

TENNANT CO
Form 10-Q
October 29, 2014
Table of Contents

UNITED STATES OF AMERICA
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 September 30, 2014

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 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
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

As of October 15, 2014, there were 18,400,228 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	Page
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Earnings</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>1. Basis of Presentation</u>	<u>7</u>
<u>2. Newly Adopted Accounting Pronouncements</u>	<u>7</u>
<u>3. Management Actions</u>	<u>7</u>
<u>4. Acquisitions and Divestitures</u>	<u>8</u>
<u>5. Inventories</u>	<u>9</u>
<u>6. Goodwill and Intangible Assets</u>	<u>9</u>
<u>7. Debt</u>	<u>10</u>
<u>8. Warranty</u>	<u>11</u>
<u>9. Fair Value Measurements</u>	<u>11</u>
<u>10. Retirement Benefit Plans</u>	<u>12</u>
<u>11. Commitments and Contingencies</u>	<u>13</u>
<u>12. Accumulated Other Comprehensive Loss</u>	<u>13</u>
<u>13. Income Taxes</u>	<u>14</u>
<u>14. Share-Based Compensation</u>	<u>14</u>
<u>15. Earnings Per Share</u>	<u>14</u>
<u>16. Segment Reporting</u>	<u>15</u>
<u>17. Related Party Transactions</u>	<u>15</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>22</u>
Item 4. <u>Controls and Procedures</u>	<u>23</u>
PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>23</u>
Item 1A. <u>Risk Factors</u>	<u>23</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>23</u>
Item 6. <u>Exhibits</u>	<u>24</u>
<u>Signatures</u>	<u>25</u>

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

TENNANT COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except shares and per share data)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Net Sales	\$202,643	\$188,541	\$605,706	\$556,871
Cost of Sales	115,480	106,679	346,363	314,745
Gross Profit	87,163	81,862	259,343	242,126
Operating Expense:				
Research and Development Expense	6,844	7,970	21,976	23,309
Selling and Administrative Expense	63,215	57,663	187,885	174,083
Total Operating Expense	70,059	65,633	209,861	197,392
Profit from Operations	17,104	16,229	49,482	44,734
Other Income (Expense):				
Interest Income	84	67	254	295
Interest Expense	(396)	(440)	(1,301)	(1,318)
Net Foreign Currency Transaction Losses	(276)	(303)	(156)	(1,046)
Other Expense, Net	(162)	(157)	(282)	(238)
Total Other Expense, Net	(750)	(833)	(1,485)	(2,307)
Profit Before Income Taxes	16,354	15,396	47,997	42,427
Income Tax Expense	4,562	4,779	14,887	12,497
Net Earnings	\$11,792	\$10,617	\$33,110	\$29,930
Earnings per Share:				
Basic	\$0.65	\$0.58	\$1.82	\$1.64
Diluted	\$0.63	\$0.56	\$1.77	\$1.59
Weighted Average Shares Outstanding:				
Basic	18,120,729	18,267,828	18,201,291	18,288,083
Diluted	18,635,287	18,811,638	18,727,818	18,823,745
Cash Dividend Declared per Common Share	\$0.20	\$0.18	\$0.58	\$0.54

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Net Earnings	\$11,792	\$10,617	\$33,110	\$29,930
Other Comprehensive Income (Loss):				
Foreign currency translation adjustments	(6,963	) 2,696	(5,112	) (1,221
Pension and retiree medical benefits	46	4	138	921
Income Taxes:				
Foreign currency translation adjustments	(6	) (1	) 7	(8
Pension and retiree medical benefits	(17	) 89	(51	) 86
Total Other Comprehensive Income (Loss), net of tax	(6,940	) 2,788	(5,018	) (222
Comprehensive Income	\$4,852	\$13,405	\$28,092	\$29,708

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TENNANT COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In thousands, except shares and per share data)	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$79,784	\$80,984
Restricted Cash	395	393
Accounts Receivable, less Allowances of \$5,008 and \$4,526, respectively	141,771	140,182
Inventories	83,964	66,906
Prepaid Expenses	13,473	11,426
Deferred Income Taxes, Current Portion	8,200	13,723
Other Current Assets	1,658	1,682
Total Current Assets	329,245	315,296
Property, Plant and Equipment	311,704	300,906
Accumulated Depreciation	(226,513	) (217,430
Property, Plant and Equipment, Net	85,191	83,476
Deferred Income Taxes, Long-Term Portion	6,072	2,423
Goodwill	18,725	18,929
Intangible Assets, Net	16,680	19,028
Other Assets	15,337	17,154
Total Assets	\$471,250	\$456,306
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-Term Borrowings and Current Portion of Long-Term Debt	\$3,717	\$3,803
Accounts Payable	57,896	53,079
Employee Compensation and Benefits	33,549	29,756
Income Taxes Payable	1,140	812
Other Current Liabilities	43,209	44,076
Total Current Liabilities	139,511	131,526
Long-Term Liabilities:		
Long-Term Debt	24,450	28,000
Employee-Related Benefits	24,407	25,173
Deferred Income Taxes, Long-Term Portion	4,553	2,870
Other Liabilities	4,961	4,891
Total Long-Term Liabilities	58,371	60,934
Total Liabilities	197,882	192,460
Commitments and Contingencies (Note 11)		
Shareholders' Equity:		
Preferred Stock, \$0.02 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, \$0.375 par value; 60,000,000 shares authorized; 18,408,026 and 18,491,524 shares issued and outstanding, respectively	6,903	6,934
Additional Paid-In Capital	24,271	31,956
Retained Earnings	272,183	249,927
Accumulated Other Comprehensive Loss	(29,989	) (24,971
Total Shareholders' Equity	273,368	263,846
Total Liabilities and Shareholders' Equity	\$471,250	\$456,306

See accompanying Notes to the Condensed Consolidated Financial Statements.

5

Table of Contents

TENNANT COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(In thousands)	Nine Months Ended	
	September 30 2014	2013
OPERATING ACTIVITIES		
Net Earnings	\$33,110	\$29,930
Adjustments to reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	13,186	13,178
Amortization	1,812	1,914
Deferred Income Taxes	3,136	(4
Share-Based Compensation Expense	5,261	5,106