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Tennant Company Reports 2011 Third Quarter Results

Third quarter net sales grew 11 percent to \$187.0 million;
Quarterly operating profit margin improved 220 basis points to 8.4 percent;
Quarterly EPS up 28 percent to \$0.50 per diluted share;
Company adjusts 2011 full year sales and earnings guidance

MINNEAPOLIS, Oct. 25, 2011—Tennant Company (NYSE: TNC), a world leader in designing, manufacturing and marketing of solutions that help create a cleaner, safer, healthier world, today reported net earnings of \$9.7 million, or \$0.50 per diluted share, on net sales of \$187.0 million for the third quarter ended September 30, 2011. The 2011 third quarter earnings include a \$0.05 loss per diluted share from net foreign currency exchange losses, due to the volatility of foreign exchange rates, which was partially offset by \$0.03 per diluted share of favorable discrete tax items primarily related to the settlement of routine tax audits. In the 2010 third quarter, Tennant reported net earnings of \$7.5 million, or \$0.39 per diluted share, on net sales of \$168.6 million.

"We are pleased to report record sales for a third quarter and increased earnings per share, as Tennant's business continued to perform very well in a volatile economic environment," said Chris Killingstad, Tennant Company's president and chief executive officer. "The company generated solid sales gains with approximately 7.4 percent organic sales growth. Sales rose in all of our geographies, with strong contributions from strategic accounts and our sustainable, water-based ec-H2OTM cleaning technology."

Sales of scrubbers equipped with Tennant's ec-H2O technology grew approximately 32 percent in the 2011 third quarter compared to the prior year quarter. In the first nine months of 2011, sales of ec-H2O equipped scrubbers totaled \$101 million versus \$64 million in the same period last year. Tennant continues to expect 2011 full year ec-H2O sales in the range of \$130 million to \$140 million. The environmentally friendly ec-H2O process converts water into a cleaning solution that cleans as well as or better than traditional general purpose chemicals and provides a lower total cost of ownership and safety benefits.

"We are committed to being the industry's innovation leader," said Killingstad. "During the quarter, we expanded our rollout of the Orbio[®] 5000-Sc in North America and began its introduction in Europe and the Asia Pacific region. We also continued to invest in developing a pipeline of new chemical-free and other sustainable cleaning technologies under our Orbio brand."

Tennant's sales of new products introduced in the past three years generated approximately 36 percent of equipment sales year to date. This compares favorably to the company's ongoing goal of 30 percent.

Third Quarter Operating Review

Tennant's consolidated net sales grew 10.9 percent to \$187.0 million in the 2011 third quarter versus \$168.6 million for the 2010 third quarter. Favorable foreign currency exchange effects contributed approximately 3.5 percent in the 2011 third quarter. Organic net sales, which exclude acquisitions and foreign currency impact, rose approximately 7.4 percent in the quarter, lapping double-digit organic sales growth of approximately 10.7 percent in the 2010 third quarter. Organic sales increased approximately 7.5 percent in Tennant's Americas region; 6.6 percent in the Europe, Middle East and Africa (EMEA) region; and 5.4 percent in the Asia Pacific region.

Tennant's gross profit margin in the 2011 third quarter rose to 42.9 percent, at the high end of the company's target range of 42 percent to 43 percent, and up from 42.6 percent in the 2010 third quarter. Selling price increases and ongoing cost reductions positively affected Tennant's gross margins. The company's 2011 gross margins have improved from 41.7 percent in the 2011 first quarter to 42.9 percent in the 2011 third quarter.

For the 2011 third quarter, Tennant's research and development expense totaled \$7.2 million, or 3.9 percent of sales, compared to \$7.1 million, or 4.2 percent of sales, in the prior year quarter. For the full year 2011, Tennant anticipates research and development expense of approximately 4 percent.

Selling and administrative (S&A) expense in the 2011 third quarter totaled \$57.3 million, or 30.6 percent of sales, versus \$54.2 million, or 32.2 percent of sales, in the third quarter last year. The rise in S&A expense on a dollar basis was primarily attributable to ongoing investments in the company's Orbio Technologies Group and higher variable costs stemming from increased sales. S&A expense as a percent of sales, however, was 160 basis points lower than the prior year third quarter due to continued gains in operating efficiencies.

Tennant's 2011 third quarter operating profit was \$15.8 million, or 8.4 percent of sales, versus an operating profit of \$10.5 million, or 6.2 percent of sales, in the prior year quarter. Operating profit margin rose 220 basis points versus the third quarter last year due to higher gross margins and operating efficiencies.

"We remain vigilant in attaining our operating goals and are on track to reach our operating profit margin objective of 12 percent in the fourth quarter of 2013," said Killingstad.

During the third quarter, Tennant repurchased approximately 214,000 shares of the company's stock for a total of approximately \$8.0 million. Tennant had 18.8 million common shares outstanding at September 30, 2011.

2011 Nine-Month Results

For the nine months ended September 30, 2011, Tennant reported net earnings of \$21.4 million, or \$1.10 per diluted share, on net sales of \$560.8 million. Tennant recorded special charges in the 2011 second quarter totaling \$5.0 million after tax, or a \$0.26 loss per diluted share, including a \$0.20 loss per diluted share related to obsolescence of the two Hofmans outdoor city cleaning products in Europe and a \$0.06 loss per diluted share related to international executive severance. (See the Supplemental Financial Tables.) Excluding these special charges, the company's 2011 adjusted net earnings in the first nine months were \$26.5 million, or \$1.36 per diluted share. In the prior year first nine months, Tennant reported net earnings of \$17.8 million, or \$0.92 per diluted share, on net sales of \$484.9 million.

Year-to-date gross margins were 42.0 percent, or 42.3 percent excluding special charges, versus 42.7 percent in the first nine months of 2010, primarily reflecting raw material inflation. S&A expense in the 2011 nine-month period totaled \$181.2 million, or 32.3 percent of sales, and \$177.2 million, or 31.6 percent of sales, excluding special charges of \$4.0 million. This compares to \$160.5 million, or 33.1 percent of sales, in the first nine months of 2010. Year-to-date operating profit increased to \$34.2 million, or 6.1 percent of sales, and \$39.7 million, or 7.1 percent of sales, as adjusted, versus an operating profit of \$27.6 million, or 5.7 percent of sales, in the prior year period.

Tennant generated \$36.0 million in cash from operations in the 2011 year to date. Total cash and cash equivalents at September 30, 2011, was \$44.3 million and total debt was \$36.9 million.

Business Outlook

"Year to date, Tennant has benefited from continued strong sales to strategic accounts and of ec-H2O across our regions, as well as our ongoing commitment to operational excellence," said Killingstad.

Tennant Company is adjusting its 2011 sales and earnings outlook by broadening the range at the low end due primarily to the current economic volatility. The fourth quarter has historically been a difficult quarter for Tennant to predict and it is even more challenging this year with the uncertainty in the economy. Including the 2011 second quarter special charges of \$5.0 million after tax, or a loss of \$0.26 per diluted share, Tennant now estimates 2011 full year earnings in the range of \$1.54 to \$1.79 per diluted share. Excluding the special charges, the company now expects adjusted earnings for the full year 2011 in the range of \$1.80 to \$2.05 per diluted share on net sales in the range of \$745 million to \$765 million. Previously, the company's anticipated low end of the range was \$750 million of net sales with adjusted earnings per diluted share of \$1.95. For full year 2010, adjusted earnings totaled \$1.31 per diluted share on net sales of \$667.7 million. Anticipated 2011 year-over-year growth in adjusted earnings per diluted share is now in the range of 37.4 percent to 56.5 percent.

Tennant is closely tracking economic trends and commodity prices, and will continue to conservatively manage its business with a focus on operational excellence and strong cost controls, and make selective investments in innovative technologies and other key strategic priorities. The company's 2011 annual financial outlook includes the following expectations:

- Favorable foreign currency impact on sales for the full year in the range of 3 to 4 percent;
- Minimal inflation net of cost-saving initiatives and selling price increases;
- A gross margin of approximately 42 to 43 percent;
- R&D expense of approximately 4 percent of sales, as the company continues to invest in its core
 products and increases investment in its water-based cleaning business; and
- Capital expenditures in the range of \$14 million to \$16 million.

"We believe that Tennant can continue to post solid growth going forward by successfully executing our current strategy and assuming the global economy as a whole stabilizes with modest growth. We are confident that our strategic direction, coupled with rigorous cost controls, improved operating efficiency and new products, will further enhance our value-creation potential," said Killingstad.

Conference Call

Tennant will host a conference call to discuss the 2011 third quarter and year-to-date results today, October 25, 2011, at 10 a.m. Central Time (11 a.m. Eastern Time). The conference call will be available via webcast on the investor portion of Tennant's website. To listen to the call live, go to http://www.tennantco.com and click on Company, Investors. A taped replay of the conference call will be available at http://www.tennantco.com for approximately two weeks after the call.

Company Profile

Minneapolis-based Tennant Company (NYSE: TNC) is a world leader in designing, manufacturing and marketing solutions that help create a cleaner, safer, healthier world. Its products include equipment for maintaining surfaces in industrial, commercial and outdoor environments; chemical-free and other sustainable cleaning technologies; and coatings for protecting, repairing and upgrading floors. Tennant's global field service network is the most extensive in the industry. Tennant has manufacturing operations in Minneapolis, Minn.; Holland, Mich.; Louisville, Ky.; Uden, The Netherlands; the United Kingdom; São Paulo, Brazil; and Shanghai, China; and sells products directly in 15 countries and through distributors in more than 80 countries. For more information, visit http://www.tennantco.com.

Forward-Looking Statements

Certain statements contained in this document, as well as other written and oral statements made by us from time to time, are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. These statements do not relate to strictly historical or current facts and provide current expectations or forecasts of future events. Any such expectations or forecasts of future events are subject to a variety of factors. These include factors that affect all businesses operating in a global market as well as matters specific to us and the markets we serve. Particular risks and uncertainties presently facing us include: geopolitical and economic uncertainty throughout the world; the competition in our business; our ability to effectively manage organizational changes; our ability to comply with laws and regulations; our ability to effectively maintain and manage the data in our computer systems; our ability to develop new innovative products and services; our ability to successfully upgrade and evolve the capabilities of our computer systems; our ability to attract and retain key personnel; the occurrence of a significant business interruption; fluctuations in the cost or availability of raw materials and purchased components; unforeseen product liability claims or product quality issues; our ability to acquire, retain and protect proprietary intellectual property rights; and the relative strength of the U.S. dollar, which affects the cost of our materials and products purchased and sold internationally.

We caution that forward-looking statements must be considered carefully and that actual results may differ in material ways due to risks and uncertainties both known and unknown. 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. For additional information about factors that could materially affect Tennant's results, please see our other Securities and Exchange Commission filings, including disclosures under "Risk Factors."

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

Non-GAAP Financial Measures

This news release includes presentations of non-GAAP measures that include or exclude special items. Management believes that the non-GAAP measures provide useful information to investors regarding the company's results of operations and financial condition because they permit a more meaningful comparison and understanding of Tennant Company's operating performance for the current, past or future periods. Management uses these non-GAAP measures to monitor and evaluate ongoing operating results and trends, and to gain an understanding of the comparative operating performance of the company. See the Supplemental Non-GAAP Financial Tables.

FINANCIAL TABLES FOLLOW

TENNANT COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(In thousands, except shares and per share data)		Three Mor Septen	iths I	∃nded	Nine Months Ended September 30					
		2011		2010		2011		2010		
Net Sales	\$	186,990	\$	168,637	\$	560,839	\$	484,879		
Cost of Sales		106,737		96,775		325,188		277,715		
Gross Profit		80,253		71,862		235,651		207,164		
Gross Margin		42.9%		42.6%		<i>4</i> 2.0%		42.7%		
Operating Expense:										
Research and Development Expense		7,240		7,114		20,236		19,058		
Selling and Administrative Expense		57,250		54,227		181,222		160,463		
Total Operating Expense		64,490		61,341		201,458		179,521		
Profit from Operations		15,763		10,521		34,193		27,643		
Operating Margin		8.4%		6.2%		6.1%		5.7%		
Other Income (Expense):										
Interest Income		224		52		476		129		
Interest Expense		(654)		(390)		(1,614)		(1,219)		
Net Foreign Currency Transaction (Losses) Gains		(1,390)		130		49		(432)		
Other Income (Expense), Net		-		57		(33)		115		
Total Other Expense, Net		(1,820)		(151)		(1,122)		(1,407)		
Profit Before Income Taxes		13,943		10,370		33,071		26,236		
Income Tax Expense		4,215		2,844		11,622		8,445		
Net Earnings	\$	9,728	\$	7,526	\$	21,449	\$	17,791		
Earnings per Share:										
Basic	\$	0.52	\$	0.40	\$	1.14	\$	0.95		
Diluted	\$	0.50	\$	0.39	\$	1.10	\$	0.92		
Weighted Average Shares Outstanding:										
Basic	10	3,741,524	10	3,873,249	10	0 001 122	10	792 404		
Diluted		9,271,074		9,402,902		18,881,132 19,417,061		18,782,404 19,299,783		
Cash Dividend Declared per Common Share	\$	0.17	\$	0.14	\$	0.51	\$	0.42		

GEOGRAPHICAL NET SALES⁽¹⁾ (Unaudited)

(In thousands)	Thre	Three Months Ended			Nine Months Ended					
		September 30			September 30					
	2011	2010	%	2011	2010	%				
Americas	\$ 121,280	\$ 111,756	8.5	\$358,912	\$ 312,023	15.0				
Europe, Middle East and Africa	44,599	38,746	15.1	139,591	123,330	13.2				
Asia Pacific	21,111	18,135	16.4	62,336	49,526	25.9				
Total	\$ 186,990	\$ 168,637	10.9	\$560,839	\$ 484,879	15.7				

(1) Net of intercompany sales.

TENNANT COMPANY CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)	September 30, 2011			cember 31, 2010	September 30, 2010		
ASSETS			-		-		
Current Assets:							
Cash and Cash Equivalents	\$	44,273	\$	39,529	\$	33,730	
Accounts Receivable, Net		128,844		127,542		114,603	
Inventories		77,408		61,746		68,541	
Prepaid Expenses		8,852		7,993		8,433	
Deferred Income Taxes, Current Portion		8,956		11,459		9,988	
Other Current Assets		123		-		33	
Total Current Assets		268,456		248,269		235,328	
Property, Plant and Equipment		280,533		287,751		286,355	
Accumulated Depreciation		(198,179)		(200,123)		(198,768)	
Property, Plant and Equipment, Net		82,354		87,628		87,587	
Deferred Income Taxes, Long-Term Portion		14,650		14,182		6,511	
Goodwill		20,385		20,423		20,221	
Intangible Assets, Net		24,793		25,339		26,231	
Other Assets		7,427		7,827		7,569	
Total Assets	\$	418,065	\$	403,668	\$	383,447	
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Current Portion of Long-Term Debt	\$	4,204	\$	3,154	\$	4,066	
Accounts Payable	Ψ	51,499	Ψ	40,498	Ψ	44,494	
Employee Compensation and Benefits		31,649		31,281		28,434	
Income Taxes Payable		14		509		969	
Other Current Liabilities		40,571		40,702		35,498	
Total Current Liabilities		127,937		116,144		113,461	
Land Trans 15-170							
Long-Term Liabilities:		00.700		07.074		07.005	
Long-Term Debt		32,733		27,674		27,685	
Employee-Related Benefits		32,023		33,898		30,991	
Deferred Income Taxes, Long-Term Portion		3,555		4,525		4,665	
Other Liabilities		4,804		5,294		7,156	
Total Long-Term Liabilities		73,115		71,391		70,497	
Total Liabilities		201,052		187,535		183,958	
Shareholders' Equity:							
Preferred Stock		-		-		-	
Common Stock		7,052		7,140		7,105	
Additional Paid-In Capital		13,372		10,876		9,878	
Retained Earnings		219,507		220,391		204,647	
Accumulated Other Comprehensive Loss		(22,918)		(22,274)		(22,141)	
Total Shareholders' Equity		217,013		216,133		199,489	
Total Liabilities and Shareholders' Equity	\$	418,065	\$	403,668	\$	383,447	

TENNANT COMPANY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands) Nine Months Ended September 30 2011 2010 **OPERATING ACTIVITIES Net Earnings** \$ \$ 21,449 17,791 Adjustments to reconcile Net Earnings to Net Cash Provided by Operating Activities: 13,668 Depreciation 12,800 Amortization 2,533 2,356 Impairment of Intangible Assets 1,805 (2,119)**Deferred Income Taxes** 945 Stock-Based Compensation Expense 3,569 2,471 Allowance for Doubtful Accounts and Returns 747 1,206 Other, Net 400 (3)Changes in Operating Assets and Liabilities, Excluding the Impact of Acquisitions: Accounts Receivable (2,672)4,486 Inventories (17,461)(12,561)Accounts Payable 11,277 2,620 **Employee Compensation and Benefits** (311)134 Other Current Liabilities 2.433 1,167 Income Taxes 1,628 (339)Other Assets and Liabilities (3,568)(248)Net Cash Provided by Operating Activities 36,019 30,184 **INVESTING ACTIVITIES** Purchases of Property, Plant and Equipment (7,663)(6,651)Proceeds from Disposals of Property, Plant and Equipment 485 566 Acquisition of Businesses, Net of Cash Acquired (2,916)(26)Net Cash Used for Investing Activities (10,094)(6,111)**FINANCING ACTIVITIES** Change in Short-Term Borrowings, Net (35)(7)Payment of Long-Term Debt (18,099)(3,194)Issuance of Long-Term Debt 20,000 Purchases of Common Stock (17, 134)(3,153)Proceeds from Issuance of Common Stock 3,257 4,707 Tax Benefit on Stock Plans 801 1,281 Dividends Paid (9,660)(7,950)Net Cash Used for Financing Activities (20,870)(8,316)Effect of Exchange Rate Changes on Cash and Cash Equivalents (311)(89)Net Increase in Cash and Cash Equivalents 4,744 15,668 Cash and Cash Equivalents at Beginning of Period 39,529 18,062 Cash and Cash Equivalents at End of Period 44,273 \$ 33,730

TENNANT COMPANY SUPPLEMENTAL NON-GAAP FINANCIAL TABLES

(In thousands, except per share data)	7	Three Month Septemb		Nine Months Ended September 30					
	_	2011		2010		2011		2010	
Net Sales	\$	186,990	\$	168,637	\$	560,839	\$	484,879	
Cost of Sales		106,737		96,775		325,188		277,715	
Gross Profit - as reported		80,253		71,862		235,651		207,164	
Gross Margin		42.9%		42.6%		42.0%		42.7%	
Adjustments:									
Hofmans Product Obsolescence				-		1,482		-	
Gross Profit - as adjusted		80,253		71,862		237,133		207,164	
Gross Margin		42.9%		42.6%		42.3%		42.7%	
Operating Expense:									
Research and Development Expense		7,240		7,114		20,236		19,058	
Selling and Administrative Expense		57,250		54,227		181,222		160,463	
Total Operating Expense		64,490		61,341		201,458		179,521	
Profit from Operations - as reported	\$	15,763	\$	10,521	\$	34,193	\$	27,643	
Operating Margin	·	8.4%	·	6.2%		6.1%	•	5.7%	
Adjustments:									
Hofmans Product Obsolescence (CGS & S&A)		-		-		4,300		-	
International Executive Severance (S&A)		-		-		1,217		-	
Profit from Operations - as adjusted	\$	15,763	\$	10,521	\$	39,710	\$	27,643	
Operating Margin		8.4%		6.2%		7.1%		5.7%	
Other Income (Expense):									
Interest Income		224		52		476		129	
Interest Expense		(654)		(390)		(1,614)		(1,219)	
Net Foreign Currency Transaction (Losses) Gains		(1,390)		130		49		(432)	
Other Income (Expense), Net		- (4,000)		57		(33)		115	
Total Other Expense, Net		(1,820)		(151)		(1,122)		(1,407)	
Profit Before Income Taxes - as reported Adjustments:	\$	13,943	\$	10,370	\$	33,071	\$	26,236	
Hofmans Product Obsolescence		_		-		4,300		-	
International Executive Severance		-		-		1,217		-	
Profit Before Income Taxes - as adjusted	\$	13,943	\$	10,370	\$	38,588	\$	26,236	
Income Tax Expense - as reported Adjustments:	\$	4,215	\$	2,844	\$	11,622	\$	8,445	
Tax Benefit from Hofmans Product Obsolescence		_		_		489		_	
Discrete Tax items		_		224		-		224	
Income Tax Expense - as adjusted	\$	4,215	\$	3,068	\$	12,111	\$	8,669	

TENNANT COMPANY SUPPLEMENTAL NON-GAAP FINANCIAL TABLES

(In thousands, except per share data)	Three Months Ended September 30					Nine Months Ended September 30				
	2011			2010	2011		2010			
Net Earnings - as reported	\$	9,728	\$	7,526	\$	21,449	\$	17,791		
Adjustments:										
Hofmans Product Obsolescence		-		-		3,811		-		
International Executive Severance		-		-		1,217		-		
Discrete Tax Items		-		(224)		-		(224)		
Net Earnings - as adjusted	\$	9,728	\$	7,302	\$	26,477	\$	17,567		
Earnings per Share:										
Basic	\$	0.52	\$	0.40	\$	1.14	\$	0.95		
Diluted Earnings per Share - as reported Adjustments:	\$	0.50	\$	0.39	\$	1.10	\$	0.92		
Hofmans Product Obsolescence		-		-		0.20		-		
International Executive Severance		-		-		0.06		-		
Discrete Tax Items		-		(0.01)		-		(0.01)		
Diluted Earnings per Share - as adjusted	\$	0.50	\$	0.38	\$	1.36	\$	0.91		

(In thousands, except per share data)		Full
		rear
	2	2010
Diluted Earnings per Share - as reported	\$	1.80
Adjustments:		
Inventory Revaluation from Change in Functional Currency		
Designation due to International Entity Restructuring		0.02
Workforce Redeployment Reserve		0.06
Workforce Reduction Reserve Revision		(0.01)
Tax Benefit from International Entity Restructuring		(0.56)
Diluted Earnings per Share - as adjusted	\$	1.31