TENNANT CO
Form 10-Q
August 01, 2018
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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 June 30, 2018

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.
YesüNo

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).
YesüNo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 |
| Emerging growth company | | |

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 25, 2018, there were 18,073,980 shares of Common Stock outstanding.

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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 June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net Sales | $292,197 | $270,791 | $565,044 | $461,850 |
| Cost of Sales | 173,398 | 166,237 | 335,608 | 277,560 |
| Gross Profit | 118,799 | 104,554 | 229,436 | 184,290 |
| | | | | |
| Operating Expense: | | | | |
| Research and Development Expense | 7,906 | 7,886 | 15,902 | 16,332 |
| Selling and Administrative Expense | 91,864 | 87,326 | 184,133 | 161,282 |
| Total Operating Expense | 99,770 | 95,212 | 200,035 | 177,614 |
| Profit from Operations | 19,029 | 9,342 | 29,401 | 6,676 |
| | | | | |
| Other Income (Expense): | | | | |
| Interest Income | 952 | 793 | 1,701 | 877 |
| Interest Expense | (6,005) | (11,833) | (11,750) | (12,627) |
| Net Foreign Currency Transaction Losses | (337) | (336) | (1,086) | (1,533) |
| Other Expense, Net | (510) | (384) | (760) | (352) |
| Total Other Expense, Net | (5,900) | (11,760) | (11,895) | (13,635) |
| | | | | |
| Profit (Loss) Before Income Taxes | 13,129 | (2,418) | 17,506 | (6,959) |
| Income Tax Expense (Benefit) | 363 | 238 | 1,440 | (346) |
| Net Earnings (Loss) Including Noncontrolling Interest | 12,766 | (2,656) | 16,066 | (6,613) |
| Net Earnings (Loss) Attributable to Noncontrolling Interest | 22 | (65) | 48 | (65) |
| Net Earnings (Loss) Attributable to Tennant Company | $12,744 | $(2,591) | $16,018 | $(6,548) |
| | | | | |
| Net Earnings (Loss) Attributable to Tennant Company per Share: | | | | |
| Basic | $0.71 | $(0.15) | $0.90 | $(0.37) |
| Diluted | $0.69 | $(0.15) | $0.88 | $(0.37) |
| | | | | |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 17,943,450 | 17,693,102 | 17,867,641 | 17,645,090 |
| Diluted | 18,371,538 | 17,693,102 | 18,303,960 | 17,645,090 |
| | | | | |
| Cash Dividend Declared per Common Share | $0.21 | $0.21 | $0.42 | $0.42 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

| (In thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net Earnings (Loss) Including Noncontrolling Interest | $12,766 | $(2,656) | $16,066 | $(6,613) |
| Other Comprehensive (Loss) Income: | | | | |
| Foreign currency translation adjustments | (19,473) | 13,640 | (11,092) | 16,040 |
| Pension and retiree medical benefits | 11 | 152 | 93 | 162 |
| Cash flow hedge | 1,376 | (4,506) | (1,339) | (4,579) |
| Income Taxes: | | | | |
| Foreign currency translation adjustments | 261 | — | 244 | — |
| Pension and retiree medical benefits | (3) | (4) | (154) | (22) |
| Cash flow hedge | (319) | 1,681 | (820) | 1,708 |
| Total Other Comprehensive (Loss) Income, net of tax | (18,147) | 10,963 | (13,068) | 13,309 |
| Total Comprehensive (Loss) Income Including Noncontrolling Interest | (5,381) | 8,307 | 2,998 | 6,696 |
| Comprehensive Income (Loss) Attributable to Noncontrolling Interest | 22 | (65) | 48 | (65) |
| Comprehensive (Loss) Income Attributable to Tennant Company | $(5,403) | $8,372 | $2,950 | $6,761 |

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) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $53,901 | $58,398 |
| Restricted Cash | 543 | 653 |
| Accounts Receivable, less Allowances of $2,655 and $3,241, respectively | 215,323 | 209,516 |
| Inventories | 139,406 | 127,694 |
| Prepaid Expenses | 27,382 | 19,351 |
| Other Current Assets | 8,707 | 7,503 |
| Total Current Assets | 445,262 | 423,115 |
| Property, Plant and Equipment | 381,607 | 382,768 |
| Accumulated Depreciation | (212,625 ) | (202,750 ) |
| Property, Plant and Equipment, Net | 168,982 | 180,018 |
| Deferred Income Taxes | 13,721 | 11,134 |
| Goodwill | 185,715 | 186,044 |
| Intangible Assets, Net | 157,674 | 172,347 |
| Other Assets | 14,730 | 21,319 |
| Total Assets | $986,084 | $993,977 |
| LIABILITIES AND TOTAL EQUITY | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | $30,969 | $30,883 |
| Accounts Payable | 103,602 | 96,082 |
| Employee Compensation and Benefits | 41,289 | 37,257 |
| Income Taxes Payable | 2,809 | 2,838 |
| Other Current Liabilities | 66,753 | 69,447 |
| Total Current Liabilities | 245,422 | 236,507 |
| Long-Term Liabilities: | | |
| Long-Term Debt | 328,699 | 345,956 |
| Employee-Related Benefits | 22,583 | 23,867 |
| Deferred Income Taxes | 50,444 | 53,225 |
| Other Liabilities | 36,739 | 35,948 |
| Total Long-Term Liabilities | 438,465 | 458,996 |
| Total Liabilities | 683,887 | 695,503 |
| Commitments and Contingencies (Note 13) | | |
| Equity: | | |
| Common Stock, $0.375 par value; 60,000,000 shares authorized; 18,073,713 and 17,881,177 shares issued and outstanding, respectively | 6,778 | 6,705 |
| Additional Paid-In Capital | 22,273 | 15,089 |
| Retained Earnings | 306,667 | 297,032 |
| Accumulated Other Comprehensive Loss | (35,391 ) | (22,323 ) |
| Total Tennant Company Shareholders' Equity | 300,327 | 296,503 |
| Noncontrolling Interest | 1,870 | 1,971 |
| Total Equity | 302,197 | 298,474 |
| Total Liabilities and Total Equity | $986,084 | $993,977 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| (In thousands) | Six Months Ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net Earnings (Loss) Including Noncontrolling Interest | $16,066 | $(6,613) |
| Adjustments to Reconcile Net Earnings (Loss) to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation | 16,340 | 11,043 |
| Amortization of Intangible Assets | 11,657 | 3,780 |
| Amortization of Debt Issuance Costs | 1,307 | 466 |
| Debt Issuance Cost Charges Related to Short-Term Financing | — | 6,200 |
| Fair Value Step-Up Adjustment to Acquired Inventory | — | 6,199 |
| Deferred Income Taxes | (7,857) | (6,032) |
| Share-Based Compensation Expense | 4,115 | 3,622 |
| Allowance for Doubtful Accounts and Returns | 940 | 697 |
| Other, Net | 280 | 64 |
| Changes in Operating Assets and Liabilities, Net of Assets Acquired: | | |
| Receivables, Net | (6,832) | (6,016) |
| Inventories | (17,039) | (9,854) |
| Accounts Payable | 9,827 | 6,190 |
| Employee Compensation and Benefits | 4,075 | (8,262) |
| Other Current Liabilities | (3,772) | 5,252 |
| Income Taxes | (973) | (1,617) |
| Other Assets and Liabilities | (2,170) | (7,614) |
| Net Cash Provided by (Used in) Operating Activities | 25,964 | (2,495) |
| INVESTING ACTIVITIES | | |
| Purchases of Property, Plant and Equipment | (7,726) | (9,145) |
| Proceeds from Disposals of Property, Plant and Equipment | 102 | 2,428 |
| Proceeds from Principal Payments Received on Long-Term Note Receivable | 706 | — |
| Issuance of Long-Term Note Receivable | — | (1,500) |
| Acquisition of Businesses, Net of Cash, Cash Equivalents and Restricted Cash Acquired | — | (353,535) |
| Purchase of Intangible Assets | (1,195) | (2,500) |
| Net Cash Used in Investing Activities | (8,113) | (364,252) |
| FINANCING ACTIVITIES | | |
| Proceeds from Short-Term Debt | — | 300,000 |
| Repayments of Short-Term Debt | — | (300,000) |
| Proceeds from Issuance of Long-Term Debt | — | 440,000 |
| Payments of Long-Term Debt | (18,133) | (58,471) |
| Payments of Debt Issuance Costs | — | (16,039) |
| Change in Capital Lease Obligations | 59 | — |
| Proceeds from Issuance of Common Stock | 3,724 | 3,843 |
| Dividends Paid | (7,553) | (7,463) |
| Net Cash (Used in) Provided by Financing Activities | (21,903) | 361,870 |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash | (555) | 875 |
| Net Decrease in Cash, Cash Equivalents and Restricted Cash | (4,607) | (4,002) |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period | 59,051 | 58,550 |

| | | |
|---|---|---|
| Cash, Cash Equivalents and Restricted Cash at End of Period | $54,444 | $54,548 |

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| | | |
|---|---|---|
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid for Income Taxes | $5,725 | $4,851 |
| Cash Paid for Interest | $10,230 | $2,463 |
| Supplemental Non-cash Investing and Financing Activities: | | |
| Capital Expenditures in Accounts Payable | $1,393 | $1,440 |
| Debt Issuance Costs Not Yet Paid, Recorded in Accounts Payable | $— | $417 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

1. Summary of Significant Accounting Policies

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, 2017. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition – Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products and services. Generally, these criteria are met at the time the product is shipped.

We also enter into contracts that can include combinations of products and services, which are generally capable of being distinct and are accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities. Further details regarding revenue recognition are discussed in Notes 2 and 3.

New Accounting Pronouncements – Further details regarding the adoption of new accounting standards are discussed in Note 2.

We documented the summary of significant accounting policies in the Notes to the Consolidated Financial Statements of our annual report on Form 10-K for the fiscal year ended December 31, 2017. Other than the accounting policies noted above, there have been no material changes to our accounting policies since the filing of that report.

2. Newly Adopted Accounting Pronouncements

Revenue from Contracts with Customers

On January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all the related amendments ("new revenue standard") to all contracts not completed at the date of initial application using the modified retrospective method. The cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings was not material to the company. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods, and there are no material differences between the reported results under the new revenue standard and those that would have been reported under legacy US GAAP.

The new revenue standard also required us to record a refund liability and a corresponding asset for our right to recover products from customers upon settling the refund liability to account for the transfer of products with a right of return. The impact of this provision of the new revenue standard is immaterial to our financial statements. The new revenue standard also provided additional clarity that resulted in a reclassification from Accounts Receivable to Other Current Liabilities to reflect a change in the presentation of our sales return reserves on the balance sheet, which were previously recorded net of Accounts Receivable. Provisions for estimated sales returns will continue to be recorded at the time the related revenue is recognized.

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The reclassification from Accounts Receivable to Other Current Liabilities in accordance with the detail described above impacted the Condensed Consolidated Balance Sheet as of June 30, 2018, as follows (in thousands):

| | As Reported | Balances Without Adoption of ASC 606 | Effect of Change Higher/(Lower) |
|---|---|---|---|
| ASSETS | | | |
| Accounts Receivable | $215,323 | $214,175 | $ 1,148 |
| Total Current Assets | 445,262 | 444,114 | 1,148 |
| Total Assets | $986,084 | $984,936 | $ 1,148 |
| LIABILITIES | | | |
| Other Current Liabilities | $66,753 | $65,605 | $ 1,148 |
| Total Current Liabilities | 245,422 | 244,274 | 1,148 |
| Total Liabilities | $683,887 | $682,739 | $ 1,148 |

For additional disclosures regarding the new revenue standard, see Note 3.

Intra-Entity Transfers of Assets Other than Inventory

On January 1, 2018, we adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The ASU requires the tax effects of all intra-entity sales of assets other than inventory to be recognized in the period in which the transaction occurs. The adoption of this ASU resulted in a $94 cumulative effect adjustment recorded in Retained Earnings as of the beginning of 2018 that reflects a $1,281 reduction in a long-term deferred charge, mostly offset by the establishment of a deferred tax asset of $1,187. The reduction in the long-term asset and establishment of the deferred tax asset impacted Other Assets and Deferred Income Taxes, respectively, on our Condensed Consolidated Balance Sheets.

Statement of Cash Flows – Restricted Cash

On January 1, 2018, we adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires companies to explain the changes in the combined total of restricted and unrestricted balances in the Condensed Consolidated Statements of cash flows. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the Condensed Consolidated Statements of Cash Flows. In accordance with the ASU, we adopted the standard on a retrospective basis to all periods presented.

The following table provides a reconciliation of Cash and Cash Equivalents and Restricted Cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same amounts shown in the Condensed Consolidated Statements of Cash Flows (in thousands):

| | June 30, 2018 |
|---|---|
| Cash and Cash Equivalents | $53,901 |
| Restricted Cash | 543 |
| Total Cash, Cash Equivalents and Restricted Cash at end of period shown in the Condensed Consolidated Statements of Cash Flows | $54,444 |

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Compensation – Retirement Benefits

On January 1, 2018, we adopted ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires employers to report the service cost component of net pension and postretirement benefit costs in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net pension and postretirement benefit costs are required to be presented in the Condensed Consolidated Statements of Operations separately from the service cost component in nonoperating expenses. In accordance with the ASU, we adopted the standard on a retrospective basis to all periods presented. As a result, we reclassified $187 and $134 of net benefit costs from Selling and Administrative Expense to Other Expense, Net on the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017, respectively. The reclassification represents the other components of net pension and postretirement benefit costs that are now presented in the Condensed Consolidated Statements of Operations separately from the service cost in Total Other Expense, Net. As a basis for the retrospective application of the ASU, we used the practical expedient that permits us to use the amounts disclosed for the various components of net benefit cost in Note 12.

Income Statement—Reporting Comprehensive Income

On January 1, 2018, we elected to adopt early ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220). The ASU gives companies the option to reclassify stranded tax effects caused by the newly enacted legislation referred to as the Tax Cuts and Jobs Act (the "Tax Act") from Accumulated Other Comprehensive Loss to Retained Earnings. The adoption resulted in a $1,263 cumulative effect adjustment which increased Retained Earnings as of the beginning of 2018 and reduced the deferred income tax benefits in Accumulated Other Comprehensive Loss relating to cash flow hedges and pension and retiree medical benefits.

Income Taxes

In March 2018, we adopted ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The ASU updates the income tax accounting in U.S. GAAP to reflect the SEC interpretive guidance released on December 22, 2017, when the Tax Act was signed into law. Additional information regarding the adoption of this standard is contained in Note 15.

3. Revenue from Contracts with Customers

Under the new revenue standard, revenue is recognized when control transfers under the terms of the contract with our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. We do not account for shipping and handling as a distinct performance obligation as we generally perform shipping and handling activities after we transfer control of goods to the customer. We have elected to account for shipping and handling costs associated with outbound freight after control of goods has transferred to a customer as a fulfillment cost. Incidental items that are immaterial in the context of the contract are not recognized as a separate performance obligation. We do not have any significantly extended payment terms as payment is generally received within one year of the point of sale.

In general, we transfer control and recognize a sale at the point in time when products are shipped from our manufacturing facilities both direct to consumers and to distributors. Service revenue is recognized in the period the service is performed or ratably over the period of the related service contract. Consideration related to service contracts is deferred if the proceeds are received in advance of the satisfaction of the performance obligations and recognized over the contract period as the performance obligation is met. We use an output method to measure progress towards completion for certain prepaid service contracts, as this method appropriately depicts performance towards satisfaction of the performance obligations.

For contracts with multiple performance obligations (i.e., a product and service component), we allocate the transaction price to the performance obligations in proportion to their stand-alone selling prices. We use an observable price to determine the stand-alone selling price for separate performance obligations. When allocating on a relative stand-alone selling price basis, any discounts contained within the contract are allocated proportionately to all of the performance obligations in the contract.

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Disaggregation of Revenue

The following tables illustrate the disaggregation of revenue by geographic area, groups of similar products and services and sales channels for the three and six months ended June 30, 2018 and 2017 (in thousands):

Net Sales by geographic area

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Americas | $178,752 | $169,146 | $341,390 | $311,916 |
| Europe, Middle East and Africa | 87,410 | 77,356 | 176,226 | 110,632 |
| Asia Pacific | 26,035 | 24,289 | 47,428 | 39,302 |
| Total | $292,197 | $270,791 | $565,044 | $461,850 |

Net Sales are attributed to each geographic area based on the end user country and are net of intercompany sales.

Net Sales by groups of similar products and services

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Equipment | $192,078 | $176,767 | $364,152 | $290,108 |
| Parts and Consumables | 57,411 | 52,922 | 114,852 | 95,725 |
| Specialty Surface Coatings | 7,840 | 7,803 | 14,295 | 14,484 |
| Service and Other | 34,868 | 33,299 | 71,745 | 61,533 |
| Total | $292,197 | $270,791 | $565,044 | $461,850 |

Net Sales by sales channel

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Sales Direct to Consumer | $187,468 | $174,426 | $366,178 | $318,049 |
| Sales to Distributors | 104,729 | 96,365 | 198,866 | 143,801 |
| Total | $292,197 | $270,791 | $565,044 | $461,850 |

Contract Liabilities

Sales Returns

The right of return may exist explicitly or implicitly with our customers. When the right of return exists, we adjust the transaction price for the estimated effect of returns. We estimate the expected returns using the expected value method by assessing historical sales levels and the timing and magnitude of historical sales return levels as a percent of sales and projecting this experience into the future.

Sales Incentives

Our sales contracts may contain various customer incentives, such as volume-based rebates or other promotions. We reduce the transaction price for certain customer programs and incentive offerings that represent variable consideration. Sales incentives given to our customers are recorded using the most likely amount approach for estimating the amount of consideration to which the company will be entitled. We forecast the most likely amount of the incentive to be paid at the time of sale, update this forecast quarterly, and adjust the transaction price accordingly to reflect the new amount of incentives expected to be earned by the customer. A majority of our customer incentives are settled within one year. We record our accruals for volume-based rebates and other promotions in Other Current Liabilities on our Condensed Consolidated Balance Sheets.

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The change in our sales incentive accrual balance for the six months ended June 30, 2018 was as follows:

| | Six Months Ended June 30 2018 |
|---|---|
| Beginning balance | $ 13,466 |
| Additions to sales incentive accrual | 14,904 |
| Contract payments | (16,785 ) |
| Foreign currency fluctuations | (195 ) |
| Ending balance | $ 11,390 |

Deferred Revenue

We sell separately priced prepaid contracts to our customers where we receive payment at the inception of the contract and defer recognition of the consideration received because we have to satisfy future performance obligations. Our deferred revenue balance is primarily attributed to prepaid maintenance contracts on our machines ranging from 12 months to 60 months. In circumstances where prepaid contracts are bundled with machines, we use an observable price to determine stand-alone selling price for separate performance obligations. At December 31, 2017, $5,304 and $2,483 of deferred revenue was reported in Other Current Liabilities and Other Liabilities, respectively, on our Condensed Consolidated Balance Sheets.

The change in the deferred revenue balance for the six months ended June 30, 2018 was as follows:

| | Six Months Ended June 30 2018 |
|---|---|
| Beginning balance | $ 7,787 |
| Increase in deferred revenue representing our obligation to satisfy future performance obligations | 7,475 |
| Decrease in deferred revenue for amounts recognized in Net Sales for satisfied performance obligations | (6,951 ) |
| Foreign currency fluctuations | (86 ) |
| Ending balance | $ 8,225 |

At June 30, 2018, $4,896 and $3,329 of deferred revenue was reported in Other Current Liabilities and Other Liabilities, respectively, on our Condensed Consolidated Balance Sheet. Of this, we expect to recognize the following approximate amounts in Net Sales in the following periods:

| | |
|---|---|
| Remaining 2018 | $2,984 |
| 2019 | 3,092 |
| 2020 | 1,280 |
| 2021 | 562 |
| 2022 | 277 |
| Thereafter | 30 |
| Total | $8,225 |

Practical Expedients and Exemptions

We generally expense the incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. These costs relate primarily to sales commissions and are recorded in Selling and Administrative Expense in the Condensed Consolidated Statements of Operations.

We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. In addition, we do not adjust the promised amount of consideration for the effects of a significant financing component if we expect, at contract inception, that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

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4. Management Actions

During the first quarter of 2017, we implemented a restructuring action to better align our global resources and expense structure with a lower growth global economic environment. The pre-tax charge of $8,018, including other associated costs of $961, consisted primarily of severance and was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Operations. The charge impacted our Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC) operating segments. The savings offset the pre-tax charge approximately one year from the date of the action. Additional costs will not be incurred related to this restructuring action.

During the fourth quarter of 2017, we implemented a restructuring action primarily driven by integration actions related to our acquisition of the IPC Group. The restructuring action consisted primarily of severance and included reductions in overall staffing to streamline and right-size the organization to support anticipated business requirements. The pre-tax charge of $2,501 was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Operations. The charge impacted our Americas, EMEA and APAC operating segments. We believe the anticipated savings will offset the pre-tax charge in approximately one year from the date of the action. Additional costs will not be incurred related to this restructuring action.

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

| | Severance and Related Costs |
|---|---|
| 2017 restructuring actions | $ 9,558 |
| Cash payments | (6,312 ) |
| Foreign currency adjustments | 190 |
| December 31, 2017 balance | $ 3,436 |
| 2018 utilization: | |
| Cash payments | (1,119 ) |
| Foreign currency adjustments | (53 ) |
| June 30, 2018 balance | $ 2,264 |

5. Acquisition

On April 6, 2017, we acquired the outstanding capital stock of IP Cleaning S.p.A. and its subsidiaries ("IPC Group") for a purchase price of $353,769, net of cash acquired of $8,804. The primary seller was Ambienta SGR S.p.A., a European private equity fund. IPC Group, based in Italy, is a designer and manufacturer of innovative professional cleaning equipment, cleaning tools and supplies. The acquisition strengthens our presence and market share in Europe and allows us to better leverage our EMEA cost structure. We funded the acquisition of IPC Group, along with related fees, including refinancing of existing debt, with funds raised through borrowings under a senior secured credit facility in an aggregate principal amount of $420,000. Further details regarding our acquisition financing arrangements are discussed in Note 8.

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The following table summarizes the final fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

| | |
|---|---|
| ASSETS | |
| Receivables | $39,984 |
| Inventories | 46,442 |
| Other Current Assets | 7,456 |
| Assets Held for Sale | 2,247 |
| Property, Plant and Equipment | 63,890 |
| Intangible Assets Subject to Amortization: | |
| Trade Name | 26,753 |
| Customer Lists | 123,061 |
| Technology | 9,631 |
| Other Assets | 2,000 |
| Total Identifiable Assets Acquired | 321,464 |
| LIABILITIES | |
| Accounts Payable | 32,227 |
| Accrued Expenses | 18,130 |
| Deferred Income Taxes | 56,950 |
| Other Liabilities | 10,964 |
| Total Identifiable Liabilities Assumed | 118,271 |
| Net Identifiable Assets Acquired | 203,193 |
| Noncontrolling Interest | (1,896 ) |
| Goodwill | 152,472 |
| Total Purchase Price, net of Cash Acquired | $353,769 |

Based on the final fair value measurement of the assets acquired and liabilities assumed, we allocated $152,472 to goodwill for the expected synergies from combining IPC Group with our existing business. None of the goodwill is expected to be deductible for income tax purposes. In connection with the finalization of the fair value measurements in the first quarter of 2018, we recorded a measurement period adjustment, which increased goodwill by $4,627 with offsetting adjustments to various income tax assets and liabilities.

The final fair value of the acquired intangible assets is $159,445. The expected lives of the acquired amortizable intangible assets are approximately 15 years for customer lists, 10 years for trade names and 10 years for technology. Trade names are being amortized on a straight-line basis while the customer lists and technology are being amortized on an accelerated basis. We recorded amortization expense of $5,486 and $11,023 in Selling and Administrative Expense on our Condensed Consolidated Statements of Operations for these acquired intangible assets for the three and six months ended June 30, 2018, respectively.

The following unaudited pro forma financial information presents the combined results of operations of Tennant Company as if the 2017 acquisition of the IPC Group had occurred as of January 1, 2016. The unaudited pro forma financial information is presented for informational purposes only. It is not necessarily indicative of what our consolidated results of operations actually would have been had the acquisition occurred at the beginning of fiscal 2016. No pro forma results are presented for the three or six months ended June 30, 2018 as the results of the acquired company are included in the actual results.

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Pro Forma Financial Information (Unaudited)

| (In thousands, except per share data) | Three Months Ended June 30 2017 | Six Months Ended June 30 2017 |
|---|---|---|
| Net Sales | | |
| Pro forma | $270,791 | $517,163 |
| As reported | 270,791 | 461,850 |
| | | |
| Net Earnings (Loss) Attributable to Tennant Company | | |
| Pro forma | $10,308 | $10,260 |
| As reported | (2,591) | (6,548) |
| | | |
| Net Earnings (Loss) Attributable to Tennant Company per Share | | |
| Pro forma | $0.58 | $0.58 |
| As reported | (0.15) | (0.37) |

The unaudited pro forma financial information above gives effect to the following:

- incremental depreciation and amortization expense related to the fair value of the property, plant and equipment and identified intangible assets;
- exclusion of the purchase accounting impact of the inventory step-up related to the sale of acquired inventory;
- incremental interest expense related to additional debt used to finance the acquisition;
- exclusion of non-recurring acquisition-related transaction and financing costs; and
- pro forma adjustments tax affected based on the jurisdiction where the costs were incurred.

## 6. Inventories

Inventories are valued at the lower of cost or market. Inventories at June 30, 2018 and December 31, 2017 consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Inventories carried at LIFO: | | |
| Finished goods | $49,428 | $ 43,439 |
| Raw materials, production parts and work-in-process | 29,266 | 23,694 |
| LIFO reserve | (28,609) | (28,429) |
| Total LIFO inventories | 50,085 | 38,704 |
| Inventories carried at FIFO: | | |
| Finished goods | 51,226 | 54,161 |
| Raw materials, production parts and work-in-process | 38,095 | 34,829 |
| Total FIFO inventories | 89,321 | 88,990 |
| Total inventories | $139,406 | $ 127,694 |

The LIFO reserve approximates the difference between LIFO carrying cost and FIFO.

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7. Goodwill and Intangible Assets

The changes in the carrying value of Goodwill for the six months ended June 30, 2018 were as follows:

| | Goodwill | Accumulated Impairment Losses | Total |
|---|---|---|---|
| Balance as of December 31, 2017 | $227,224 | $ (41,180 ) | $186,044 |
| Purchase accounting adjustments | 4,627 | — | 4,627 |
| Foreign currency fluctuations | (6,089 ) | 1,133 | (4,956 ) |
| Balance as of June 30, 2018 | $225,762 | $ (40,047 ) | $185,715 |

The balances of acquired Intangible Assets, excluding Goodwill, as of June 30, 2018 and December 31, 2017, were as follows:

| | Customer Lists | Trade Names | Technology | Total |
|---|---|---|---|---|
| Balance as of June 30, 2018 | | | | |
| Original cost | $145,455 | $31,105 | $ 15,554 | $192,114 |
| Accumulated amortization | (25,990 ) | (3,894 ) | (4,556 ) | (34,440 ) |
| Carrying value | $119,465 | $27,211 | $ 10,998 | $157,674 |
| Weighted average original life (in years) | 15 | 10 | 11 | |
| Balance as of December 31, 2017 | | | | |
| Original cost | $149,355 | $31,968 | $ 14,589 | $195,912 |
| Accumulated amortization | (17,870 ) | (2,436 ) | (3,259 ) | (23,565 ) |
| Carrying value | $131,485 | $29,532 | $ 11,330 | $172,347 |
| Weighted average original life (in years) | 15 | 10 | 11 | |

The purchase accounting adjustments recorded during the first quarter of 2018 were based on the fair value adjustments related to our acquisition of the IPC Group, as described further in Note 5.

During the first six months of 2018, we purchased a technology license for $1,000. The license was recorded in Intangible Assets, Net as technology on the Condensed Consolidated Balance Sheets as of June 30, 2018.

Amortization expense on Intangible Assets for the three and six months ended June 30, 2018 was $5,819 and $11,657, respectively. Amortization expense on Intangible Assets for the three and six months ended June 30, 2017 was $3,536 and $3,780, respectively.

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

| | |
|---|---|
| Remaining 2018 | $10,854 |
| 2019 | 21,206 |
| 2020 | 19,756 |
| 2021 | 18,165 |
| 2022 | 16,020 |
| Thereafter | 71,673 |
| Total | $157,674 |

8. Debt

Financial Covenants

In 2017, the Company and certain of our foreign subsidiaries entered into a Credit Agreement (the "2017 Credit Agreement) with JPMorgan, as administrative agent, Goldman Sachs Bank USA, as syndication agent, Wells Fargo, National Association, U.S. Bank National Association, and HSBC Bank USA, National Association, as co-documentation agents, and the lenders (including JPMorgan) from time to time party thereto.

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The 2017 Credit Agreement contains customary representations, warranties and covenants, including, but not limited to, covenants restricting the company's ability to incur indebtedness and liens and merge or consolidate with another entity. The 2017 Credit Agreement also contains financial covenants, requiring us to maintain a ratio of consolidated total indebtedness to consolidated earnings before income, taxes, depreciation and amortization, subject to certain adjustments ("Adjusted EBITDA") of not greater than 4.00 to 1, as well as requiring us to maintain a ratio of consolidated Adjusted EBITDA to consolidated interest expense of no less than 3.50 to 1 for the quarter ended June 30, 2018. The 2017 Credit Agreement also contains a financial covenant requiring us to maintain a senior secured net indebtedness to Adjusted EBITDA ratio of not greater than 3.50 to 1. These financial covenants may restrict our ability to pay dividends and purchase outstanding shares of our common stock. We were in compliance with our financial covenants at June 30, 2018.

We will be required to repay the senior credit agreement with 25% to 50% of our excess cash flow from the preceding fiscal year, as defined in the agreement, unless our net leverage ratio for such preceding fiscal year is less than or equal to 3.00 to 1, which will be first measured using our fiscal year ended December 31, 2018.

Our Senior Notes also contain certain restrictions, which are generally less restrictive than those contained in the 2017 Credit Agreement.

Registration Rights Agreement

In connection with the issuance and sale of the Senior Notes, the company entered into a Registration Rights Agreement, dated April 18, 2017, among the company, the Guarantors and Goldman, Sachs & Co. and J.P. Morgan Securities LLC (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, the company agreed (1) to use its commercially reasonable efforts to consummate an exchange offer to exchange the Senior Notes for new registered notes (the "Exchange Notes"), with terms substantially identical in all material respects with the Senior Notes (except that the Exchange Notes will not contain terms with respect to additional interest, registration rights or transfer restrictions) and (2) if required, to have a shelf registration statement declared effective with respect to resales of the Senior Notes.

On January 22, 2018, we commenced the exchange offer required by the Registration Rights Agreement. The exchange offer closed on February 23, 2018. We will not incur any additional indebtedness as a result of the exchange offer. As a result, we are not required to pay additional interest on the Senior Notes.

Debt Outstanding

Debt outstanding at June 30, 2018 and December 31, 2017 consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Long-Term Debt: | | |
| Senior unsecured notes | $300,000 | $ 300,000 |
| Credit facility borrowings | 62,000 | 80,000 |
| Capital lease obligations | 3,110 | 3,279 |
| Total Long-Term Debt | 365,110 | 383,279 |
| Less: unamortized debt issuance costs | (5,442 ) | (6,440 ) |
| Less: current maturities of credit facility borrowings, net of debt issuance costs[1] | (29,611 ) | (29,413 ) |
| Less: current maturities of capital lease obligations[1] | (1,358 ) | (1,470 ) |
| Long-term portion | $328,699 | $ 345,956 |

(1) Current maturities of long-term debt include $30,000 of current maturities, less $389 of unamortized debt issuance costs, under our 2017 Credit Agreement and $1,358 of current maturities of capital lease obligations.

As of June 30, 2018, we had outstanding borrowings under our Senior Unsecured Notes of $300,000. We had outstanding borrowings under our 2017 Credit Agreement, totaling $42,000 under our term loan facility and $20,000 under our revolving facility, leaving $180,000 of unused borrowing capacity on our revolving facility. Although we are only required to make a minimum principal payment of $5,625 during the next year, we have both the intent and the ability to pay an additional $24,375 during the next year on our term loan facility. As such, we have classified $30,000 as current maturities of long-term debt. In addition, we had letters of credit and bank guarantees outstanding in the amount of $5,929, leaving approximately $174,071 of unused borrowing capacity on our revolving facility.

Commitment fees on unused lines of credit for the six months ended June 30, 2018 were $302. The overall weighted average cost of debt is approximately 5.2% and, net of a related cross-currency swap instrument, is approximately 4.4%. Further details regarding the cross-currency swap instrument are discussed in Note 10.

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9. Warranty

We record a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, new product introductions and other factors. Warranty terms on machines generally range from one to four years. However, the majority of our claims are paid out within the first six to nine months following a sale. The majority of the liability for estimated warranty claims represents amounts to be paid out in the near term for qualified warranty issues, with immaterial amounts reserved to be paid for older equipment warranty issues.

The changes in warranty reserves for the six months ended June 30, 2018 and 2017 were as follows:

| | Six Months Ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| Beginning balance | $12,676 | $10,960 |
| Additions charged to expense | 7,227 | 5,815 |
| Acquired warranty obligations | — | 384 |
| Foreign currency fluctuations | (153) | 154 |
| Claims paid | (6,491) | (5,872) |
| Ending balance | $13,259 | $11,441 |

10. Derivatives

Hedge Accounting and Hedging Programs

We recognize all derivative instruments as either assets or liabilities in our Condensed Consolidated Balance Sheets and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Balance Sheet Hedging

Hedges of Foreign Currency Assets and Liabilities

We hedge portions of our net recognized foreign currency denominated assets and liabilities with foreign exchange forward contracts to reduce the risk that the value of these assets and liabilities will be adversely affected by changes in exchange rates. At June 30, 2018 and December 31, 2017, the notional amounts of foreign currency forward exchange contracts outstanding not designated as hedging instruments were $51,067 and $60,858, respectively.

Cash Flow Hedging

Hedges of Forecasted Foreign Currency Transactions

In countries outside the U.S., we transact business in U.S. dollars and in various other currencies. We may use foreign exchange option contracts or forward contracts to hedge certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities of up to one year. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated revenue in the normal course of business, and accordingly, they are not speculative in nature. The notional amounts of outstanding foreign currency forward contracts designated as cash flow hedges were $2,444 and $2,928 as of June 30, 2018 and December 31, 2017, respectively. The notional amounts of outstanding foreign currency option contracts designated as cash flow hedges were $8,851 and $8,619 as of June 30, 2018 and December 31, 2017, respectively.

Foreign Currency Derivatives

We use foreign currency exchange rate derivatives to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between Tennant Company and its subsidiaries. We entered into Euro to U.S. dollar foreign exchange cross currency swaps for all of the anticipated cash flows associated with an intercompany loan from a wholly owned European subsidiary. We enter into these foreign exchange cross currency swaps to hedge the foreign currency denominated cash flows associated with this intercompany loan, and accordingly, they are not speculative in nature. These cross currency swaps are designated as cash flow hedges. The hedged cash flows as of June 30, 2018 and December 31, 2017 included €177,600 and €181,200 of total notional values, respectively. As of June 30, 2018 the aggregate scheduled interest payments over the course of the loan and related swaps amounted to €27,600. The scheduled maturity and principal payment of the loan and related swaps of €150,000 are due

in April 2022.

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The fair value of derivative instruments on our Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017 were as follows:

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Fair Value Asset Derivatives | Fair Value Liability Derivatives | Fair Value Asset Derivatives | Fair Value Liability Derivatives |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency option contracts[1] | $ 212 | $ — | $ 86 | $ — |
| Foreign currency forward contracts[1] | 7,108 | 31,189 | 7,218 | 34,961 |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign currency forward contracts[1] | $ 909 | $ 136 | $ 442 | $ 425 |

(1) Contracts that mature within the next 12 months are included in Other Current Assets and Other Current Liabilities for asset derivatives and liability derivatives, respectively, on our Condensed Consolidated Balance Sheets. Contracts with maturities greater than 12 months are included in Other Assets and Other Liabilities for asset derivatives and liability derivatives, respectively, in our Condensed Consolidated Balance Sheets. Amounts included in our Condensed Consolidated Balance Sheets are recorded net where a right of offset exists with the same derivative counterparty.

As of June 30, 2018, we anticipate reclassifying approximately $2,177 of gains from Accumulated Other Comprehensive Loss to net earnings during the next 12 months.

The effect of foreign currency derivative instruments designated as cash flow hedges and of foreign currency derivative instruments not designated as hedges in our Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 was as follows:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|---|---|---|---|---|
| | Foreign Currency Option Contracts | Foreign Currency Forward Contracts | Foreign Currency Option Contracts | Foreign Currency Forward Contracts |
| Derivatives in cash flow hedging relationships: | | | | |
| Net gain recognized in Other Comprehensive (Loss) Income, net of tax[1] | $ 33 | $ 9,373 | $ 49 | $ 3,676 |
| Net (loss) gain reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Net Sales | (43 ) | 13 | (84 ) | (1 ) |
| Net gain reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Interest Income | — | 467 | — | 858 |
| Net gain reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Net Foreign Currency Transaction Losses | — | 7,912 | — | 3,985 |
| Net gain recognized in earnings[2] | 1 | 3 | 8 | 6 |
| Derivatives not designated as hedging instruments: | | | | |
| Net gain recognized in earnings[3] | $ — | $ 3,210 | $ — | $ 1,832 |

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The effect of foreign currency derivative instruments designated as cash flow hedges and of foreign currency derivative instruments not designated as hedges in our Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 was as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2017 | | June 30, 2017 | |
| | Foreign Currency Option Contracts | Foreign Currency Forward Contracts | Foreign Currency Option Contracts | Foreign Currency Forward Contracts |
| Derivatives in cash flow hedging relationships: | | | | |
| Net loss recognized in Other Comprehensive Income (Loss), net of tax[1] | $(47) | $(9,517) | $(137) | $(9,534) |
| Net gain (loss) reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Net Sales | 43 | (83) | 1 | (102) |
| Net gain reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Interest Income | — | 449 | — | 449 |
| Net loss reclassified from Accumulated Other Comprehensive Loss into earnings, net of tax, effective portion to Net Foreign Currency Transaction Losses | — | (7,148) | — | (7,148) |
| Net (loss) gain recognized in earnings[2] | (4) | 3 | (5) | 5 |
| Derivatives not designated as hedging instruments: | | | | |
| Net loss recognized in earnings[3] | $— | $(3,939) | $(1,132) | $(5,307) |

(1) Net change in the fair value of the effective portion classified in Other Comprehensive (Loss) Income.

(2) Ineffective portion and amount excluded from effectiveness testing classified in Net Foreign Currency Transaction Losses.

(3) Classified in Net Foreign Currency Transaction Losses.

## 11. Fair Value Measurements

Estimates of fair value for financial assets and financial liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

Our population of assets and liabilities subject to fair value measurements at June 30, 2018 is as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Foreign currency forward exchange contracts | $8,017 | $ — | $8,017 | $ — |
| Foreign currency option contracts | 212 | — | 212 | — |
| Total Assets | $8,229 | $ — | $8,229 | $ — |
| Liabilities: | | | | |
| Foreign currency forward exchange contracts | $31,325 | $ — | $31,325 | $ — |
| Total Liabilities | $31,325 | $ — | $31,325 | $ — |

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Our population of assets and liabilities subject to fair value measurements at December 31, 2017 is as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Foreign currency forward exchange contracts | $7,660 | $ — | $7,660 | $ — |
| Foreign currency option contracts | 86 | — | 86 | — |
| Total Assets | $7,746 | $ — | $7,746 | $ — |
| Liabilities: | | | | |
| Foreign currency forward exchange contracts | $35,386 | $ — | $35,386 | $ — |
| Total Liabilities | $35,386 | $ — | $35,386 | $ — |

Our foreign currency forward exchange and option contracts are valued using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount. Further details regarding our foreign currency forward exchange and option contracts are discussed in Note 10.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Other Current Assets, Accounts Payable and Other Current Liabilities approximate fair value due to their short-term nature.

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.

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets, goodwill and other intangible assets, as part of a business acquisition. These assets are measured and recognized at amounts equal to the fair value determined as of the date of acquisition. Fair value valuations are based on the information available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by us. There are inherent uncertainties and management judgment required in these determinations. The fair value measurements of assets and liabilities assumed as part of a business acquisition are based on valuations involving significant unobservable inputs, or Level 3, in the fair value hierarchy.

These assets are also subject to periodic impairment testing by comparing the respective carrying value of each asset to the estimated fair value of the reporting unit or asset group in which they reside. In the event we determine these assets to be impaired, we would recognize an impairment loss equal to the amount by which the carrying value of the reporting unit, impairment asset or asset group exceeds its estimated fair value. These periodic impairment tests utilize company-specific assumptions involving unobservable inputs, or Level 3, in the fair value hierarchy.

12. Retirement Benefit Plans

Our defined benefit pension plans and postretirement medical plan are described in Note 13 of our annual report on Form 10-K for the year ended December 31, 2017. We have contributed $37 and $287 during the second quarter of 2018 and $151 and $556 during the first six months of 2018 to our pension plans and postretirement medical plan, respectively.

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The components of the net benefit cost for the three and six months ended June 30, 2018 and 2017 were as follows:

| | Three Months Ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | Pension Benefits | | | | Postretirement Medical Benefits | |
| | U.S. Plans | | Non-U.S. Plans | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Service cost | $— | $— | $35 | $24 | $ 14 | $ 20 |
| Interest cost | 11 | 390 | 87 | 129 | 75 | 90 |
| Expected return on plan assets | — | (586) | (82 ) | (101 ) | — | — |
| Amortization of net actuarial loss | 11 | 11 | — | — | — | — |
| Amortization of prior service cost | — | — | 32 | 49 | — | — |
| Foreign currency | — | — | (23 ) | 234 | — | — |
| Net periodic cost (credit) | 22 | (185) | 49 | 335 | 89 | 110 |
| Settlement charge | — | 205 | — | — | — | — |
| Net benefit cost | $22 | $20 | $49 | $335 | $ 89 | $ 110 |

| | Six Months Ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | Pension Benefits | | | | Postretirement Medical Benefits | |
| | U.S. Plans | | Non-U.S. Plans | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Service cost | $— | $— | $72 | $48 | $ 28 | $ 40 |
| Interest cost | 22 | 780 | 158 | 219 | 150 | 181 |
| Expected return on plan assets | — | (1,171) | (191) | (197 ) | — | — |
| Amortization of net actuarial loss | 24 | 21 | — | — | — | — |
| Amortization of prior service cost | — | — | 106 | 96 | — | — |
| Foreign currency | — | — | (94 ) | 229 | — | — |
| Net periodic cost (credit) | 46 | (370 ) | 51 | 395 | 178 | 221 |
| Settlement charge | 50 | 205 | — | — | — | — |
| Net benefit cost (credit) | $96 | $(165) | $51 | $395 | $ 178 | $ 221 |

13. 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 June 30, 2018, of those leases that contain residual value guarantees, the aggregate residual value at lease expiration was $13,790, of which we have guaranteed $10,866. As of June 30, 2018, we have recorded a liability for the estimated end of term loss related to this residual value guarantee of $428 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.

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## 14. Accumulated Other Comprehensive Loss

Components of Accumulated Other Comprehensive Loss, net of tax, within the Condensed Consolidated Balance Sheets, are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Foreign currency translation adjustments | $(26,626) | $(15,778) |
| Pension and retiree medical benefits | (1,671) | (1,610) |
| Cash flow hedge | (7,094) | (4,935) |
| Total Accumulated Other Comprehensive Loss | $(35,391) | $(22,323) |

The changes in components of Accumulated Other Comprehensive Loss, net of tax, are as follows:

| | Foreign Currency Translation Adjustments | Pension and Post Retirement Benefits | Cash Flow Hedge | Total |
|---|---|---|---|---|
| December 31, 2017 | $ (15,778) | $ (1,610) | $(4,935) | $(22,323) |
| Other comprehensive (loss) income before reclassifications | (10,848) | 19 | 3,725 | (7,104) |
| Amounts reclassified from Accumulated Other Comprehensive Loss | — | 57 | (4,758) | (4,701) |
| Adjustments to Accumulated Other Comprehensive Loss for disproportionate income tax effects recognized from the adoption of ASU 2018-02 | — | (137) | (1,126) | (1,263) |
| Net current period other comprehensive loss | (10,848) | (61) | (2,159) | (13,068) |
| June 30, 2018 | $ (26,626) | $ (1,671) | $(7,094) | $(35,391) |

## 15. 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 2014 and, with limited exceptions, state and foreign income tax examinations for taxable years before 2013.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in Income Tax Expense (Benefit). In addition to the liability of $6,628 for unrecognized tax benefits as of June 30, 2018, there was approximately $965 for accrued interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of June 30, 2018 was $6,374. 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).

We are currently under examination by the Internal Revenue Service for the 2015 tax year. Although the outcome of this matter cannot currently be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact. We are currently undergoing income tax examinations in various state and foreign jurisdictions covering 2014 to 2016. Although the final outcome of these examinations cannot be currently determined, we believe that we have adequate reserves with respect to these examinations.

On December 22, 2017, the Tax Act was signed into law. The Tax Act made broad and complex changes to the U.S. tax code which includes a lowering of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, accelerated expensing of qualified capital investments for a specific period, limitations of the deductibility of interest expense and executive compensation, and a transition from a worldwide to a territorial tax system, which requires companies to pay a one-time transition tax on certain unrepatriated earnings from foreign subsidiaries.

ASC 740, Income Taxes, requires a company to record the effects of a tax law change in the period of enactment. ASU 2018-05 allows a company to record a provisional amount when it does not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

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We recorded income tax expense of $363 during the second quarter of 2018, or 2.8% of earnings before income taxes. During the first six months of 2018, we recorded income tax expense of $1,440, or 8.2% of earnings before income taxes. This amount primarily reflects two items: (1) The Tax Act resulted in a lower tax rate beginning in the first quarter of 2018. This includes the estimated impacts of requiring a current inclusion in U.S. federal income of certain earnings of controlled foreign corporations, allowing a domestic corporation an immediate deduction in the U.S. taxable income for a portion of its foreign-derived intangible income, the base erosion anti-abuse tax, and limitations on the deductibility of executive compensation. These estimates had an immaterial impact on our effective income tax rate for 2018. (2) During the second quarter of 2018, we realized two discrete tax benefits, totaling $3,295 resulting from the exercise during the quarter of soon-to-expire stock options and a favorable tax ruling from Italian tax authorities related to the deductibility of interest expense in Italy. We will continue to monitor and evaluate guidance and clarifications from the Internal Revenue Service as it relates to the Tax Act and will refine these estimates as necessary.

## 16. Share-Based Compensation

Our share-based compensation plans are described in Note 17 of our annual report on Form 10-K for the year ended December 31, 2017. During the three months ended June 30, 2018 and 2017, we recognized total Share-Based Compensation Expense of $1,367 and $1,049, respectively. During the six months ended June 30, 2018 and 2017, we recognized total Share-Based Compensation Expense of $4,115 and $3,622, respectively. The total excess tax benefit recognized for share-based compensation arrangements during the six months ended June 30, 2018 and 2017 was $1,827 and $1,144, respectively.

During the first six months of 2018, we issued 16,377 restricted shares. The weighted average grant date fair value of each share awarded was $67.70. Restricted share awards generally have a three year vesting period from the effective date of the grant. The total fair value of shares vested during the six months ended June 30, 2018 and 2017 was $863 and $1,250, respectively.

## 17. Earnings (Loss) Attributable to Tennant Company Per Share

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net Earnings (Loss) Attributable to Tennant Company | $12,744 | $ (2,591) | $16,018 | $ (6,548) |
| Denominator: | | | | |
| Basic - Weighted Average Shares Outstanding | 17,943,450 | 17,693,102 | 17,867,641 | 17,645,090 |
| Effect of dilutive securities: | | | | |
| Share-based compensation plans | 428,088 | — | 436,319 | — |
| Diluted - Weighted Average Shares Outstanding | 18,371,538 | 17,693,102 | 18,303,960 | 17,645,090 |
| Basic Earnings (Loss) per Share | $0.71 | $ (0.15) | $0.90 | $ (0.37) |
| Diluted Earnings (Loss) per Share | $0.69 | $ (0.15) | $0.88 | $ (0.37) |

Excluded from the dilutive securities shown above were options to purchase and shares to be paid out under share-based compensation plans of 186,833 and 735,377 shares of common stock during the three months ended June 30, 2018 and 2017, respectively. Excluded from the dilutive securities shown above were options to purchase and shares to be paid out under share-based compensation plans of 311,907 and 716,401 shares of common stock during the six months ended June 30, 2018 and 2017, respectively. These exclusions were made if the exercise prices of the options are greater than the average market price of our common stock for the period, if the number of shares we can repurchase under the treasury stock method exceeds the weighted average shares outstanding in the options or if we have a net loss, as these effects are anti-dilutive.

## 18. Segment Reporting

We are organized into four operating segments: North America; Latin America; EMEA; and APAC. 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.

Further disclosures regarding our net sales by geographic area are discussed in Note 3.

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19. Separate Financial Information of Guarantor Subsidiaries

The following condensed consolidated guarantor financial information is presented to comply with the requirements of Rule 3-10 of Regulation S-X.

In 2017, we issued and sold $300,000 in aggregate principal amount of our 5.625% Senior Notes due 2025 (the "Notes), pursuant to an Indenture, dated as of April 18, 2017, among the company, the Guarantors (as defined below), and Wells Fargo Bank, National Association, a national banking association, as trustee. The Notes are unconditionally and jointly and severally guaranteed by Tennant Coatings, Inc. and Tennant Sales and Service Company (collectively, the "Guarantors"), which are wholly owned subsidiaries of the company.

The Notes and the guarantees constitute senior unsecured obligations of the company and the Guarantors, respectively. The Notes and the guarantees, respectively, are: (a) equal in right of payment with all of the company's and the Guarantors' senior debt, without giving effect to collateral arrangements; (b) senior in right of payment to all of the company's and the Guarantors' future subordinated debt, if any; (c) effectively subordinated in right of payment to all of the company's and the Guarantors' debt and obligations that are secured, including borrowings under the company's senior secured credit facilities for so long as the senior secured credit facilities are secured, to the extent of the value of the assets securing such liens; and (d) structurally subordinated in right of payment to all liabilities (including trade payables) of the company's and the Guarantors' subsidiaries that do not guarantee the Notes.

The following condensed consolidated financial information presents the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive (Loss) Income for each of the three and six months ended June 30, 2018 and June 30, 2017, the related Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, and the related Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and June 30, 2017, of Tennant Company ("Parent"), the Guarantor Subsidiaries on a combined basis, the Non-Guarantor Subsidiaries on a combined basis and elimination entries necessary to consolidate the Parent with the Guarantor and Non-Guarantor Subsidiaries. The following condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the company and notes thereto of which this note is an integral part.

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Condensed Consolidated Statement of Operations
For the three months ended June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Sales | $126,293 | $ 163,865 | $ 151,074 | $ (149,035 ) | $292,197 |
| Cost of Sales | 85,053 | 137,144 | 100,255 | (149,054 ) | 173,398 |
| Gross Profit | 41,240 | 26,721 | 50,819 | 19 | 118,799 |
| | | | | | |
| Operating Expense: | | | | | |
| Research and Development Expense | 6,422 | 342 | 1,142 | — | 7,906 |
| Selling and Administrative Expense | 28,625 | 19,343 | 43,896 | — | 91,864 |
| Total Operating Expense | 35,047 | 19,685 | 45,038 | — | 99,770 |
| Profit from Operations | 6,193 | 7,036 | 5,781 | 19 | 19,029 |
| | | | | | |
| Other Income (Expense): | | | | | |
| Equity in Earnings of Affiliates | 10,026 | 588 | 1,382 | (11,996 ) | — |
| Interest (Expense) Income, Net | (5,388 ) | — | 345 | (10 ) | (5,053 ) |
| Intercompany Interest Income (Expense) | 3,643 | (1,436 ) | (2,207 ) | — | — |
| Net Foreign Currency Transaction (Losses) Gains | (639 ) | (5 ) | 307 | — | (337 ) |
| Other (Expense) Income, Net | (706 ) | (546 ) | 778 | (36 ) | (510 ) |
| Total Other Income (Expense), Net | 6,936 | (1,399 ) | 605 | (12,042 ) | (5,900 ) |
| | | | | | |
| Profit Before Income Taxes | 13,129 | 5,637 | 6,386 | (12,023 ) | 13,129 |
| Income Tax Expense (Benefit) | 363 | 1,391 | (19 ) | (1,372 ) | 363 |
| Net Earnings Including Noncontrolling Interest | 12,766 | 4,246 | 6,405 | (10,651 ) | 12,766 |
| Net Earnings Attributable to Noncontrolling Interest | 22 | — | 22 | (22 ) | 22 |
| Net Earnings Attributable to Tennant Company | $12,744 | $ 4,246 | $ 6,383 | $ (10,629 ) | $12,744 |

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Condensed Consolidated Statement of Operations
For the six months ended June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Sales | $239,983 | $ 312,298 | $ 291,469 | $ (278,706 ) | $565,044 |
| Cost of Sales | 162,284 | 260,269 | 190,500 | (277,445 ) | 335,608 |
| Gross Profit | 77,699 | 52,029 | 100,969 | (1,261 ) | 229,436 |
| Operating Expense: | | | | | |
| Research and Development Expense | 12,529 | 546 | 2,827 | — | 15,902 |
| Selling and Administrative Expense | 57,713 | 39,060 | 87,360 | — | 184,133 |
| Total Operating Expense | 70,242 | 39,606 | 90,187 | — | 200,035 |
| Profit from Operations | 7,457 | 12,423 | 10,782 | (1,261 ) | 29,401 |
| Other Income (Expense): | | | | | |
| Equity in Earnings of Affiliates | 14,401 | 1,094 | 4,029 | (19,524 ) | — |
| Interest (Expense) Income, Net | (10,496 ) | — | 466 | (19 ) | (10,049 ) |
| Intercompany Interest Income (Expense) | 7,368 | (2,858 ) | (4,510 ) | — | — |
| Net Foreign Currency Transaction (Losses) Gains | (285 ) | (6 ) | (795 ) | — | (1,086 ) |
| Other (Expense) Income, Net | (939 ) | (1,137 ) | 1,376 | (60 ) | (760 ) |
| Total Other Income (Expense), Net | 10,049 | (2,907 ) | 566 | (19,603 ) | (11,895 ) |
| Profit Before Income Taxes | 17,506 | 9,516 | 11,348 | (20,864 ) | 17,506 |
| Income Tax Expense | 1,440 | 2,290 | 1,570 | (3,860 ) | 1,440 |
| Net Earnings Including Noncontrolling Interest | 16,066 | 7,226 | 9,778 | (17,004 ) | 16,066 |
| Net Earnings Attributable to Noncontrolling Interest | 48 | — | 48 | (48 ) | 48 |
| Net Earnings Attributable to Tennant Company | $16,018 | $ 7,226 | $ 9,730 | $ (16,956 ) | $16,018 |

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Condensed Consolidated Statement of Operations
For the three months ended June 30, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Sales | $120,153 | $156,515 | $131,201 | $(137,078) | $270,791 |
| Cost of Sales | 82,182 | 129,779 | 91,844 | (137,568) | 166,237 |
| Gross Profit | 37,971 | 26,736 | 39,357 | 490 | 104,554 |
| Operating Expense: | | | | | |
| Research and Development Expense | 6,579 | 73 | 1,234 | — | 7,886 |
| Selling and Administrative Expense | 30,135 | 19,734 | 37,457 | — | 87,326 |
| Total Operating Expense | 36,714 | 19,807 | 38,691 | — | 95,212 |
| Profit from Operations | 1,257 | 6,929 | 666 | 490 | 9,342 |
| Other Income (Expense): | | | | | |
| Equity in Earnings of Affiliates | 3,145 | 796 | — | (3,941) | — |
| Interest (Expense) Income, Net | (10,827) | — | (201) | (12) | (11,040) |
| Intercompany Interest Income (Expense) | 3,499 | (1,441) | (2,058) | — | — |
| Net Foreign Currency Transaction Gains (Losses) | 1,033 | (4) | (1,365) | — | (336) |
| Other (Expense) Income, Net | (525) | (150) | 326 | (35) | (384) |
| Total Other Expense, Net | (3,675) | (799) | (3,298) | (3,988) | (11,760) |
| (Loss) Profit Before Income Taxes | (2,418) | 6,130 | (2,632) | (3,498) | (2,418) |
| Income Tax Expense | 238 | 1,898 | 3,622 | (5,520) | 238 |
| Net (Loss) Earnings Including Noncontrolling Interest | (2,656) | 4,232 | (6,254) | 2,022 | (2,656) |
| Net Loss Attributable to Noncontrolling Interest | (65) | — | (65) | 65 | (65) |
| Net (Loss) Earnings Attributable to Tennant Company | $(2,591) | $4,232 | $(6,189) | $1,957 | $(2,591) |

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Condensed Consolidated Statement of Operations
For the six months ended June 30, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Sales | $225,858 | $ 295,595 | $ 200,035 | $ (259,638 ) | $461,850 |
| Cost of Sales | 153,779 | 242,511 | 140,426 | (259,156 ) | 277,560 |
| Gross Profit | 72,079 | 53,084 | 59,609 | (482 ) | 184,290 |
| | | | | | |
| Operating Expense: | | | | | |
| Research and Development Expense | 14,525 | 160 | 1,647 | — | 16,332 |
| Selling and Administrative Expense | 62,199 | 39,806 | 59,277 | — | 161,282 |
| Total Operating Expense | 76,724 | 39,966 | 60,924 | — | 177,614 |
| (Loss) Profit from Operations | (4,645 ) | 13,118 | (1,315 ) | (482 ) | 6,676 |
| | | | | | |
| Other Income (Expense): | | | | | |
| Equity in Earnings of Affiliates | 4,795 | 1,125 | — | (5,920 ) | — |
| Interest Expense, Net | (11,591 ) | — | (147 ) | (12 ) | (11,750 ) |
| Intercompany Interest Income (Expense) | 4,968 | (2,869 ) | (2,099 ) | — | — |
| Net Foreign Currency Transaction Gains (Losses) | 196 | (2 ) | (1,727 ) | — | (1,533 ) |
| Other (Expense) Income, Net | (682 ) | (225 ) | 590 | (35 ) | (352 ) |
| Total Other Expense, Net | (2,314 ) | (1,971 ) | (3,383 ) | (5,967 ) | (13,635 ) |
| | | | | | |
| (Loss) Profit Before Income Taxes | (6,959 ) | 11,147 | (4,698 ) | (6,449 ) | (6,959 ) |
| Income Tax (Benefit) Expense | (346 ) | 3,469 | 2,598 | (6,067 ) | (346 ) |
| Net (Loss) Earnings Including Noncontrolling Interest | (6,613 ) | 7,678 | (7,296 ) | (382 ) | (6,613 ) |
| Net Loss Attributable to Noncontrolling Interest | (65 ) | — | (65 ) | 65 | (65 ) |
| Net (Loss) Earnings Attributable to Tennant Company | $(6,548 ) | $ 7,678 | $ (7,231 ) | $ (447 ) | $(6,548 ) |

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Condensed Consolidated Statement of Comprehensive (Loss) Income
For the three months ended June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Earnings Including Noncontrolling Interest | $12,766 | $ 4,246 | $ 6,405 | $ (10,651 ) | $ 12,766 |
| Other Comprehensive Loss: | | | | | |
| Foreign currency translation adjustments | (19,473 ) | (326 ) | (24,292 ) | 24,618 | (19,473 ) |
| Pension and retiree medical benefits | 11 | — | — | — | 11 |
| Cash flow hedge | 1,376 | — | — | — | 1,376 |
| Income Taxes: | | | | | |
| Foreign currency translation adjustments | 261 | — | 260 | (260 ) | 261 |
| Pension and retiree medical benefits | (3 ) | — | — | — | (3 ) |
| Cash flow hedge | (319 ) | — | — | — | (319 ) |
| Total Other Comprehensive Loss, net of tax | (18,147 ) | (326 ) | (24,032 ) | 24,358 | (18,147 ) |
| Total Comprehensive (Loss) Income Including Noncontrolling Interest | (5,381 ) | 3,920 | (17,627 ) | 13,707 | (5,381 ) |
| Comprehensive Income Attributable to Noncontrolling Interest | 22 | — | 22 | (22 ) | 22 |
| Comprehensive (Loss) Income Attributable to Tennant Company | $(5,403 ) | $ 3,920 | $ (17,649 ) | $ 13,729 | $(5,403 ) |

Condensed Consolidated Statement of Comprehensive (Loss) Income
For the six months ended June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net Earnings Including Noncontrolling Interest | $16,066 | $ 7,226 | $ 9,778 | $ (17,004 ) | $ 16,066 |
| Other Comprehensive Loss: | | | | | |
| Foreign currency translation adjustments | (11,092 ) | (490 ) | (16,439 ) | 16,929 | (11,092 ) |
| Pension and retiree medical benefits | 93 | — | 19 | (19 ) | 93 |
| Cash flow hedge | (1,339 ) | — | — | — | (1,339 ) |
| Income Taxes: | | | | | |
| Foreign currency translation adjustments | 244 | — | 244 | (244 ) | 244 |
| Pension and retiree medical benefits | (154 ) | — | — | — | (154 ) |
| Cash flow hedge | (820 ) | — | — | — | (820 ) |
| Total Other Comprehensive Loss, net of tax | (13,068 ) | (490 ) | (16,176 ) | 16,666 | (13,068 ) |
| Total Comprehensive Income (Loss) Including Noncontrolling Interest | 2,998 | 6,736 | (6,398 ) | (338 ) | 2,998 |
| Comprehensive Income Attributable to Noncontrolling Interest | 48 | — | 48 | (48 ) | 48 |
| Comprehensive Income (Loss) Attributable to Tennant Company | $2,950 | $ 6,736 | $ (6,446 ) | $ (290 ) | $2,950 |

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Condensed Consolidated Statement of Comprehensive (Loss) Income
For the three months ended June 30, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net (Loss) Earnings Including Noncontrolling Interest | $(2,656) | $ 4,232 | $ (6,254) | $ 2,022 | $(2,656) |
| Other Comprehensive Income (Loss): | | | | | |
| Foreign currency translation adjustments | 13,640 | 303 | 11,276 | (11,579) | 13,640 |
| Pension and retiree medical benefits | 152 | — | 141 | (141) | 152 |
| Cash flow hedge | (4,506) | — | — | — | (4,506) |
| Income Taxes: | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — |
| Pension and retiree medical benefits | (4) | — | — | — | (4) |
| Cash flow hedge | 1,681 | — | — | — | 1,681 |
| Total Other Comprehensive Income, net of tax | 10,963 | 303 | 11,417 | (11,720) | 10,963 |
| Total Comprehensive Income Including Noncontrolling Interest | 8,307 | 4,535 | 5,163 | (9,698) | 8,307 |
| Comprehensive (Loss) Income Attributable to Noncontrolling Interest | (65) | — | 65 | (65) | (65) |
| Comprehensive Income Attributable to Tennant Company | $ 8,372 | $ 4,535 | $ 5,098 | $ (9,633) | $ 8,372 |

Condensed Consolidated Statement of Comprehensive (Loss) Income
For the six months ended June 30, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| Net (Loss) Earnings Including Noncontrolling Interest | $(6,613) | $ 7,678 | $ (7,296) | $ (382) | $(6,613) |
| Other Comprehensive Income (Loss): | | | | | |
| Foreign currency translation adjustments | 16,040 | 404 | (9,421) | 9,017 | 16,040 |
| Pension and retiree medical benefits | 162 | — | 141 | (141) | 162 |
| Cash flow hedge | (4,579) | — | — | — | (4,579) |
| Income Taxes: | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — |
| Pension and retiree medical benefits | (22) | — | (14) | 14 | (22) |
| Cash flow hedge | 1,708 | — | — | — | 1,708 |
| Total Other Comprehensive Income (Loss), net of tax | 13,309 | 404 | (9,294) | 8,890 | 13,309 |
| Total Comprehensive Income (Loss) Including Noncontrolling Interest | 6,696 | 8,082 | (16,590) | 8,508 | 6,696 |
| Comprehensive (Loss) Income Attributable to Noncontrolling Interest | (65) | — | 65 | (65) | (65) |
| Comprehensive Income (Loss) Attributable to Tennant Company | $ 6,761 | $ 8,082 | $ (16,655) | $ 8,573 | $ 6,761 |

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Condensed Consolidated Balance Sheet
As of June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $18,998 | $1,858 | $33,045 | $— | $53,901 |
| Restricted Cash | — | — | 543 | — | 543 |
| Net Receivables | 763 | 92,295 | 122,265 | — | 215,323 |
| Intercompany Receivables | 38,717 | 134,113 | — | (172,830) | — |
| Inventories | 37,145 | 16,372 | 96,099 | (10,210) | 139,406 |
| Prepaid Expenses | 16,567 | 677 | 10,138 | — | 27,382 |
| Other Current Assets | 4,790 | 333 | 3,584 | — | 8,707 |
| Total Current Assets | 116,980 | 245,648 | 265,674 | (183,040) | 445,262 |
| Property, Plant and Equipment | 226,599 | 12,581 | 142,427 | — | 381,607 |
| Accumulated Depreciation | (153,143) | (6,280) | (53,202) | — | (212,625) |
| Property, Plant and Equipment, Net | 73,456 | 6,301 | 89,225 | — | 168,982 |
| Deferred Income Taxes | 1,970 | 3,236 | 8,515 | — | 13,721 |
| Investment in Affiliates | 398,205 | 11,674 | 18,732 | (428,611) | — |
| Intercompany Loans | 304,630 | — | 3,490 | (308,120) | — |
| Goodwill | 12,869 | 1,739 | 171,107 | — | 185,715 |
| Intangible Assets, Net | 2,842 | 2,791 | 152,041 | — | 157,674 |
| Other Assets | 4,872 | — | 9,858 | — | 14,730 |
| Total Assets | $915,824 | $271,389 | $718,642 | $(919,771) | $986,084 |
| LIABILITIES AND TOTAL EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Current Portion of Long-Term Debt | $29,611 | $— | $1,358 | $— | $30,969 |
| Accounts Payable | 43,558 | 4,248 | 55,796 | — | 103,602 |
| Intercompany Payables | 134,113 | 2,311 | 36,406 | (172,830) | — |
| Employee Compensation and Benefits | 12,399 | 11,553 | 17,337 | — | 41,289 |
| Income Taxes Payable | 347 | — | 2,462 | — | 2,809 |
| Other Current Liabilities | 22,317 | 13,174 | 31,262 | — | 66,753 |
| Total Current Liabilities | 242,345 | 31,286 | 144,621 | (172,830) | 245,422 |
| Long-Term Liabilities: | | | | | |
| Long-Term Debt | 326,948 | — | 1,751 | — | 328,699 |
| Intercompany Loans | 3,490 | 128,000 | 176,630 | (308,120) | — |
| Employee-Related Benefits | 12,197 | 1,972 | 8,414 | — | 22,583 |
| Deferred Income Taxes | — | — | 50,444 | — | 50,444 |
| Other Liabilities | 28,647 | 2,715 | 5,377 | — | 36,739 |
| Total Long-Term Liabilities | 371,282 | 132,687 | 242,616 | (308,120) | 438,465 |
| Total Liabilities | 613,627 | 163,973 | 387,237 | (480,950) | 683,887 |
| Equity: | | | | | |
| Common Stock | 6,778 | — | 11,131 | (11,131) | 6,778 |
| Additional Paid-In Capital | 22,273 | 77,551 | 384,460 | (462,011) | 22,273 |
| Retained Earnings | 306,667 | 31,024 | (11,489) | (19,535) | 306,667 |
| Accumulated Other Comprehensive Loss | (35,391) | (1,159) | (54,567) | 55,726 | (35,391) |
| Total Tennant Company Shareholders' Equity | 300,327 | 107,416 | 329,535 | (436,951) | 300,327 |
| Noncontrolling Interest | 1,870 | — | 1,870 | (1,870) | 1,870 |

| | | | | | |
|---|---|---|---|---|---|
| Total Equity | 302,197 | 107,416 | 331,405 | (438,821 ) | 302,197 |
| Total Liabilities and Total Equity | $915,824 | $ 271,389 | $ 718,642 | $ (919,771 ) | $986,084 |

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Condensed Consolidated Balance Sheet
As of December 31, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $18,469 | $507 | $39,422 | $— | $58,398 |
| Restricted Cash | — | — | 653 | — | 653 |
| Net Receivables | 683 | 88,629 | 120,204 | — | 209,516 |
| Intercompany Receivables | 53,444 | 133,778 | — | (187,222) | — |
| Inventories | 29,450 | 12,695 | 94,542 | (8,993) | 127,694 |
| Prepaid Expenses | 8,774 | 1,172 | 9,405 | — | 19,351 |
| Other Current Assets | 4,030 | — | 3,473 | — | 7,503 |
| Total Current Assets | 114,850 | 236,781 | 267,699 | (196,215) | 423,115 |
| Property, Plant and Equipment | 225,064 | 12,155 | 145,549 | — | 382,768 |
| Accumulated Depreciation | (146,320) | (6,333) | (50,097) | — | (202,750) |
| Property, Plant and Equipment, Net | 78,744 | 5,822 | 95,452 | — | 180,018 |
| Deferred Income Taxes | 1,308 | 2,669 | 7,157 | — | 11,134 |
| Investment in Affiliates | 392,486 | 11,273 | 20,811 | (424,570) | — |
| Intercompany Loans | 304,822 | — | 4,983 | (309,805) | — |
| Goodwill | 12,869 | 1,739 | 171,436 | — | 186,044 |
| Intangible Assets, Net | 2,105 | 2,898 | 167,344 | — | 172,347 |
| Other Assets | 10,363 | — | 10,956 | — | 21,319 |
| Total Assets | $917,547 | $261,182 | $745,838 | $(930,590) | $993,977 |
| LIABILITIES AND TOTAL EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Current Portion of Long-Term Debt | $29,413 | $— | $1,470 | $— | $30,883 |
| Accounts Payable | 39,927 | 3,018 | 53,137 | — | 96,082 |
| Intercompany Payables | 133,778 | 1,963 | 51,481 | (187,222) | — |
| Employee Compensation and Benefits | 8,311 | 10,355 | 18,591 | — | 37,257 |
| Income Taxes Payable | 366 | — | 2,472 | — | 2,838 |
| Other Current Liabilities | 20,183 | 15,760 | 33,504 | — | 69,447 |
| Total Current Liabilities | 231,978 | 31,096 | 160,655 | (187,222) | 236,507 |
| Long-Term Liabilities: | | | | | |
| Long-Term Debt | 344,147 | — | 1,809 | — | 345,956 |
| Intercompany Loans | — | 128,000 | 181,805 | (309,805) | — |
| Employee-Related Benefits | 11,160 | 3,992 | 8,715 | — | 23,867 |
| Deferred Income Taxes | — | — | 53,225 | — | 53,225 |
| Other Liabilities | 31,788 | 2,483 | 1,677 | — | 35,948 |
| Total Long-Term Liabilities | 387,095 | 134,475 | 247,231 | (309,805) | 458,996 |
| Total Liabilities | 619,073 | 165,571 | 407,886 | (497,027) | 695,503 |
| Equity: | | | | | |
| Common Stock | 6,705 | — | 11,131 | (11,131) | 6,705 |
| Additional Paid-In Capital | 15,089 | 72,483 | 384,460 | (456,943) | 15,089 |
| Retained Earnings | 297,032 | 23,797 | (21,219) | (2,578) | 297,032 |
| Accumulated Other Comprehensive Loss | (22,323) | (669) | (38,391) | 39,060 | (22,323) |
| Total Tennant Company Shareholders' Equity | 296,503 | 95,611 | 335,981 | (431,592) | 296,503 |
| Noncontrolling Interest | 1,971 | — | 1,971 | (1,971) | 1,971 |

| | | | | | |
|---|---|---|---|---|---|
| Total Equity | 298,474 | 95,611 | 337,952 | (433,563 ) | 298,474 |
| Total Liabilities and Total Equity | $917,547 | $ 261,182 | $ 745,838 | $ (930,590 ) | $993,977 |

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Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2018

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | | |
| Net Cash Provided by (Used in) Operating Activities | $26,960 | $ 1,409 | $ (2,405) | $ — | $25,964 |
| INVESTING ACTIVITIES | | | | | |
| Purchases of Property, Plant and Equipment | (2,288) | (58) | (5,380) | — | (7,726) |
| Proceeds from Disposals of Property, Plant and Equipment | 17 | — | 85 | — | 102 |
| Proceeds from Principal Payments Received on Long-Term Note Receivable | — | — | 706 | — | 706 |
| Purchase of Intangible Assets | (1,000) | — | (195) | — | (1,195) |
| Loan Payments from Parent | — | — | 1,493 | (1,493) | — |
| Net Cash Used in Investing Activities | (3,271) | (58) | (3,291) | (1,493) | (8,113) |
| FINANCING ACTIVITIES | | | | | |
| Loan Payments to Subsidiaries | (1,493) | — | — | 1,493 | — |
| Payments of Long-Term Debt | (18,000) | — | (133) | — | (18,133) |
| Change in Capital Lease Obligations | — | — | 59 | — | 59 |
| Proceeds from Issuances of Common Stock | 3,724 | — | — | — | 3,724 |
| Dividends Paid | (7,553) | — | — | — | (7,553) |
| Net Cash (Used in) Provided by Financing Activities | (23,322) | — | (74) | 1,493 | (21,903) |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash | 162 | — | (717) | — | (555) |
| Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash | 529 | 1,351 | (6,487) | — | (4,607) |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period | 18,469 | 507 | 40,075 | — | 59,051 |
| Cash, Cash Equivalents and Restricted Cash at End of Period | $18,998 | $ 1,858 | $ 33,588 | $ — | $54,444 |

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Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2017

| (in thousands) | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total Tennant Company |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | | |
| Net Cash (Used in) Provided by Operating Activities | $ (29,401 ) | $ 188 | $ 26,718 | $ — | $ (2,495 ) |
| INVESTING ACTIVITIES | | | | | |
| Purchases of Property, Plant and Equipment | (4,639 ) | — | (4,506 ) | — | (9,145 ) |
| Proceeds from Disposals of Property, Plant and Equipment | 14 | — | 2,414 | — | 2,428 |
| Issuance of Long-Term Note Receivable | — | — | (1,500 ) | — | (1,500 ) |
| Acquisition of Businesses, Net of Cash Acquired | (304 ) | — | (353,231 ) | — | (353,535 ) |
| Purchase of Intangible Asset | (2,500 ) | — | — | — | (2,500 ) |
| Change in Investments in Subsidiaries | (193,639 ) | — | — | 193,639 | — |
| Loan Payments to Subsidiaries and Parent | (159,780 ) | — | (1,771 ) | 161,551 | — |
| Net Cash Used in Investing Activities | (360,848 ) | — | (358,594 ) | 355,190 | (364,252 ) |
| FINANCING ACTIVITIES | | | | | |
| Proceeds from Short-Term Debt | 300,000 | — | — | — | 300,000 |
| Repayments of Short-Term Debt | (300,000 ) | — | — | — | (300,000 ) |
| Loan Borrowings from Subsidiaries and Parent | 1,771 | — | 159,780 | (161,551 ) | — |
| Change in Subsidiary Equity | — | — | 193,639 | (193,639 ) | — |
| Proceeds from Issuance of Long-Term Debt | 440,000 | — | — | — | 440,000 |
| Payments of Long-Term Debt | (58,393 ) | — | (78 ) | — | (58,471 ) |
| Payments of Debt Issuance Costs | (16,039 ) | — | — | — | (16,039 ) |
| Proceeds from Issuance of Common Stock | 3,843 | — | — | — | 3,843 |
| Dividends Paid | (7,463 ) | — | — | — | (7,463 ) |
| Net Cash Provided by Financing Activities | 363,719 | — | 353,341 | (355,190 ) | 361,870 |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash | (176 ) | — | 1,051 | — | 875 |
| Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash | (26,706 ) | 188 | 22,516 | — | (4,002 ) |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period | 38,484 | 226 | 19,840 | — | 58,550 |
| Cash, Cash Equivalents and Restricted Cash at End of Period | $ 11,778 | $ 414 | $ 42,356 | $ — | $ 54,548 |

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20. Subsequent Event

On July 31, 2018, we sold assets of our subsidiary, Water Star, Inc., for $4,000. The sale had no material impact on our results of operations.

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 empower customers to achieve quality cleaning performance, reduce environmental impact and help create a cleaner, safer, healthier world. Tennant is committed to creating and commercializing breakthrough, sustainable cleaning innovations to enhance its broad suite of products, including floor maintenance and outdoor cleaning equipment, detergent-free and other sustainable cleaning technologies, aftermarket parts and consumables, equipment maintenance and repair service, specialty surface coatings and asset management solutions. Tennant products are used in many types of environments, including retail establishments, distribution centers, factories and warehouses, public venues, such as arenas and stadiums, office buildings, schools and universities, hospitals and clinics, parking lots and streets, and more. Customers include contract cleaners to whom organizations outsource facilities maintenance, as well as businesses that perform 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.

Historical Results

The following table compares the historical results of operations for the three and six months ended June 30, 2018 and 2017, respectively, and as a percentage of Net Sales (in thousands, except per share data and percentages):

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | % | 2017 | % | 2018 | % | 2017 | % |
| Net Sales | $292,197 | 100.0 | $270,791 | 100.0 | $565,044 | 100.0 | $461,850 | 100.0 |
| Cost of Sales | 173,398 | 59.3 | 166,237 | 61.4 | 335,608 | 59.4 | 277,560 | 60.1 |
| Gross Profit | 118,799 | 40.7 | 104,554 | 38.6 | 229,436 | 40.6 | 184,290 | 39.9 |
| Operating Expense: | | | | | | | | |
| Research and Development Expense | 7,906 | 2.7 | 7,886 | 2.9 | 15,902 | 2.8 | 16,332 | 3.5 |
| Selling and Administrative Expense | 91,864 | 31.4 | 87,326 | 32.2 | 184,133 | 32.6 | 161,282 | 34.9 |
| Total Operating Expense | 99,770 | 34.1 | 95,212 | 35.2 | 200,035 | 35.4 | 177,614 | 38.5 |
| Profit from Operations | 19,029 | 6.5 | 9,342 | 3.4 | 29,401 | 5.2 | 6,676 | 1.4 |
| Other Income (Expense): | | | | | | | | |
| Interest Income | 952 | 0.3 | 793 | 0.3 | 1,701 | 0.3 | 877 | 0.2 |
| Interest Expense | (6,005) | (2.1) | (11,833) | (4.4) | (11,750) | (2.1) | (12,627) | (2.7) |
| Net Foreign Currency Transaction Losses | (337) | (0.1) | (336) | (0.1) | (1,086) | (0.2) | (1,533) | (0.3) |
| Other Expense, Net | (510) | (0.2) | (384) | (0.1) | (760) | (0.1) | (352) | (0.1) |
| Total Other Expense, Net | (5,900) | (2.0) | (11,760) | (4.3) | (11,895) | (2.1) | (13,635) | (3.0) |
| Profit (Loss) Before Income Taxes | 13,129 | 4.5 | (2,418) | (0.9) | 17,506 | 3.1 | (6,959) | (1.5) |
| Income Tax Expense (Benefit) | 363 | 0.1 | 238 | 0.1 | 1,440 | 0.3 | (346) | (0.1) |
| Net Earnings (Loss) Including Noncontrolling Interest | 12,766 | 4.4 | (2,656) | (1.0) | 16,066 | 2.8 | (6,613) | (1.4) |
| Net Earnings (Loss) Attributable to Noncontrolling Interest | 22 | — | (65) | — | 48 | — | (65) | — |
| Net Earnings (Loss) Attributable to Tennant Company | $12,744 | 4.4 | $(2,591) | (1.0) | $16,018 | 2.8 | $(6,548) | (1.4) |
| Net Earnings (Loss) Attributable to Tennant Company per Share | $0.69 | | $(0.15) | | $0.88 | | $(0.37) | |

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Net Sales

Consolidated Net Sales for the second quarter of 2018 totaled $292.2 million, a 7.9% increase as compared to consolidated Net Sales of $270.8 million in the second quarter of 2017. Consolidated Net Sales for the first six months of 2018 totaled $565.0 million, a 22.3% increase as compared to consolidated Net Sales of $461.9 million the first six months of 2017.

The components of the consolidated Net Sales change for the three and six months ended June 30, 2018 as compared to the same periods in 2017 were as follows:

| | 2018 v. 2017 | |
|---|---|---|
| | Three Months Ended June 30 | Six Months Ended June 30 |
| Organic Growth: | | |
| Volume | 3.7% | 4.3% |
| Price | 1.5% | 1.5% |
| Organic Growth | 5.2% | 5.8% |
| Foreign Currency | 2.7% | 2.8% |
| Acquisitions | —% | 13.7% |
| Total | 7.9% | 22.3% |

The 7.9% increase in consolidated Net Sales in the second quarter of 2018 as compared to the same period in 2017 was driven by:

- An organic sales increase of approximately 5.2%, which excludes the effects of foreign currency exchange and acquisitions, resulting from an approximate 3.7% volume increase and a 1.5% price increase. The volume increase was primarily due to broad-based equipment sales growth in the Americas and increased sales of commercial equipment in the EMEA region, mostly attributed to strong sales through strategic accounts in these regions. These regions also experienced increased sales of parts and consumables as well as higher service sales. Sales of new products introduced within the past three years totaled 35% of equipment revenue for the second quarter of 2018, compared to 49% in the 2017 second quarter. The price increase was the result of selling price increases, which averaged 3% in most geographies, with an effective date of February 1, 2018. We expect the increase in selling prices to increase Net Sales in the range of 1% to 2% for the 2018 full year. The impact to gross margin is estimated to be minimal as these selling price increases were taken to offset inflation.
- A favorable impact from foreign currency exchange of approximately 2.7%.

The 22.3% increase in consolidated Net Sales in the first six months of 2018 as compared to the same period in 2017 was driven by:

- 13.7% from the second quarter 2017 acquisition of the IPC Group.
- An organic sales increase of approximately 5.8%, which excludes the effects of foreign currency exchange and acquisitions, resulting from an approximate 4.3% volume increase and a 1.5% price increase. The volume increase was primarily due to increased sales of commercial equipment in the Americas and EMEA regions, mostly attributed to strong sales through strategic accounts in these regions. These regions also experienced increased sales of parts and consumables as well as higher service sales. Sales of new products introduced within the past three years totaled 39% for the first six months of 2018, compared to 45% for the first six months of 2017. The price increase was the result of selling price increases, which averaged 3% in most geographies, with an effective date of February 1, 2018. We expect the increase in selling prices to increase Net Sales in the range of 1% to 2% for the 2018 full year. The impact to gross margin is estimated to be minimal as these selling price increases were taken to offset inflation.
- A favorable impact from foreign currency exchange of approximately 2.8%.

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The following table sets forth the Net Sales by geographic area for the three and six months ended June 30, 2018 and 2017 and the percentage change from the prior year (in thousands, except percentages):

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % |
| Americas | $178,752 | $169,146 | 5.7 | $341,390 | $311,916 | 9.4 |
| Europe, Middle East and Africa | 87,410 | 77,356 | 13.0 | 176,226 | 110,632 | 59.3 |
| Asia Pacific | 26,035 | 24,289 | 7.2 | 47,428 | 39,302 | 20.7 |
| Total | $292,197 | $270,791 | 7.9 | $565,044 | $461,850 | 22.3 |

Americas

Net Sales in the Americas were $178.8 million for the second quarter of 2018, an increase of 5.7% from the second quarter of 2017. An unfavorable direct impact of foreign currency translation exchange effects within the Americas impacted Net Sales by approximately 0.3% in the second quarter of 2018. As a result, organic sales growth in the Americas favorably impacted Net Sales by approximately 6.0% due to strong equipment sales in North America resulting from increased sales to the strategic account and distribution channels, increased parts and service sales, primarily a result of improved productivity in our service organization, increased industrial equipment sales in South America and continued broad-based strength in Brazil.

Net Sales in the Americas were $341.4 million for the first six months of 2018, an increase of 9.4% from the first six months of 2017. The direct impact of the second quarter 2017 acquisition of the IPC Group favorably impacted Net Sales by approximately 2.5%. In addition, an unfavorable impact of foreign currency translation exchange effects within the Americas impacted Net Sales by approximately 0.1% in the first six months of 2018. As a result, organic sales growth in the Americas favorably impacted Net Sales by approximately 7.0% due to strong equipment sales in North America resulting from increased sales to all sales channels, and broad based sales growth in Brazil. The Americas also experienced increased parts and service sales in the first six months of 2018, primarily a result of improved productivity in our service organization.

Europe, Middle East and Africa

EMEA Net Sales were $87.4 million for the second quarter of 2018, an increase of 13.0% from the second quarter of 2017. A favorable impact of foreign currency translation exchange effects within EMEA impacted Net Sales by approximately 9.4% in the second quarter of 2018. As a result, organic sales growth in EMEA favorably impacted Net Sales by approximately 3.6% due to strong sales growth in the France, Germany and Iberian markets from strong demand in the strategic account channel and strong scrubber and sweeper sales. Net Sales for the second quarter of 2018 were partially offset by lower sales in Italy.

EMEA Net Sales were $176.2 million for the first six months of 2018, an increase of 59.3% from the first six months of 2017. The direct impact of the second quarter 2017 acquisition of the IPC Group favorably impacted Net Sales by approximately 45.1%. In addition, a favorable impact of foreign currency translation exchange effects within EMEA impacted Net Sales by approximately 11.1% in the first six months of 2018. As a result, organic sales growth in EMEA favorably impacted Net Sales by approximately 3.1% due to strong sales growth in the France, Germany and Iberian markets from strong demand in both the direct and strategic account channels and sales growth in The Netherlands from strong demand in both the direct and distribution channels. Net Sales for the first six months of 2018 were partially offset by lower sales in Italy and lower distribution sales in the Central and Eastern Europe/Middle East and Africa geographies.

Asia Pacific

APAC Net Sales were $26.0 million for the second quarter of 2018, an increase of 7.2% from the second quarter of 2017. A favorable direct impact of foreign currency translation exchange effects within APAC impacted Net Sales by approximately 2.1% in the second quarter of 2018. As a result, organic sales growth in APAC favorably impacted Net Sales by approximately 5.1% due to sales growth in Australia from strong sales through the strategic account channel.

APAC Net Sales were $47.4 million for the first six months of 2018, an increase of 20.7% from the first six months of 2017. The direct impact of the second quarter 2017 acquisition of the IPC Group favorably impacted Net Sales by approximately 14.2%. In addition, a favorable direct impact of foreign currency translation exchange effects within

APAC impacted Net Sales by approximately 3.0% in the first six months of 2018. As a result, organic sales growth in APAC favorably impacted Net Sales by approximately 3.5% due to sales growth in Australia from strong sales through the direct and strategic account channels.



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Gross Profit

Gross Profit margin of 40.7% was 210 basis points higher in the second quarter of 2018 compared to the second quarter of 2017. Gross Profit margin was favorably impacted by a $6.2 million, or approximately 230 basis points, fair value inventory step-up flow through related to our acquisition of the IPC Group in the second quarter of 2017 that did not repeat in the second quarter of 2018. In addition, Gross Profit margin was favorably impacted by improved operational performance in both manufacturing and service resulting from our operational effectiveness strategies. These favorable Gross Profit margin impacts were partially offset by robust strategic account sales impacting our mix and manufacturing productivity issues associated with raw material and labor shortages as well as higher freight and logistics costs.

Gross Profit margin of 40.6% was 70 basis points higher in the first six months of 2018 compared to the first six months of 2017. Gross Profit margin was favorably impacted by a $6.2 million, or approximately 130 basis points, fair value inventory step-up flow through related to our acquisition of the IPC Group in first six months of 2017 that did not repeat in the first six months of 2018. In addition, Gross Profit margin was favorably impacted by improved operational performance in both manufacturing and service. These favorable Gross Profit margin impacts were partially offset by robust strategic account sales impacting our mix, manufacturing productivity issues associated with raw material and labor shortages and an inventory write down related to our Coatings business.

We expect the full year Gross Profit margin to be approximately 41.0% of net sales.

Operating Expense

Research & Development Expense

We continue to invest in developing innovative products and technologies and the advancement of detergent-free products, fleet management and other sustainable technologies. New products and product variants launched in the first six months of 2018 included the T600 series of scrubbers. Later in 2018, we plan to introduce our first autonomous floor care machine.

Research and Development ("R&D") Expense was $7.9 million, or 2.7% as a percentage of Net Sales, for the second quarter of 2018, a decrease of 20 basis points compared to the second quarter of 2017. R&D Expense was $15.9 million, or 2.8% as a percentage of Net Sales, for the first six months of 2018, a decrease of 70 basis points compared to the first six months of 2017.

The decrease in R&D as a percentage of sales reflects the impact of 2018 higher revenue and the timing of anticipated project spend in 2018, including investment in our strategic relationship with Brain Corp., to accelerate development of our autonomous floor cleaning technology. We expect the full year spending for R&D to be approximately 3.0% of net sales.

Selling & Administrative Expense

Selling and Administrative Expense ("S&A Expense") was $91.9 million, an increase of $4.5 million, or 5.2%, compared to the second quarter of 2017. As a percentage of Net Sales, S&A Expense for the second quarter of 2018 decreased 80 basis points to 31.4% from 32.2% in the second quarter of 2017.

The decrease in S&A Expense as a percentage of Net Sales for the second quarter of 2018 compared to the same period in the prior year was primarily due to $4.7 million of acquisition and integration costs, or approximately 170 basis points, related to our acquisition of the IPC Group in the second quarter of 2017 that were higher than the $2.8 million of acquisition and integration costs, or approximately 100 basis points, related to the IPC Group recorded in the second quarter of 2018.

The favorable impact from these costs was partially offset by the unfavorable impact resulting from an increase in amortization expense related to our acquisition of the IPC Group of $2.4 million, or approximately 80 basis points, for the second quarter of 2018 compared to the second quarter of 2017.

Excluding these costs, S&A Expense as a percentage of Net Sales was 90 basis points lower in the second quarter of 2018 compared to the second quarter of 2017 due primarily to our continued balance of disciplined spending control with investments in key growth initiatives.

S&A Expense for the first six months of 2018 increased by $22.9 million, or 14.2%, compared to the first six months of 2017. As a percentage of Net Sales, S&A Expense for the first six months of 2018 decreased 230 basis points to 32.6% from 34.9% in the first six months of 2017.

The decrease in S&A Expense as a percentage of Net Sales for the first six months of 2018 compared to the same period in the prior year was primarily due to an $8.0 million restructuring charge, or approximately 170 basis points, that did not repeat in the first six months of 2018. In addition, included in S&A Expense for the first six months of 2017 was $7.6 million of acquisition and integration costs, or approximately 160 basis points, related to our acquisition of the IPC Group that were higher than the $3.8 million of acquisition and integration costs, or approximately 70 basis points, related to our acquisition of the IPC Group recorded in the first six months of 2018.

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The favorable impact from these costs was partially offset by the unfavorable impact resulting from an increase in amortization expense related to our acquisition of the IPC Group of $7.9 million, or approximately 140 basis points, in the first six months of 2018 compared to the first six months of 2017. S&A Expense was also unfavorably impacted by expenses incurred of $1.6 million for non-operational professional service fees, or 30 basis points, in the first six months of 2018.

Excluding these costs, S&A Expense as a percentage of Net Sales was 140 basis points lower in the first six months of 2018 compared to the first six months of 2017 due primarily to our continued balance of disciplined spending control with investments in key growth initiatives.

Profit from Operations

Operating Profit for the second quarter of 2018 was $19.0 million, or 6.5% of Net Sales, compared to Operating Profit of $9.3 million, or 3.4% of Net Sales, in the second quarter of 2017. The second quarter of 2018 Operating Profit was $9.7 million higher than the Operating Profit recorded in the second quarter of 2017 primarily driven by $21.4 million of higher net sales and improved gross margin rate, partially offset by higher S&A Expense.

Operating Profit for the first six months of 2018 was $29.4 million, or 5.2% of Net Sales, compared to Operating Profit of $6.7 million, or 1.4% of Net Sales, in the first six months of 2017. Operating Profit for the first six months of 2018 was $22.7 million higher than the Operating Profit recorded in the first six months of 2017 due primarily to a $103.2 million increase in net sales as well as an improved gross margin rate, partially offset by higher S&A Expense.

Total Other Expense, Net

Interest Income

Interest Income was $1.0 million in the second quarter of 2018, relatively flat compared to Interest Income of $0.8 million in the second quarter of 2017. For the first six months of 2018, Interest Income was $1.7 million compared to Interest Income of $0.9 million in the first six months of 2017. The increase in Interest Income was primarily due to interest income related to foreign currency swap activities.

Interest Expense

Interest Expense was $6.0 million in the second quarter of 2018 compared to Interest Expense of $11.8 million in the second quarter of 2017. For the first six months of 2018, Interest Expense was $11.8 million compared to Interest Expense of $12.6 million in the first six months of 2017. The lower Interest Expense in the second quarter and first six months of 2018 compared to the same periods in 2017 was primarily due to a $6.2 million charge to expense the debt issuance costs for loans which were refinanced or repaid in the second quarter of 2017 that did not repeat in 2018, partially offset by carrying a higher level of debt on our Condensed Consolidated Balance Sheets throughout the first six months of 2018 compared to the same period in 2017.

Net Foreign Currency Transaction Losses

Net Foreign Currency Transaction Losses in the second quarter of 2018 and 2017 were $0.3 million. For the first six months of 2018, Net Foreign Currency Transaction Losses were $1.1 million compared to Net Foreign Currency Transaction Losses of $1.5 million in the first six months of 2017. The favorable change in the impact from foreign currency transactions in the first six months of 2018 was primarily due to a $1.1 million mark-to-market adjustment of a foreign exchange call option held in connection with our acquisition of IPC Group in April 2017 that did not repeat in 2018.

Other Expense, Net

Other Expense, Net was $0.5 million and $0.8 million in the second quarter and first six months of 2018, respectively, relatively flat compared to the same periods in 2017.

Profit (Loss) Before Income Taxes

Profit (Loss) Before Income Taxes for the second quarter of 2018 was $13.1 million, an increase of $15.5 million compared to the second quarter of 2017. Profit (Loss) Before Income Taxes for the first six months of 2018 was $17.5 million, an increase of $24.5 million compared to the first six months of 2017. The increase resulted primarily from higher Operating Profit in the second quarter and first six months of 2018 compared to the same periods in 2017.

Income Taxes

The effective tax rate in the second quarter of 2018 was 2.8% compared to the effective tax rate in the second quarter of the prior year of (9.8%).

The tax expense for the second quarter of 2018 included a $0.7 million tax benefit associated with $2.8 million of acquisition and integration related costs associated with our acquisition of the IPC Group and a $0.1 million tax benefit associated with $0.3 million of costs related to non-operational professional service fees. These special items impacted the second quarter 2018 effective tax rate by (4.0%).

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The effective tax rate in the second quarter of 2017 was (9.8%). The tax expense for the second quarter of 2017 included a $2.3 million tax benefit associated with $10.9 million of acquisition costs and financing costs related to our acquisition of the IPC Group and a $1.7 million tax benefit associated with $6.2 million of expense for the inventory step-up flow through related to our acquisition of the IPC Group. These special items impacted the second quarter 2018 effective tax rate by (38.9%).

Excluding these special items, the rate decreased due primarily to the mix in expected full year taxable earnings by country, discrete tax expense related to exercised stock options, a favorable tax ruling with the Italian tax authorities in connection with the acquisition of IPC Group and to the reduction in the U.S. federal income tax rate in the Tax Act.

The year-to-date overall effective tax rate was 8.2% for 2018 compared to 5.0% for 2017. The 2018 special items impacted the year-to-date overall effective tax rate by (3.8%). The 2017 special items impacted the year-to-date overall effective tax rate by (23.7%).

Excluding these special items, the rate decreased due primarily to the mix in expected full year taxable earnings by country, discrete tax expense related to the exercise of soon-to-expire stock options, favorable tax ruling from the Italian tax authorities related to the deductibility of interest expense in Italy and to the reduction in the U.S. federal income tax rate in the Tax Act.

In general, it is our practice and intention to permanently reinvest the earnings of our foreign subsidiaries and repatriate earnings only when the tax impact is zero or immaterial and that position has not changed following incurring the transition tax under the Tax Act. No deferred taxes have been provided for withholding taxes or other taxes that would result upon repatriation of our foreign investments to the United States.

Net Earnings (Loss) and Net Earnings (Loss) Per Share

Net Earnings (Loss) for the second quarter of 2018 were $12.7 million, or $0.69 per diluted share, compared to $(2.6) million, or $(0.15) per diluted share, for the second quarter of 2017. Net Earnings (Loss) were impacted by:

- an increase in Net Sales of 7.9% in the second quarter of 2018 compared to the second quarter of 2017;
- gross profit margin improvement of 210 basis points in the second quarter of 2018 compared to the second quarter of 2017;
- an 80 basis point decrease in S&A Expense as a percentage of Net Sales in the second quarter of 2018 compared to the second quarter of 2017; and
- a favorable impact from a $5.8 million decrease in Interest Expense in the second quarter of 2018 compared to the second quarter of 2017.

Net Earnings (Loss) for the first six months of 2018 were $16.0 million, or $0.88 per diluted share, compared to $(6.5) million, or $(0.37) per diluted share, for the first six months of 2017. Net Earnings (Loss) were impacted by:

- an increase in Net Sales of 22.3% in the first six months of 2018 compared to the first six months of 2017;
- gross profit margin improvement of 70 basis points in the first six months of 2018 compared to the first six months of 2017; and
- a 230 basis point decrease in S&A Expense as a percentage of Net Sales in the first six months of 2018 compared to the first six months of 2017.

Liquidity and Capital Resources

Liquidity

Cash and Cash Equivalents totaled $53.9 million at June 30, 2018, as compared to $58.4 million as of December 31, 2017. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to subsidiaries as needed. Our current ratio was 1.8 as of June 30, 2018 and December 31, 2017, and our working capital was $199.8 million and $186.6 million, respectively. Our debt-to-capital ratio was 54.5% as of June 30, 2018, compared to 56.0% as of December 31, 2017.

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Cash Flow Summary

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

| | Six Months Ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| Operating Activities | $25,964 | $(2,495) |
| Investing Activities: | | |
| Purchases of Property, Plant and Equipment, Net of Disposals | (7,624) | (6,717) |
| Proceeds from Principal Payments Received on Long-Term Note Receivable | 706 | — |
| Issuance of Long-Term Note Receivable | — | (1,500) |
| Acquisition of Business, Net of Cash, Cash Equivalents and Restricted Cash Acquired | — | (353,535) |
| Purchase of Intangible Assets | (1,195) | (2,500) |
| Financing Activities | (21,903) | 361,870 |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash | (555) | 875 |
| Net Decrease in Cash, Cash Equivalents and Restricted Cash | $(4,607) | $(4,002) |

Operating Activities

Operating Activities provided $26.0 million of cash for the six months ended June 30, 2018. Cash provided by operating activities was driven primarily by cash inflows from adjusted net earnings of $42.8 million, an increase in Accounts Payable of $9.8 million resulting from timing of payments and a $4.1 million increase in Employee Compensation and Benefits liabilities. These cash inflows were offset by cash outflows resulting from an increase in Inventories of $17.0 million to support future sales growth and a $6.8 million increase in Accounts Receivable resulting from higher sales levels, the variety of payment terms offered and mix of business.

Operating Activities used $2.5 million of cash for the six months ended June 30, 2017. Cash used in operating activities was driven primarily by an increase in Inventories of $9.9 million to support future sales growth, a decrease in Employee Compensation and Benefits of $8.3 million due to payment of accrued employee incentives and a $6.0 million increase in Accounts Receivable resulting from higher sales levels, the variety of payment terms offered and mix of business. These cash outflows were partially offset by cash inflows resulting from adjusted net earnings of $19.4 million and an increase in Accounts Payable of $6.2 million resulting from timing of payments.

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 first-in, first-out ("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 June 30, 2018 and December 31, 2017 were as follows (in days):

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| DSO | 64 | 63 |
| DIOH | 92 | 96 |

As of June 30, 2018, DSO increased one day compared to December 31, 2017 primarily due to mix of business, partially offset by the trend of continued proactive management of our receivables by enforcing tighter credit limits and continuing to successfully collect past due balances.

As of June 30, 2018, DIOH decreased four days as compared to December 31, 2017 primarily due to progress from inventory reduction initiatives, somewhat offset by increased levels of inventory in support of higher anticipated sales levels and launches of new products.

Investing Activities

Investing activities during the six months ended June 30, 2018 used $8.1 million. We used $7.6 million for net capital expenditures. Net capital expenditures included investments in information technology process improvement projects, tooling related to new product development and manufacturing equipment. We also used $1.2 million to purchase a technology license and other intangibles.

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Investing activities during the six months ended June 30, 2017 used $364.3 million. We used $353.5 million in relation to our acquisition of the IPC Group and the final installment payment for the acquisition of the Florock brand. In addition, we used $6.7 million and $2.5 million for net capital expenditures and for the purchase of the distribution rights to sell the i-mop, respectively. Net capital expenditures included investments in information technology process improvement projects, tooling related to new product development and manufacturing equipment. We also used $1.5 million as a result of a loan to i-team North America B.V., a joint venture that operates as the distributor of the i-mop in North America.

Financing Activities

Net cash used in financing activities was $21.9 million during the first six months of 2018. Payments of Long-Term Debt used $18.1 million and dividend payments used $7.6 million, partially offset by proceeds from the issuance of Common Stock of $3.7 million.

Net cash provided by financing activities was $361.9 million during the first six months of 2017. Proceeds from the incurrence of Long-Term Debt and the issuance of Common Stock provided $440.0 million and $3.8 million, respectively. These cash inflows were partially offset by cash outflows resulting from $58.5 million of Long-Term Debt payments, $16.0 million related to payments of debt issuance costs and dividend payments of $7.5 million.

Newly Issued Accounting Guidance

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU changes current U.S. GAAP for lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. Under the new guidance, lessor accounting is largely unchanged. The amendments in this ASU are effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period, which is our fiscal 2019. Early application is permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The transition approach would not require any transition accounting for leases that expired before the earliest comparative period presented. A full retrospective transition approach is prohibited for both lessees and lessors. We will adopt this ASU beginning in 2019. We are currently evaluating the impact of this amended guidance on our consolidated financial statements and related disclosures.

Cautionary Statement Relevant to Forward-Looking Information

This Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “project,” or “continue” or similar words or the negative thereof statements do not relate to strictly historical or current facts and provide current expectations 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: our ability to effectively manage organizational changes; our ability to attract, retain and develop key personnel and create effective succession planning strategies; the competition in our business; fluctuations in the cost, quality, or availability of raw materials and purchased components; our ability to successfully upgrade and evolve our information technology systems; our ability to develop and commercialize new innovative products and services; our ability to integrate acquisitions, including IPC; our ability to generate sufficient cash to satisfy our debt obligations; geopolitical and economic uncertainty throughout the world; our ability to successfully protect our information technology systems from cyber security risks; the occurrence of a significant business interruption; our ability to comply with laws and regulations; the potential disruption of our business from actions of activist investors or others; the relative strength of the U.S. dollar, which affects the cost of our materials and products purchased and sold internationally; unforeseen product liability claims or product quality issues; and our internal control over financial reporting risks resulting from our acquisition of the IPC Group. 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. Additional information about factors that could materially affect our results can be found in Part I, Item 1A, Risk Factors in our annual report on Form 10-K for the year ended December 31, 2017 and Part II,

Item 1A of this Form 10-Q.

We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. Investors are advised to consult any further disclosures by us in our filings with the SEC and in other written statements on related subjects. It is not possible to anticipate or foresee all risk factors, and investors should not consider any list of such factors to be an exhaustive or complete list of all risks or uncertainties.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk since December 31, 2017. For additional information, refer to Item 7A of our 2017 annual report on Form 10-K for the year ended December 31, 2017.

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## 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 as of June 30, 2018 (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 SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and our principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Controls

We have completed the documentation, design and implementation of internal controls over financial reporting at our acquired entity, the IPC Group.

Other than the change described above, there were no changes in our internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

There are no material pending legal proceedings other than ordinary routine litigation incidental to our business.

## Item 1A. Risk Factors

We documented our risk factors in Item 1A of Part I of our annual report on Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to our risk factors since the filing of that report.

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

On October 31, 2016, the Board of Directors authorized the repurchase of an additional 1,000,000 shares of our common stock. This is in addition to the 392,892 shares remaining under our prior repurchase program. 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 share-based compensation programs. As of June 30, 2018, our 2017 Credit Agreement restricts the payment of dividends or repurchasing of stock if, after giving effect to such payments and assuming no default exists or would result from such payment, our leverage ratio is greater than 2.50 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 payment. Our Senior Notes due 2025 also contain certain restrictions, which are generally less restrictive than those contained in the 2017 Credit Agreement.

| For the Quarter Ended June 30, 2018 | 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 |
|---|---|---|---|---|
| April 1 - 30, 2018 | 3,360 | $ 64.47 | — | 1,392,892 |
| May 1 - 31, 2018 | — | — | — | 1,392,892 |
| June 1 - 30, 2018 | — | — | — | 1,392,892 |
| Total | 3,360 | $ 64.47 | — | 1,392,892 |

(1) Includes 3,360 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 share-based compensation plans.

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Item 6. 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 | Amended and Restated By-Laws | Incorporated by reference to Exhibit 3iii to the Company's Form 8-K dated December 14, 2010. |
| 3iii | Articles of Amendment of Restated Articles of Incorporation of Tennant Company | Incorporated by reference to Exhibit 3iii to the Company's report on Form 10-Q for the quarterly period ended March 31, 2018. |
| 4.1 | Indenture dated as of April 18, 2017 | Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 24, 2017. |
| 10.1 | Form of Tennant Company 2017 Stock Incentive Plan Non-Employee Director Restricted Stock Unit Agreement | Filed herewith electronically. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of CEO | Filed herewith electronically. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of CFO | Filed herewith electronically. |
| 32.1 | Section 1350 Certification of CEO | Filed herewith electronically. |
| 32.2 | Section 1350 Certification of CFO | Filed herewith electronically. |
| 101 | The following financial information from Tennant Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017; (ii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2018 and 2017; (iii) Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; and (v) Notes to the Condensed Consolidated Financial Statements. | Filed herewith electronically. |

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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: August 1, 2018 /s/ H. Chris Killingstad
H. Chris Killingstad
President and Chief Executive Officer

Date: August 1, 2018 /s/ Thomas Paulson
Thomas Paulson
Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)