TENNANT CO
Form 10-Q
April 28, 2011

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

FORM 10-Q

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes üNo

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	ü
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	

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

As of April 20, 2011, there were 19,142,889 shares of Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except shares and per share data)	Three Months Ended March 31	
	2011	2010
Net Sales	$172,591	$150,106
Cost of Sales	100,660	86,346
Gross Profit	71,931	63,760
Operating Expense:		
Research and Development Expense	6,280	5,536
Selling and Administrative Expense	57,459	51,730
Total Operating Expense	63,739	57,266
Profit from Operations	8,192	6,494
Other Income (Expense):		
Interest Income	68	45
Interest Expense	(415)	(433)
Net Foreign Currency Transaction Gains (Losses)	527	(186)
Other Income, Net	31	-
Total Other Income (Expense), Net	211	(574)
Profit Before Income Taxes	8,403	5,920
Income Tax Expense	2,537	1,829
Net Earnings	$5,866	$4,091
Earnings per Share:		
Basic	$0.31	$0.22
Diluted	$0.30	$0.21
Weighted Average Shares Outstanding:		
Basic	18,963,177	18,682,335
Diluted	19,556,036	19,090,423
Cash Dividend Declared per Common Share	$0.17	$0.14

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TENNANT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except shares and per share data)	March 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 38,919	$ 39,529
Accounts Receivable, less Allowances of $4,582 and $4,311, respectively	131,067	127,542
Inventories	66,704	61,746
Prepaid Expenses	13,343	7,993
Deferred Income Taxes, Current Portion	9,733	11,459
Other Current Assets	28	-
Total Current Assets	259,794	248,269
Property, Plant and Equipment	285,402	287,751
Accumulated Depreciation	(200,542)	(200,123)
Property, Plant and Equipment, Net	84,860	87,628
Deferred Income Taxes, Long-Term Portion	14,004	14,182
Goodwill	20,575	20,423
Intangible Assets, Net	25,422	25,339
Other Assets	7,440	7,827
Total Assets	$ 412,095	$ 403,668
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current Liabilities:		
Current Portion of Long-Term Debt	$ 3,235	$ 3,154
Accounts Payable	45,711	40,498
Employee Compensation and Benefits	22,539	31,281
Income Taxes Payable	480	509
Other Current Liabilities	35,520	40,702
Total Current Liabilities	107,485	116,144
Long-Term Liabilities:		
Long-Term Debt	37,087	27,674
Employee-Related Benefits	33,242	33,898
Deferred Income Taxes, Long-Term Portion	4,488	4,525
Other Liabilities	5,425	5,294
Total Long-Term Liabilities	80,242	71,391
Total Liabilities	187,727	187,535
Commitments and Contingencies (Note 11)		
Shareholders' Equity:		
Preferred Stock, $0.02 par value; 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common Stock, $0.375 par value; 60,000,000 shares authorized; 19,143,651 and 19,038,843 shares issued and outstanding, respectively	7,178	7,140
Additional Paid-In Capital	11,199	10,876
Retained Earnings	225,147	220,391
Accumulated Other Comprehensive Loss	(19,156)	(22,274)

Total Shareholders' Equity		224,368		216,133
Total Liabilities and Shareholders' Equity	$	412,095	$	403,668

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31 2011	2010
OPERATING ACTIVITIES		
Net Earnings	$5,866	$4,091
Adjustments to reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	4,391	4,586
Amortization	832	792
Deferred Income Taxes	2,071	(634)
Stock-Based Compensation Expense	1,299	671
Allowance for Doubtful Accounts and Returns	329	512
Other, Net	(6)	202
Changes in Operating Assets and Liabilities, Excluding the Impact of Acquisitions:		
Accounts Receivable	(3,943)	8,966
Inventories	(3,425)	(3,066)
Accounts Payable	5,199	995
Employee Compensation and Benefits	(9,436)	(7,675)
Other Current Liabilities	(4,999)	1,648
Income Taxes	(3,075)	2,741
Other Assets and Liabilities	(2,350)	272
Net Cash (Used for) Provided by Operating Activities	(7,247)	14,101
INVESTING ACTIVITIES		
Purchases of Property, Plant and Equipment	(1,634)	(1,819)
Proceeds from Disposals of Property, Plant and Equipment	175	41
Acquisition of Businesses, Net of Cash Acquired	-	26
Net Cash Used for Investing Activities	(1,459)	(1,752)
FINANCING ACTIVITIES		
Payment of Long-Term Debt	(934)	(1,089)
Issuance of Long-Term Debt	10,000	-
Proceeds from Issuance of Common Stock	1,393	913
Tax Benefit on Stock Plans	377	139
Dividends Paid	(3,244)	(2,632)
Net Cash Provided by (Used for) Financing Activities	7,592	(2,669)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	504	(469)
Net (Decrease) Increase in Cash and Cash Equivalents	(610)	9,211
Cash and Cash Equivalents at Beginning of Period	39,529	18,062
Cash and Cash Equivalents at End of Period	$38,919	$27,273
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid (Received) During the Period for:		
Income Taxes	$2,865	$(260)
Interest	$365	$416
Supplemental Non-cash Investing and Financing Activities:		
Capital Expenditures Funded Through Capital Leases	$542	$1,066
Collateralized Borrowings Incurred for Operating Lease Equipment	$345	$1,075

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

1. Basis of Presentation

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

These statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our annual report on Form 10-K for the year ended December 31, 2010. 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 Guidance

Intangibles – Goodwill and Other

In December 2010, the Financial Accounting Standards Board (“FASB”) issued amended guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. We adopted the modified guidance on January 1, 2011. The adoption of the modified guidance did not have an impact on our financial position or results of operations.

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued new guidance that sets forth the requirements 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. We adopted the new guidance on January 1, 2011. The adoption of the new guidance did not have a material impact on our financial position or results of operations.

Business Combinations

In December 2010, the FASB updated guidance to clarify the acquisition date that should be used for reporting the pro forma financial information disclosures when comparative financial statements are presented. We adopted the updated guidance on January 1, 2011. The adoption of the updated guidance did not have an impact on our financial statement disclosures.

Fair Value Measurements and Disclosures

In January 2010, the 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 we adopted on January 1, 2011. The adoption of the updated guidance did not have an impact on our financial statement disclosures.

3. Management Actions

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

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

	Severance, Early Retirement and Related Costs
2010 restructuring action	$ 1,671
Cash payments	(87)