities.

10. Retirement Benefit Plans

As of March 31, 2010, we had four defined benefit pension plans and a postretirement medical plan, which are described in Note 11 of the 2009 Annual Report on Form 10-K. We have contributed \$59 and \$427 during the first quarter of 2010 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, 2010 and 2009 were as follows:

| | Three Months Ended March 31 | |
|---|--------------------------------|--------|
| | 2010 | 2009 |
| Pension Benefits: | | |
| Service cost | \$ 174 | \$ 201 |
| Interest cost | 568 | 593 |
| Expected return on plan assets | (622) | (734) |
| Recognized actuarial (gain) loss | 5 | (12) |
| Amortization of transition (asset) obligation | - | (5) |
| Amortization of prior service cost | 139 | 139 |
| Foreign currency | (69) | (33) |
| Net periodic benefit cost | \$ 195 | \$ 149 |
| Postretirement Medical Benefits: | | |
| Service cost | \$ 36 | \$ 36 |
| Interest cost | 193 | 207 |
| Amortization of prior service cost | (145) | (145) |
| Amortization of net actuarial (gain) loss | 37 | - |
| Net periodic benefit cost | \$ 121 | \$ 98 |

11. Comprehensive Income (Loss)

We report Accumulated Other Comprehensive Income (Loss) as a separate item in the Shareholders' Equity section of the Condensed Consolidated Balance Sheets. Comprehensive Income (Loss) is comprised of Net Earnings (Loss) and Other Comprehensive Income (Loss). For the three months ended March 31, 2010 and 2009, Other Comprehensive Income (Loss) consisted of foreign currency translation adjustments and amortization and remeasurement of pension items.

The reconciliations of Net Earnings (Loss) to Comprehensive Income (Loss) are as follows:

Three Months Ended
March 31

| | 2010 | 2009 |
|--|---------|-------------|
| Net Earnings (Loss) | \$4,091 | \$(41,746) |
| Foreign currency translation adjustments | 2,958 | (2,599) |
| Pension adjustments | (31) | (24) |
| Comprehensive Income (Loss) | \$7,018 | \$(44,369) |

12. 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, 2010,

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

of those leases that contain residual value guarantees, the aggregate residual value at lease expiration is \$8,049, of which we have guaranteed \$6,487. As of March 31, 2010, we have recorded a liability for the estimated end of term loss related to this residual value guarantee of \$759 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.

On November 9, 2009 we entered into a purchase agreement with a third-party manufacturer. Under this agreement we have a minimum purchase obligation of \$1,580 through 2012. The remaining commitment under this agreement as of March 31, 2010 was \$1,580.

13. 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 2007 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 (Benefit). Included in the net liability of \$7,210 for unrecognized tax benefits as of March 31, 2010 was approximately \$490 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, 2010 was \$4,239. 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 (Benefit).

Unrecognized tax benefits were also reduced by \$266 for expiration of statute of limitations in various jurisdictions and resolution of other tax matters during the quarter.

We are currently undergoing income tax examinations in various state and foreign jurisdictions covering 2005 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.

14. Stock-Based Compensation

The following table presents the components of stock-based compensation expense for the three months ended March 31, 2010 and 2009:

| | Three Months Ended March 31 | |
|---|--------------------------------|-------|
| | 2010 | 2009 |
| Stock options and stock appreciation rights | \$270 | \$107 |
| Restricted share awards | 185 | 194 |
| Share-based liabilities | 15 | (15) |
| Total stock-based compensation expense | \$470 | \$286 |

During the first three months of 2010 we granted 23,446 restricted shares. The weighted average grant date fair value of each share awarded was \$24.21. Restricted share awards typically have a two or three year vesting period from the effective date of grant. The total fair value of shares vested during the three months ended March 31, 2010 and 2009 was \$39 and \$133, respectively.

Table of Contents

TENNANT COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except shares and per share data)

15. Earnings (Loss) Per Share Computations

The computations of Basic and Diluted Earnings (Loss) per Share are as follows:

| | Three Months Ended March 31 | |
|---|--------------------------------|-------------|
| | 2010 | 2009 |
| Numerator: | | |
| Net Earnings (Loss) | \$4,091 | \$(41,746) |
| Denominator: | | |
| Basic - weighted average outstanding shares | 18,682,335 | 18,262,257 |
| Effect of dilutive securities: | | |
| Employee stock options | 408,088 | - |
| Diluted - weighted average outstanding shares | 19,090,423 | 18,262,257 |
| Basic Earnings (Loss) per Share | \$0.22 | \$(2.29) |
| Diluted Earnings (Loss) per Share | \$0.21 | \$(2.29) |

Excluded from the dilutive securities shown above were options to purchase 264,693 and 1,257,904 shares of Common Stock during the three months ended March 31, 2010 and 2009, 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.

16. 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.

The following table sets forth Net Sales by geographic area (net of intercompany sales):

| | Three Months Ended March 31 | |
|-----------------------------|--------------------------------|-----------|
| | 2010 | 2009 |
| Americas | \$92,684 | \$76,989 |
| Europe, Middle East, Africa | 43,006 | 41,087 |
| Asia Pacific | 14,416 | 10,571 |
| Total | \$150,106 | \$128,647 |

17. Related Party Transactions

During the first quarter of 2008, we acquired Applied Sweepers, Ltd. (“Applied Sweepers”) and Sociedade Alfa Ltda. (“Alfa”) and entered into lease agreements for certain properties owned by or partially owned by the former owners of these entities. These individuals are now current employees of Tennant. Lease payments made under these lease

agreements are not material to our financial position or results of operations.

On May 18, 2009, we announced an exclusive technology license agreement with Activeion Cleaning Solutions, LLC (“Activeion”), a company in which a current employee of Tennant owns a minority interest. Royalties under this license agreement 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, healthier world. We provide equipment, parts and consumables and specialty surface coatings to contract cleaners, end-user businesses, healthcare facilities, schools and local, state and federal governments. We sell our products through our direct sales and service organization and a network of authorized distributors worldwide. Geographically, our customers are primarily located in North America, 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. The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Net Earnings for the first quarter of 2009 were \$4.1 million, or \$0.21 per diluted share, compared to a Net Loss of \$41.7 million, or \$2.29 per diluted share, in the first quarter of 2009. Net Earnings during the 2010 first quarter were favorably impacted by increased Net Sales, driven primarily by increased equipment unit volume. Net Earnings were also favorably impacted by improved margins, driven primarily by increased productivity in our manufacturing facilities as a result of the unit volume increase in production.

Historical Results

The following compares the historical results of operations for the three month periods ended March 31, 2010 and 2009 and as a percentage of Net Sales (dollars in thousands, except per share data):

| | Three Months Ended | | | |
|---|--------------------|--------|-------------|---------|
| | 2010 | | March 31 | |
| | | % | 2009 | % |
| Net Sales | \$150,106 | 100.0 | \$128,647 | 100.0 |
| Cost of Sales | 86,346 | 57.5 | 75,922 | 59.0 |
| Gross Profit | 63,760 | 42.5 | 52,725 | 41.0 |
| Operating Expense: | | | | |
| Research and Development Expense | 5,536 | 3.7 | 5,692 | 4.4 |
| Selling and Administrative Expense | 51,730 | 34.5 | 45,460 | 35.3 |
| Goodwill Impairment Charge | - | - | 43,363 | 33.7 |
| Total Operating Expense | 57,266 | 38.2 | 94,515 | 73.5 |
| Profit (Loss) from Operations | 6,494 | 4.3 | (41,790) | (32.5) |
| Other Income (Expense): | | | | |
| Interest Income | 45 | - | 111 | 0.1 |
| Interest Expense | (433) | (0.3) | (652) | (0.5) |
| Net Foreign Currency Transaction Losses | (186) | (0.1) | (361) | (0.3) |
| ESOP Income | - | - | 243 | 0.2 |
| Other Income, Net | - | - | 20 | - |
| Total Other Expense, Net | (574) | (0.4) | (639) | (0.5) |
| Profit (Loss) Before Income Taxes | 5,920 | 3.9 | (42,429) | (33.0) |
| Income Tax Expense (Benefit) | 1,829 | 1.2 | (683) | (0.5) |
| Net Earnings (Loss) | \$4,091 | 2.7 | \$(41,746) | (32.5) |
| Earnings (Loss) per Diluted Share | \$0.21 | | \$(2.29) | |

Net Sales

Consolidated Net Sales for the first quarter of 2010 totaled \$150.1 million, a 16.7% increase compared to consolidated Net Sales of \$128.6 million in the first quarter of 2009.

Table of Contents

The components of the change in consolidated Net Sales in the first three months of 2010 as compared to the same periods in 2009 were as follows:

| | % Change from 2009 for the Three Months Ended March 31, 2010 | |
|------------------|---|---|
| Growth Elements | | |
| Organic Growth: | | |
| Volume | 12 | % |
| Price | - | |
| Organic Growth | 12 | % |
| Foreign Currency | 5 | % |
| Total | 17 | % |

The 16.7% increase in consolidated Net Sales in the first quarter of 2010 from 2009 was primarily driven by:

an organic sales increase of 12%, excluding the effects of acquisitions and foreign currency exchange, due to volume growth in equipment; and
a favorable direct foreign currency exchange impact of approximately 5%.

The following table sets forth the Net Sales by geographic area for the three month periods ended March 31, 2010 and 2009 and the percentage change from the prior year (dollars in thousands):

| | Three Months Ended March 31 | | |
|--------------------------------|--------------------------------|-----------|------|
| | 2010 | 2009 | % |
| Americas | \$92,684 | \$76,989 | 20.4 |
| Europe, Middle East and Africa | 43,006 | 41,087 | 4.7 |
| Asia Pacific | 14,416 | 10,571 | 36.4 |
| Total | \$150,106 | \$128,647 | 16.7 |

Americas

Net Sales in the Americas were \$92.7 million for the first quarter of 2010, an increase of 20.4% from the first quarter of 2009. Net Sales benefited by approximately 18% from sales volume increases, primarily scrubbers equipped with our ec-H2O™ technology. The direct impact of foreign currency translation exchange effects within the Americas favorably impacted Net Sales by approximately 2% during the first quarter of 2010.

Europe, Middle East and Africa

In our markets within Europe, the Middle East and Africa (“EMEA”), Net Sales increased 4.7% to \$43.0 million for the first quarter of 2010 as compared to the first quarter of 2009. An organic sales decline of approximately 2% in the first quarter of 2010 when compared to the same period last year was primarily due to a decline in equipment unit volumes as first quarter 2009 included two large customer orders which did not reoccur in the first quarter of 2010. Favorable direct foreign currency exchange fluctuations increased Net Sales by approximately 7% in the first quarter of 2010.

Asia Pacific

Net Sales in this market for the first quarter of 2010 totaled \$14.4 million, an increase of 36.4% as compared to the first quarter of 2009. Organic growth of approximately 18% in Net Sales was driven by growth in equipment unit volume in both the China market as well as Australia. Favorable direct foreign currency translation exchange effects increased Net Sales by approximately 18% in the 2010 first quarter.

Gross Profit

Gross Profit margin was 42.5% for the first quarter of 2010 compared with 41.0% in the first quarter of 2009. Gross margin increased by 150 basis points due to the favorable impacts of foreign currency and increased productivity in our manufacturing facilities as well as improved leverage of our fixed costs, as a result of increased unit sales in the quarter.

Table of Contents

Operating Expense

Research & Development Expense

Research and Development (“R&D”) Expense in the first quarter of 2010 was \$5.5 million as compared with \$5.7 million in the first quarter of 2009. Although R&D Expense was essentially flat, R&D Expense as a percentage of Net Sales was 3.7% for the first quarter of 2010 compared to 4.4% in the comparable quarter last year due to increased Net Sales in the first quarter of 2010.

Selling & Administrative Expense

Selling and Administrative (“S&A”) Expense in the first quarter of 2010 was \$51.7 million as compared to \$45.5 million in the first quarter of 2009. Higher incentives as a result of improved operating performance and higher variable costs stemming from higher sales increased S&A Expense as compared to the prior year first quarter. S&A Expense as a percentage of Net Sales was 34.5% for the first quarter of 2010, down from 35.3% in the comparable 2009 quarter due to increased Net Sales in the first quarter of 2010.

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.

Other Income (Expense), Net

Interest Income

Interest Income decreased \$0.1 million in the first quarter of 2010 as compared to the same period in 2009. The decrease between 2010 and 2009 mainly reflects the impact of no ESOP interest income as the ESOP loan matured on December 31, 2009.

Interest Expense

Interest Expense was \$0.4 million in the first quarter of 2010, a decrease of \$0.2 million from 2009. The decline in interest expense between periods was primarily due to a lower level of borrowings against our revolving credit facility.

Net Foreign Currency Transaction Losses

Net foreign currency losses in the first quarter of 2010 were \$0.2 million, a decrease of \$0.2 million as compared to the same period in the prior year. The net favorable change from the prior year of foreign currency losses in the first quarter of 2010 was due to fluctuations in foreign currency rates in the normal course of business.

ESOP Income

There was no ESOP Income in the first quarter of 2010 as compared to \$0.2 million in the first quarter of 2009. On December 31, 2009, the term for this ESOP program expired.

Other Income (Expense), Net

There was no significant change in Other Expense, Net in the first quarter of 2010 as compared to the same period in 2009.

Income Taxes

In the 2010 first quarter, the overall effective tax rate was 30.9 percent. Our base tax rate, which excludes discrete tax items, was 36.1 percent and we had discrete net favorable tax items of about \$0.3 million. Our base tax rate does not yet 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. Our base tax rate in any given year can change based on the mix of earnings by country.

The effective tax rate in the first quarter of the prior year was negative 1.6%. The tax expense for the prior year first quarter included a \$1.1 million tax benefit associated with the \$43.4 million impairment of goodwill, materially impacting the overall effective tax rate. Excluding the tax benefit associated with the goodwill impairment, the prior year first quarter effective tax rate would have been 41.9%.

The decrease in the effective tax rate as compared to the first quarter of the prior year, excluding the tax benefit associated with the goodwill impairment, was primarily related to the mix in expected full year taxable earnings by country, expiration of statute of limitations in various jurisdictions and resolution of other tax matters during the quarter.

Table of Contents

Liquidity and Capital Resources

Liquidity

Cash and Cash Equivalents totaled \$27.3 million at March 31, 2010, compared to \$18.1 million at December 31, 2009. We believe that the combination of internally generated funds and present capital resources are more than sufficient to meet our cash requirements for the next twelve months. Our debt-to-capital ratio was 15.2% and 15.7% at March 31, 2010 and December 31, 2009, respectively.

Cash Flow Summary

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

| | Three Months Ended March 31 | |
|--|--------------------------------|------------|
| | 2010 | 2009 |
| Operating Activities | \$ 14,101 | \$ 11,322 |
| Investing Activities: | | |
| Purchases of Property, Plant and Equipment, Net of Disposals | (1,778) | (3,710) |
| Acquisitions of Businesses, Net of Cash Acquired | 26 | (2,295) |
| Financing Activities | (2,669) | (7,627) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (469) | (276) |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$9,211 | \$(2,586) |

Operating Activities

Operating activities provided \$14.1 million of cash for the three months ended March 31, 2010. Cash provided by operating activities was driven primarily by reductions in receivables and \$4.1 million of Net Earnings during the quarter, partially offset by increased use of cash for payments of Employee Compensation and Benefit liabilities.

Operating activities provided \$11.3 million of cash for the three months ended March 31, 2009. Cash provided by operating activities was driven primarily by reductions in receivables during the quarter, partially offset by increased accrued expenses.

Management evaluates how effectively we utilize two of our key operating assets, receivables 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, 2010 | December 31, 2009 | March 31, 2009 |
|------|----------------|----------------------|----------------|
| DSO | 67 | 67 | 75 |
| DIOH | 93 | 87 | 121 |

As of March 31, 2010, DSO decreased 8 days as compared to March 31, 2009 due to increased Net Sales as well as our continued focus on proactively managing receivables by enforcing tighter credit limits and collecting past due balances. As of March 31, 2010, there was no change in DSO as compared to December 31, 2009.

As of March 31, 2010, DIOH decreased 28 days compared to March 31, 2009 due to increased Net Sales in the first quarter of 2010 as compared to the first quarter of 2009 as well as a lower inventory balance due to our inventory reduction initiatives. As of March 31, 2010, DIOH increased 6 days compared to December 31, 2009, primarily due to slightly higher inventory and lower Net Sales in the first quarter of 2010 as compared to the fourth quarter of 2009.

Investing Activities

Investing activities during the three months ended March 31, 2010 used \$1.8 million in cash. Investing activities included net capital expenditures of \$1.8 million. Investments in capital expenditures included technology upgrades, tooling related to new product development, and manufacturing equipment.

Table of Contents

Investing activities during the three months ended March 31, 2009 used \$6.0 million in cash. Investing activities included net capital expenditures of \$3.7 million and \$2.3 million related to acquisition of businesses. Investments in capital expenditures included technology upgrades, tooling related to new product development and investments in our Minnesota facilities to complete the new global R&D center of excellence to support new product innovation efforts. The \$2.3 million related to acquisitions was primarily comprised of the earn-out payment for our February 29, 2008 acquisition of Alfa.

Financing Activities

Net cash used by financing activities was \$2.7 million during the first three months of 2010, primarily from \$2.6 million in dividend payments and a \$1.1 million repayment of Long-Term Debt, partially offset by \$0.9 from the issuance of common stock and a \$0.1 tax benefit on stock plans.

Net cash used by financing activities was \$7.6 million during the first three months of 2009, primarily from repayments of Long-Term Debt of \$5.1 million and \$2.4 million in dividends paid.

Indebtedness

As of March 31, 2010, we had committed lines of credit totaling \$133.9 million and uncommitted lines of credit totaling \$80.0 million. There was \$25.0 million in outstanding borrowings under our JPMorgan facility and no borrowings under any other facilities as of March 31, 2010. In addition, we had stand alone letters of credit of \$1.9 million outstanding and bank guarantees in the amount of \$0.9 million. Commitment fees on unused lines of credit for the three months ended March 31, 2010 were \$0.1 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 3.50 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, 2010, our indebtedness to EBITDA ratio was 0.76 to 1 and our EBITDA to interest expense ratio was 18.32 to 1.

JPMorgan Chase Bank, National Association

Our June 19, 2007 Credit Agreement (the "Credit Agreement"), as amended from time to time, with our bank group led by JPMorgan Chase Bank, National Association ("JPMorgan"), provides us and certain of our foreign subsidiaries access to a \$125.0 million revolving credit facility until June 19, 2012. Borrowings may be denominated in U.S. dollars or certain other currencies. The facility is available for general corporate purposes, working capital needs, share repurchases and acquisitions. If we obtain additional indebtedness as permitted under the agreement, to the extent that any revolving loans under the Credit Agreement are then outstanding we are required to prepay the revolving loans in an amount equal to 100% of the proceeds from the additional indebtedness. Additionally, proceeds over \$25.0 million and under \$35.0 million will reduce the revolver commitment on a 50% dollar for dollar basis and proceeds over \$35.0 million will reduce the revolver commitment on a 100% dollar for dollar basis. The Credit Agreement limits the payment of dividends and repurchases of stock in fiscal years after 2009 to an amount ranging from \$12.0 million to \$40.0 million based on our leverage ratio after giving effect to such payments. The Credit Agreement contains customary representations, warranties and covenants, including but not limited to covenants restricting our ability to incur indebtedness and liens and to merge or consolidate with another entity.

As of March 31, 2010 we were in compliance with all covenants under the Credit Agreement. There was \$25.0 million in outstanding borrowings under this facility at March 31, 2010, with a weighted average interest rate of 2.45%.

Prudential Investment Management, Inc.

On July 29, 2009, we entered into a Private Shelf Agreement (the “Shelf Agreement”) with Prudential Investment Management, Inc. (“Prudential”) and Prudential affiliates from time to time party thereto. The Shelf Agreement provides us and our subsidiaries access to an uncommitted, senior secured, maximum aggregate principal amount of \$80.0 million of debt capital. The Shelf Agreement contains 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. The Shelf Agreement limits the payment of dividends or repurchases of stock in fiscal years after 2009 to an amount ranging from \$12.0 million to \$40.0 million based on our leverage ratio after giving effect to such payments.

As of March 31, 2010, there was no balance outstanding on this facility and therefore no requirement to be in compliance with the financial covenants under this facility. However, the financial covenants under this facility are the same as the financial covenants in the Credit Agreement, all of which we were in compliance with as of March 31, 2010. Should notes be issued under the Shelf Agreement, such notes will be pari passu with outstanding debt under the Credit Agreement.

Table of Contents

ABN AMRO Bank N.V.

We have a revolving credit facility with ABN AMRO Bank N.V. (“ABN AMRO”) of 5.0 million Euros, or approximately \$6.8 million, for general working capital purposes. Borrowings under this facility incur interest generally at a rate of 1.25% over the ABN AMRO base rate as calculated daily on the cleared account balance. This facility may also be used for short-term loans up to 3.0 million Euros, or \$4.1 million. The terms and conditions of these loans would be incorporated in a separate short-term loan agreement at the time of the transaction. As of March 31, 2010, bank guarantees of \$0.9 million reduced the amount available on this credit facility to \$5.8 million.

Bank of America, National Association

On August 17, 2009, we renewed our revolving credit facility with Bank of America, National Association, Shanghai Branch. This agreement will expire on August 28, 2010 and is denominated in renminbi (“RMB”) in the amount of 13.4 million RMB, or approximately \$2.0 million, and is available for general corporate purposes, including working capital needs of our China location. As part of the March 4, 2009 amendment to the Credit Agreement with JPMorgan, this facility with Bank of America was secured with the same assets as noted above under the JPMorgan section. The interest rate on borrowed funds is equal to the People’s Bank of China’s base rate. This facility also allows for the issuance of standby letters of credit, performance bonds and other similar instruments over the term of the facility for a fee of 0.95% of the amount issued. There was no balance outstanding on this facility at March 31, 2010.

Contractual Obligations

There have been no material changes with respect to contractual obligations as disclosed in our 2009 Annual Report on Form 10-K.

Newly Issued Accounting Guidance

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued new guidance that sets forth the requirement that must be met for an entity to recognize revenue for the sale of a delivered item that is part of a multiple-element arrangement when other elements have not yet been delivered. The new guidance is effective for fiscal years beginning on or after June 15, 2010 and therefore we will adopt this guidance on January 1, 2011. We are currently evaluating the impact the adoption of the new guidance will have on our Consolidated Financial Statements.

Fair Value Measurements and Disclosures

In January 2010, the Financial Accounting Standards Board (“FASB”) updated the disclosure requirements for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which are effective for fiscal years beginning after December 15, 2010. We will adopt the remaining guidance on January 1, 2011. The adoption of the required guidance did not have an impact on our financial position, results of operations, or disclosures. We do not expect that the adoption of the remaining guidance will have an impact on our financial position, results of operations, or disclosures.

Cautionary Statement Relevant to Forward-Looking Information

Certain statements contained in this document as well as other written and oral statements made by us from time to time are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate to strictly historical or current facts and provide current expectations or forecasts of future events. Any such expectations or forecasts of future events are subject to a variety of factors.

We caution that forward-looking statements must be considered carefully and that actual results may differ in material ways due to risks and uncertainties both known and unknown. Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Table of Contents

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

For additional information about factors that could materially affect Tennant's results, please see our other Securities and Exchange Commission filings, including the "Risk Factors" section of our 2009 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk since December 31, 2009. For additional information, refer to Item 7A of our 2009 Annual Report on Form 10-K.

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, 2010 (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 Control

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.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in our legal proceedings from those disclosed in our 2009 Annual Report on Form 10-K.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 10-K.

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

On May 3, 2007, the Board of Directors authorized the repurchase of 1,000,000 shares of our common stock. Share repurchases are made from time to time in the open market or through privately negotiated transactions, primarily to offset the dilutive effect of shares issued through our stock-based compensation programs. Our March 4, 2009 amendment to our Credit Agreement limits the payment of dividends and repurchases of stock in fiscal years 2010 to 2012 to an amount ranging from \$12.0 million to \$40.0 million based on our leverage ratio after giving effect to such payments.

| For the Quarter Ended | Total Number of Shares | Average Price | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased |
|-----------------------|---------------------------|----------------|---|--|
| March 31, 2010 | Purchased (1) | Paid Per Share | | |
| January 1 - 31, 2010 | 11 | \$ 27.53 | - | 288,874 |
| February 1 - 28, 2010 | - | - | - | 288,874 |
| March 1 - 31, 2010 | 856 | 25.50 | - | 288,874 |
| Total | 867 | \$ 25.52 | - | 288,874 |

(1) Includes 867 shares delivered or attested to in satisfaction of the exercise price and/or withholding obligations by employees who exercised stock options or restricted stock under employee 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 Annual Report on Form 10-K for the year ended December 31, 2006. |
| 3iii | Amended and Restated By-Laws | Incorporated by reference to Exhibit 4(c) to the Company's Registration Statement on Form S-3, Registration No. 333-160887 filed on July 30, 2009. |
| 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. |

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 28, 2010

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

Date: April 28, 2010

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

