TENNANT CO
Form 10-Q
July 30, 2014
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UNITED STATES OF AMERICA
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, 2014
OR	
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ___________ to __________

Commission File Number 1-16191

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

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

701 North Lilac Drive
P.O. Box 1452
Minneapolis, Minnesota 55440
(Address of principal executive offices)
(Zip Code)
(763) 540-1200
(Registrant's telephone number, including area code)

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

Yes	ü	No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes	ü	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Yes	No	ü

As of July 15, 2014, there were 18,384,494 shares of Common Stock outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except shares and per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net Sales	$219,084	$200,238	$403,063	$368,330
Cost of Sales	123,821	112,497	230,883	208,066
Gross Profit	95,263	87,741	172,180	160,264
Operating Expense:				
Research and Development Expense	7,651	7,821	15,132	15,339
Selling and Administrative Expense	64,471	58,298	124,670	116,420
Total Operating Expense	72,122	66,119	139,802	131,759
Profit from Operations	23,141	21,622	32,378	28,505
Other Income (Expense):				
Interest Income	95	114	170	228
Interest Expense	(419)	(411)	(905)	(878)
Net Foreign Currency Transaction Gains (Losses)	328	(419)	120	(743)
Other Expense, Net	(89)	(87)	(120)	(81)
Total Other Expense, Net	(85)	(803)	(735)	(1,474)
Profit Before Income Taxes	23,056	20,819	31,643	27,031
Income Tax Expense	7,533	6,565	10,325	7,718
Net Earnings	$15,523	$14,254	$21,318	$19,313
Earnings per Share:				
Basic	$0.85	$0.78	$1.17	$1.06
Diluted	$0.83	$0.76	$1.14	$1.03
Weighted Average Shares Outstanding:				
Basic	18,167,054	18,253,326	18,242,240	18,298,379
Diluted	18,675,607	18,787,880	18,776,369	18,835,542
Cash Dividend Declared per Common Share	$0.20	$0.18	$0.38	$0.36

See accompanying Notes to the Condensed Consolidated Financial Statements.

TENNANT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net Earnings	$15,523	$14,254	$21,318	$19,313
Other Comprehensive Income (Loss):				
Foreign currency translation adjustments	814	(2,505)	1,851	(3,917)
Pension and retiree medical benefits	47	658	92	916
Income Taxes:				
Foreign currency translation adjustments	(1)	(7)	13	(7)
Pension and retiree medical benefits	(17)	—	(34)	(2)
Total Other Comprehensive Income (Loss), net of tax	843	(1,854)	1,922	(3,010)
Comprehensive Income	$16,366	$12,400	$23,240	$16,303

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, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$62,603	$80,984
Restricted Cash	427	393
Accounts Receivable, less Allowances of $4,867 and $4,526, respectively	158,338	140,182
Inventories	79,034	66,906
Prepaid Expenses	9,150	11,426
Deferred Income Taxes, Current Portion	9,390	13,723
Other Current Assets	1,716	1,682
Total Current Assets	320,658	315,296
Property, Plant and Equipment	310,703	300,906
Accumulated Depreciation	(226,233)	(217,430)
Property, Plant and Equipment, Net	84,470	83,476
Deferred Income Taxes, Long-Term Portion	6,507	2,423
Goodwill	19,295	18,929
Intangible Assets, Net	18,136	19,028
Other Assets	16,962	17,154
Total Assets	$466,028	$456,306
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current Liabilities:		
Short-Term Borrowings and Current Portion of Long-Term Debt	$3,640	$3,803
Accounts Payable	60,122	53,079
Employee Compensation and Benefits	27,101	29,756
Income Taxes Payable	968	812
Other Current Liabilities	43,456	44,076
Total Current Liabilities	135,287	131,526
Long-Term Liabilities:		
Long-Term Debt	24,572	28,000
Employee-Related Benefits	24,958	25,173
Deferred Income Taxes, Long-Term Portion	6,542	2,870
Other Liabilities	5,281	4,891
Total Long-Term Liabilities	61,353	60,934
Total Liabilities	196,640	192,460
Commitments and Contingencies (Note 11)		
Shareholders' Equity:		
Preferred Stock, $0.02 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, $0.375 par value; 60,000,000 shares authorized; 18,384,306 and 18,491,524 shares issued and outstanding, respectively	6,894	6,934
Additional Paid-In Capital	21,470	31,956
Retained Earnings	264,073	249,927
Accumulated Other Comprehensive Loss	(23,049)	(24,971)
Total Shareholders’ Equity	269,388	263,846
Total Liabilities and Shareholders’ Equity	$466,028	$456,306

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	
	2014	2013
OPERATING ACTIVITIES		
Net Earnings	$21,318	$19,313
Adjustments to reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	8,818	8,858
Amortization	1,223	1,281
Deferred Income Taxes	3,964	1,898
Share-Based Compensation Expense	3,756	3,439
Allowance for Doubtful Accounts and Returns	776	703
Other, Net	13	1
Changes in Operating Assets and Liabilities:		
Receivables	(18,649)	(11,514)
Inventories	(13,208)	(7,536)
Accounts Payable	7,540	6,145
Employee Compensation and Benefits	(5,471)	(8,875)
Other Current Liabilities	(2,238)	1,825
Income Taxes	2,819	1,752
Other Assets and Liabilities	(153)	(2,066)
Net Cash Provided by Operating Activities	10,508	15,224
INVESTING ACTIVITIES		
Purchases of Property, Plant and Equipment	(7,411)	(7,192)
Proceeds from Disposals of Property, Plant and Equipment	118	60
Acquisition of Business, Net of Cash Acquired	—	(750)
Proceeds from Sale of Business	—	699
Increase in Restricted Cash	(12)	(228)
Net Cash Used for Investing Activities	(7,305)	(7,411)
FINANCING ACTIVITIES		
Payments of Short-Term Debt	(1,500)	—
Short-Term Debt Borrowings	—	1,500
Payment of Long-Term Debt	(2,013)	(733)
Purchases of Common Stock	(13,609)	(12,141)
Proceeds from Issuance of Common Stock	705	3,812
Excess Tax Benefit on Stock Plans	1,329	1,506
Dividends Paid	(7,172)	(6,611)
Net Cash Used for Financing Activities	(22,260)	(12,667)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	676	(510)
Net Decrease in Cash and Cash Equivalents	(18,381)	(5,364)
Cash and Cash Equivalents at Beginning of Period	80,984	53,940
Cash and Cash Equivalents at End of Period	$62,603	$48,576
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Income Taxes	$1,645	$2,834
Cash Paid for Interest	$775	$808
Supplemental Non-cash Investing and Financing Activities:		

Capital Expenditures in Accounts Payable	$715	$1,383

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

1. Basis of Presentation

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

These statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our annual report on Form 10-K for the year ended December 31, 2013. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

2. Newly Adopted Accounting Pronouncements

Presentation of Unrecognized Tax Benefits

In July 2013, the Financial Accounting Standards Board ("FASB") issued amendments to guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The amendments require entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013; however, early adoption is permitted. Adoption of this guidance did not have a material impact on our results of operations or financial position.

3. Management Actions

Q4 2013 Action - During the fourth quarter of 2013, we implemented a restructuring action to right size the cost structure in our European operations, primarily as a result of the strategic decision to adjust our Direct versus Distribution selling efforts, to enhance our go-to-market approach which is anticipated to improve profitability and increase customer satisfaction. The pre-tax charge of $1,577 recognized in the fourth quarter consisted primarily of severance and was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Earnings. We do not expect additional costs will be incurred related to this restructuring action and we believe the anticipated savings will offset the pre-tax charge in approximately 1.5 years. The charge impacted our Europe, Middle East, Africa (EMEA) operating segment, which has no goodwill balance.

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

	Severance and Related Costs
Q4 2013 restructuring action	$1,577
December 31, 2013 balance	$1,577
2014 utilization:	
Cash payments	(938)
Foreign currency adjustments	(6)
Change in estimate	(25)
June 30, 2014 balance	$608

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Q1 2013 Action - During the first quarter of 2013, we implemented a restructuring action to right size the cost structure of our European operations, primarily focused on reducing the size of our sales and service organization, in response to the challenging economic situation. The pre-tax charge of $1,440 recognized in the first quarter consisted primarily of severance and was included within Selling and Administrative Expense in the Condensed Consolidated Statements of Earnings. We do not expect additional costs will be incurred related to this restructuring action and the anticipated savings will offset the pre-tax charge in approximately one year. The charge impacted our Europe, Middle East, Africa (EMEA) operating segment, which has no goodwill balance.
A reconciliation of the beginning and ending liability balances is as follows:

	Severance and Related Costs
Q1 2013 restructuring action	$1,440
Cash payments	(1,110)
Foreign currency adjustments	17
December 31, 2013 balance	$347
2014 utilization:	
Cash payments	(84)
Foreign currency adjustments	6
June 30, 2014 balance	$269

4. Acquisitions and Divestitures
Acquisitions
On May 31, 2011, we acquired Water Star, Inc. (“Water Star”), a Newbury, Ohio firm specializing in electrochemistry for $4,456. The total purchase price of $4,456 was comprised of $2,956 paid at closing and two $750 installment payments which were paid in cash on May 31, 2012 and 2013. This acquisition is consistent with our strategy to expand our intellectual property in support of our long-term vision to deliver sustainable, breakthrough innovations.
Divestitures
On July 31, 2012, we entered into a Share Purchase Agreement (“SPA”) with M&F Management and Financing GmbH (“M&F”) for the sale of ownership of our subsidiary, Tennant CEE GmbH, and our minority interest in a joint venture, OOO Tennant. In exchange for the ownership of these entities, we received €815, or $1,014 as of the date of sale, in cash and financed the remaining €5,351, for a total purchase price of €6,166. A total of €2,126, or $2,826, was received in equal quarterly payments during 2013 and the first anniversary payment of €1,075, or $1,435, was received on July 31, 2013. The remaining €2,150, or $2,943, as of June 30, 2014, will be received in equal installments on the second and third anniversary dates of the divestiture. As a result of this divestiture, we recorded a pre-tax gain of $784 during the third quarter of 2012 in our Profit from Operations in the Condensed Consolidated Statements of Earnings.
M&F is now a master distributor of Tennant products in the Central Eastern Europe, Middle East and Africa markets. In addition, as further discussed in Note 17, at the time of the transaction, M&F was a related party of ours. We have identified M&F as a variable interest entity (“VIE”) and have performed a qualitative assessment that considered M&F's purpose and design, our involvement and the risks and benefits and determined that we are not the primary beneficiary of this VIE. The only financing we have provided to M&F was related to the SPA as noted above and there are no arrangements that would require us to provide significant financial support in the future.

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5. Inventories

Inventories are valued at the lower of cost or market. Inventories at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Inventories carried at LIFO:		
Finished goods	$41,598	$36,238
Raw materials, production parts and work-in-process	18,525	13,922
LIFO reserve	(27,463)	(27,463)
Total LIFO inventories	32,660	22,697
Inventories carried at FIFO:		
Finished goods	32,560	31,489
Raw materials, production parts and work-in-process	13,814	12,720
Total FIFO inventories	46,374	44,209
Total inventories	$79,034	$66,906

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

6. Goodwill and Intangible Assets

The changes in the carrying value of Goodwill for the six months ended June 30, 2014 were as follows:

	Goodwill	Accumulated Impairment Losses	Total
Balance as of December 31, 2013	$68,906	$(49,977)	$18,929
Foreign currency fluctuations	1,679	(1,313)	366
Balance as of June 30, 2014	$70,585	$(51,290)	$19,295

The balances of acquired Intangible Assets, excluding Goodwill, as of June 30, 2014 and December 31, 2013 were as follows:

	Customer Lists	Trade Name	Technology	Total
Balance as of June 30, 2014				
Original cost	$24,451	$4,807	$7,323	$36,581
Accumulated amortization	(12,783)	(2,138)	(3,524)	(18,445)
Carrying value	$11,668	$2,669	$3,799	$18,136
Weighted-average original life (in years)	15	14	13	
Balance as of December 31, 2013				
Original cost	$23,763	$4,836	$7,347	$35,946
Accumulated amortization	(11,609)	(1,976)	(3,333)	(16,918)
Carrying value	$12,154	$2,860	$4,014	$19,028
Weighted-average original life (in years)	15	14	13	

Amortization expense on Intangible Assets for the three and six months ended June 30, 2014 was $612 and $1,223, respectively. Amortization expense on Intangible Assets for the three and six months ended June 30, 2013 was $637 and $1,281, respectively.

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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 2014	$1,220
2015	2,231
2016	1,897
2017	1,794
2018	1,787
Thereafter	9,207
Total	$18,136

7. Debt

Debt outstanding is summarized as follows:

	June 30, 2014	December 31, 2013
Short-Term Debt:		
Credit facility borrowings	$—	$1,500
Long-Term Debt:		
Bank borrowings	4	9
Credit facility borrowings	28,000	30,000
Collateralized borrowings	10	11
Capital lease obligations	198	283
Total Debt	28,212	31,803
Less: Current Portion	(3,640)	(3,803)
Long-Term Portion	$24,572	$28,000

As of June 30, 2014, we had committed lines of credit totaling $125,000 and uncommitted lines of credit totaling $87,738. There was $10,000 in outstanding borrowings under our JPMorgan facility (described below) and $18,000 in outstanding borrowings under our Prudential facility (described below) as of June 30, 2014. In addition, we had stand alone letters of credit of $2,460 outstanding and bank guarantees in the amount of $341. Commitment fees on unused lines of credit for the six months ended June 30, 2014 were $158.

Our most restrictive covenants are part of our 2011 Credit Agreement with JPMorgan (as defined below), which are the same covenants in the Shelf Agreement (as defined below) with Prudential (as defined below), and require us to maintain an indebtedness to EBITDA ratio of not greater than 3.00 to 1 and to maintain an EBITDA to interest expense ratio of no less than 3.50 to 1 as of the end of each quarter. As of June 30, 2014, our indebtedness to EBITDA ratio was 0.36 to 1 and our EBITDA to interest expense ratio was 49.02 to 1.

Credit Facilities

JPMorgan Chase Bank, National Association

Details regarding our Credit Agreement, dated as of May 5, 2011 and amended on April 25, 2013, with JPMorgan Chase Bank, N. A. ("JPMorgan"), as administrative agent and collateral agent, U.S. Bank National Association, as syndication agent, Wells Fargo Bank, National Association, and RBS Citizens, N.A., as co-documentation agents, and the Lenders (including JPMorgan) from time to time party thereto (the "2011 Credit Agreement") are described in Note 8 of the 2013 annual report on Form 10-K.

As of June 30, 2014, we were in compliance with all covenants under this credit agreement. There was $10,000 in outstanding borrowings under this facility at June 30, 2014, with a weighted average interest rate of 1.46%. This facility, under the current terms of the 2011 Credit Agreement, expires on March 1, 2018.

Prudential Investment Management, Inc.

Details regarding our Private Shelf Agreement, dated as of July 29, 2009, and amended on May 5, 2011 and July 24, 2012 with Prudential Investment Management, Inc. ("Prudential") and Prudential affiliates from time to time party thereto (the "Shelf Agreement") are described in Note 8 of the 2013 annual report on Form 10-K.

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As of June 30, 2014, there was $18,000 in outstanding borrowings under this facility, consisting of the $8,000 Series A notes issued in March 2011 with a fixed interest rate of 4.00% and a 7 year term serially maturing from 2014 to 2018 and the $10,000 Series B notes issued in June 2011 with a fixed interest rate of 4.10% and a 10 year term serially maturing from 2015 to 2021. The first payment of $2,000 on Series A notes was made during the first quarter of 2014. We were in compliance with all covenants under this private shelf agreement as of June 30, 2014. The issuance period, under the current terms of the Shelf Agreement, expires on July 24, 2015.

The Royal Bank of Scotland Citizens, N.A.

On September 14, 2010, we entered into an overdraft facility with The Royal Bank of Scotland Citizens, N.A. in the amount of €2,000, or approximately $2,738. There was no balance outstanding on this facility as of June 30, 2014.

HSBC Bank (China) Company Limited, Shanghai Branch

On June 20, 2012, we entered into a banking facility with the HSBC Bank (China) Company Limited, Shanghai Branch in the amount of $5,000. During the first quarter of 2014, we repaid previous borrowings under this facility amounting to $1,500 and as of June 30, 2014, there were no outstanding borrowings on this facility.

8. Warranty

We record a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, new product introductions and other factors. Warranty 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 changes in warranty reserves for the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30	
	2014	2013
Beginning balance	$9,663	$9,357
Additions charged to expense	5,127	5,578
Foreign currency fluctuations	33	(132)
Claims paid	(4,916)	(5,055)
Ending balance	$9,907	$9,748

9. 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.

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Our population of assets and liabilities subject to fair value measurements at June 30, 2014 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Foreign currency forward exchange contracts	$18	$—	$18	$—
Total Assets	$18	$—	$18	$—
Liabilities:				
Foreign currency forward exchange contracts	$138	$—	$138	$—
Total Liabilities	$138	$—	$138	$—

Our foreign currency forward exchange contracts are valued based on quoted forward foreign exchange prices at the reporting date.

We use derivative instruments to manage exposures to foreign currency only in an attempt to limit underlying exposures from currency fluctuations and not for trading purposes. Gains or losses on forward foreign exchange contracts that hedge foreign currency-denominated assets and liabilities are recognized in Other Current Assets and Other Current Liabilities within the Condensed Consolidated Balance Sheets and are recognized in Other Income (Expense), Net under Net Foreign Currency Transaction Gains (Losses) within the Condensed Consolidated Statements of Earnings. As of June 30, 2014, the fair value of such contracts outstanding was an asset of $18 and a liability of $138. As of December 31, 2013, the fair value of such contracts outstanding was an asset of $16 and a liability of $109. At June 30, 2014 and December 31, 2013, the notional amounts of foreign currency forward exchange contracts outstanding were $39,068 and $30,280, respectively. We recognized a net loss of $902 and a net gain of $901 on such contracts during the first six months of 2014 and 2013, respectively.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for Cash and Cash Equivalents, Accounts Receivable, Other Current Assets, Accounts Payable and Other Current Liabilities approximate fair value. The fair value of our Long-Term Debt approximates cost based on the borrowing rates currently available to us for bank loans with similar terms and remaining maturities.

10. Retirement Benefit Plans

Our defined benefit pension plans and postretirement medical plan are described in Note 11 of the 2013 annual report on Form 10-K. We have contributed $73 and $278 during the second quarter of 2014 and $252 and $542 during the first six months of 2014 to our pension plans and to our postretirement medical plan, respectively.

The components of the net periodic benefit cost for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30					
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Medical Benefits	
	2014	2013	2014	2013	2014	2013
Service cost	$123	$216	$38	$33	$32	$38
Interest cost	488	563	134	121	118	110
Expected return on plan assets	(672)	(910)	(131)	(115)	—	—
Amortization of net actuarial loss (gain)	30	1,073	—	—	(11)	127
Amortization of prior service cost (benefit)	10	(503)	47	80	(1)	(102)
Foreign currency	—	—	(2)	(13)	—	—
Net periodic (benefit) cost	$(21)	$439	$86	$106	$138	$173

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	Six Months Ended June 30					
	Pension Benefits				Postretirement	
	U.S. Plans		Non-U.S. Plans		Medical Benefits	
	2014	2013	2014	2013	2014	2013
Service cost	$247	$432	$76	$66	$64	$76
Interest cost	982	1,131	266	243	249	222
Expected return on plan assets	(1,342)	(1,820)	(260)	(231)	—	—
Amortization of net actuarial loss	74	1,096	—	—	—	101
Amortization of prior service cost (benefit)	21	46	93	161	(3)	(52)
Foreign currency	—	—	16	29	—	—
Net periodic (benefit) cost	$(18)	$885	$191	$268	$310	$347

11. 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, 2014, of those leases that contain residual value guarantees, the aggregate residual value at lease expiration was $12,055, of which we have guaranteed $9,799. As of June 30, 2014, we have recorded a liability for the estimated end of term loss related to this residual value guarantee of $194 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.

During the second quarter of 2014, we entered into a three year software licensing agreement with a total commitment of $1,198.

During the second quarter of 2012, we entered into a three year agreement with a supplier, commencing January 1, 2013, with a total commitment of $2,102 of which $1,054 is still outstanding as of June 30, 2014.

12. Accumulated Other Comprehensive Loss

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

	June 30, 2014	December 31, 2013
Foreign currency translation adjustments	$(20,127)	$(21,991)
Pension and retiree medical benefits	(2,922)	(2,980)
Total Accumulated Other Comprehensive Loss	$(23,049)	$(24,971)

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

	Foreign Currency Translation Adjustments	Pension and Post Retirement Benefits	Total
December 31, 2013	$(21,991)	$(2,980)	$(24,971)
Other comprehensive income before reclassifications	1,864	—	1,864
Amounts reclassified from Accumulated Other Comprehensive Loss	—	58	58
Net current period other comprehensive income	1,864	58	1,922
June 30, 2014	$(20,127)	$(2,922)	$(23,049)

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13. Income Taxes

We and our subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and foreign jurisdictions. We are generally no longer subject to U.S. federal tax examinations for taxable years before 2011 and, with limited exceptions, state and foreign income tax examinations for taxable years before 2007.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in Income Tax Expense. In addition to the liability of $3,931 for unrecognized tax benefits as of June 30, 2014, there was approximately $617 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, 2014 was $3,623. 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. Unrecognized tax benefits were reduced by $21 during the first six months of 2014 for expiration of the statute of limitations in various jurisdictions.

We are currently undergoing income tax examinations in various state and foreign jurisdictions covering 2007 to 2011 for which settlement is expected prior to year end. Although the final outcome of these examinations cannot be currently determined, we believe that we have adequate reserves with respect to these examinations.

14. Share-Based Compensation

Our share-based compensation plans are described in Note 15 of the 2013 annual report on Form 10-K. During the three months ended June 30, 2014 and 2013 we recognized total Share-Based Compensation Expense of $2,216 and $1,732, respectively. During the six months ended June 30, 2014 and 2013 we recognized total Share-Based Compensation Expense of $3,756 and $3,439, respectively. The total excess tax benefit recognized for share-based compensation arrangements during the six months ended June 30, 2014 and 2013 was $1,329 and $1,506, respectively.

During the first six months of 2014, we granted 20,278 restricted shares. The weighted average grant date fair value of each share awarded was $61.77. Restricted share awards generally have a 3 year vesting period from the effective date of the grant. The total fair value of shares vested during the six months ended June 30, 2014 and 2013 was $827 and $538, respectively.

15. Earnings Per Share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Numerator:				
Net Earnings	$15,523	$14,254	$21,318	$19,313
Denominator:				
Basic - Weighted Average Shares Outstanding	18,167,054	18,253,326	18,242,240	18,298,379
Effect of dilutive securities:				
Share-based compensation plans	508,553	534,554	534,129	537,163
Diluted - Weighted Average Shares Outstanding	18,675,607	18,787,880	18,776,369	18,835,542
Basic Earnings per Share	$0.85	$0.78	$1.17	$1.06
Diluted Earnings per Share	$0.83	$0.76	$1.14	$1.03

Excluded from the dilutive securities shown above were options to purchase 154,897 and 278,862 shares of Common Stock during the three months ended June 30, 2014 and 2013, respectively. Excluded from the dilutive securities shown above were options to purchase 155,497 and 270,433 shares of Common Stock during the six months ended June 30, 2014 and 2013, respectively. These exclusions were made as the effects were anti-dilutive.

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16. Segment Reporting

We are organized into four operating segments: North America; Latin America; Europe, Middle East and Africa; and Asia Pacific. We combine our North America and Latin America operating segments into the “Americas” for reporting Net Sales by geographic area. In accordance with the objective and basic principles of the applicable accounting guidance, we aggregate our operating segments into one reportable segment that consists of the design, manufacture and sale of products used primarily in the maintenance of nonresidential surfaces.

Net Sales attributed to each geographic area for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Americas	$153,698	$139,593	$	