

TENNECO INC
Form 10-Q
August 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12387

TENNECO INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0515284
(I.R.S. Employer
Identification No.)

500 North Field Drive, Lake Forest, Illinois
(Address of principal executive offices)

60045
(Zip Code)

Registrant's telephone number, including area code: (847) 482-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, par value \$0.01 per share: 60,130,424 shares outstanding as of July 31, 2012.

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CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled Outlook appearing in Item 2 of this report. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and similar expressions (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

general economic, business and market conditions;

our ability to source and procure needed materials, components and other products and services in accordance with customer demand and at competitive prices;

changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks, which tend to be higher margin products for our customers and us, to other lower margin vehicles, for which we may or may not have supply arrangements;

changes in consumer demand for our automotive, commercial or aftermarket products, or changes in automotive and commercial vehicle manufacturers' production rates and their actual and forecasted requirements for our products, due to difficult economic conditions, such as the significant production cuts by automotive manufacturers during 2008 and 2009, as well as any future reduction in demand for our products due to the sovereign debt crisis in Europe;

the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);

the loss of any of our large original equipment manufacturer (OEM) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;

industrywide strikes, labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers' other suppliers (such as the 2008 strike at American Axle, which disrupted our supply of products for significant General Motors (GM) platforms);

increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;

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the negative impact of higher fuel prices on transportation and logistics costs, raw material costs and discretionary purchases of vehicles or aftermarket products;

the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the impact of vehicle parts' longer product lives;

our ability to successfully execute cash management, restructuring and other cost reduction plans and to realize anticipated benefits from these plans;

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costs related to product warranties and other customer satisfaction actions;

the impact of consolidation among vehicle parts suppliers and customers on our ability to compete;

changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of changes in distribution channels for aftermarket products on our ability to increase or maintain aftermarket sales;

the cost and outcome of existing and any future claims or legal proceedings, including, but not limited to, claims or proceedings against us or our customers relating to product performance, product safety or intellectual property rights;

economic, exchange rate and political conditions in the countries where we operate or sell our products;

customer acceptance of new products;

new technologies that reduce the demand for certain of our products or otherwise render them obsolete;

our ability to realize our business strategy of improving operating performance;

our ability to successfully integrate any acquisitions that we complete and effectively manage our joint ventures and other third-party relationships;

changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;

changes in accounting estimates and assumptions, including changes based on additional information;

any changes by the International Organization for Standardization (ISO) or other such committees in their certification protocols for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;

the impact of changes in and compliance with laws and regulations, including: environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved; and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;

the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;

potential volatility in our effective tax rate;

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natural disasters, such as the 2011 earthquake in Japan and flooding in Thailand, and any resultant disruptions in the supply or production of goods or services to us or by us or in demand by our customers;

acts of war and/or terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and

the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control. The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tenneco Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of June 30, 2012, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month and six-month periods ended June 30, 2012 and 2011, and changes in shareholders' equity for the six-month periods ended June 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
August 7, 2012

The Report of Independent Registered Public Accounting Firm included above is not a report or part of a Registration Statement prepared or certified by an independent accountant within the meaning of Sections 7 and 11 of the Securities Act of 1933, and the accountants' Section 11 liability does not extend to such report.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	\$ 1,920	\$ 1,888	\$ 3,832	\$ 3,648
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,595	1,565	3,202	3,031
Engineering, research, and development	28	35	66	70
Selling, general, and administrative	109	118	227	227
Depreciation and amortization of other intangibles	50	54	99	105
	1,782	1,772	3,594	3,433
Other income (expense)				
Loss on sale of receivables	(1)	(2)	(2)	(3)
Other income (expense)		(1)	(3)	(5)
	(1)	(3)	(5)	(8)
Earnings before interest expense, income taxes, and noncontrolling interests				
	137	113	233	207
Interest expense (net of interest capitalized of \$1 million in both the three months ended June 30, 2012 and 2011, respectively and \$2 million in both the six months ended June 30, 2012 and 2011, respectively)	21	26	63	54
Earnings before income taxes and noncontrolling interests				
	116	87	170	153
Income tax expense	21	30	39	44
Net income	95	57	131	109
Less: Net income attributable to noncontrolling interests	8	7	14	12
Net income attributable to Tenneco Inc.	\$ 87	\$ 50	\$ 117	\$ 97
Earnings per share				
Weighted average shares of common stock outstanding				
Basic	59,992,055	59,980,866	60,067,205	59,901,929

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Diluted	61,260,871	62,011,879	61,470,513	62,004,267
Basic earnings per share of common stock	\$ 1.45	\$ 0.84	\$ 1.95	\$ 1.62
Diluted earnings per share of common stock	\$ 1.42	\$ 0.81	\$ 1.90	\$ 1.56

The accompanying notes to the condensed consolidated financial statements are an integral

part of these condensed consolidated statements of income.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Tenneco Inc.		Three Months Ended June 30, 2012 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Millions)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Net Income		\$ 87		\$ 8		\$ 95
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	\$ (4)		\$ 3		\$ (1)	
Translation of foreign currency statements	(43)	(43)	1	1	(42)	(42)
Balance June 30	(47)		4		(43)	
Additional Liability for Pension and Postretirement Benefits						
Balance April 1	(349)				(349)	
Additional Liability for Pension and Postretirement Benefits, net of tax	5	5			5	5
Balance June 30	(344)				(344)	
Balance June 30	\$ (391)		\$ 4		\$ (387)	
Other Comprehensive Income (Loss)		(38)		1		(37)
Comprehensive Income		\$ 49		\$ 9		\$ 58

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Tenneco Inc.		Three Months Ended June 30, 2011 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
	(Millions)					
Net Income		\$ 50		\$ 7		\$ 57
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	\$ 38		\$ 6		\$ 44	
Translation of foreign currency statements	21	21	(1)	(1)	20	20
Balance June 30	59		5		64	
Additional Liability for Pension and Postretirement Benefits						
Balance April 1	(249)				(249)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance June 30	(246)				(246)	
Balance June 30	\$ (187)		\$ 5		\$ (182)	
Other Comprehensive Income (Loss)		24		(1)		23
Comprehensive Income		\$ 74		\$ 6		\$ 80

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Tenneco Inc.		Six Months Ended June 30, 2012 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Millions)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Net Income		\$ 117		\$ 14		\$ 131
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	\$ (30)		\$ 4		\$ (26)	
Translation of foreign currency statements	(17)	(17)			(17)	(17)
Balance June 30	(47)		4		(43)	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(352)				(352)	
Additional Liability for Pension and Postretirement Benefits, net of tax	8	8			8	8
Balance June 30	(344)				(344)	
Balance June 30	\$ (391)		\$ 4		\$ (387)	
Other Comprehensive Loss		(9)				(9)
Comprehensive Income		\$ 108		\$ 14		\$ 122

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Tenneco Inc.		Six Months Ended June 30, 2011 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Millions)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Net Income		\$ 97		\$ 12		\$ 109
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	\$ 8		\$ 5		\$ 13	
Translation of foreign currency statements	51	51			51	51
Balance June 30	59		5		64	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(250)				(250)	
Additional Liability for Pension and Postretirement Benefits, net of tax	4	4			4	4
Balance June 30	(246)				(246)	
Balance June 30	\$ (187)		\$ 5		\$ (182)	
Other Comprehensive Income		55				55
Comprehensive Income		\$ 152		\$ 12		\$ 164

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of comprehensive income.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2012	December 31, 2011
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 181	\$ 214
Receivables		
Customer notes and accounts, net	1,144	936
Other	37	44
Inventories		
Finished goods	274	244
Work in process	205	181
Raw materials	138	121
Materials and supplies	51	46
Deferred income taxes	44	40
Prepayments and other	190	153
Total current assets	2,264	1,979
Other assets:		
Long-term receivables, net	8	10
Goodwill	72	74
Intangibles, net	31	32
Deferred income taxes	85	92
Other	107	103
	303	311
Plant, property, and equipment, at cost	3,192	3,153
Less Accumulated depreciation and amortization	(2,132)	(2,106)
	1,060	1,047
Total Assets	\$ 3,627	\$ 3,337
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 132	\$ 66
Trade payables	1,231	1,171
Accrued taxes	58	44
Accrued interest	10	13
Accrued liabilities	252	226
Other	41	50
Total current liabilities	1,724	1,570
Long-term debt	1,234	1,158
Deferred income taxes	44	51
Postretirement benefits	364	385
Deferred credits and other liabilities	119	118
Commitments and contingencies		

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Total liabilities	3,485	3,282
Redeemable noncontrolling interests	9	12
Tenneco Inc. Shareholders' equity:		
Common stock	1	1
Premium on common stock and other capital surplus	3,022	3,016
Accumulated other comprehensive loss	(391)	(382)
Retained earnings (accumulated deficit)	(2,262)	(2,379)
	370	256
Less: Shares held as treasury stock, at cost	274	256
Total Tenneco Inc. shareholders' equity	96	
Noncontrolling interests	37	43
Total equity	133	43
Total liabilities, redeemable noncontrolling interests and equity	\$ 3,627	\$ 3,337

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated balance sheets.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
(Millions)				
Operating Activities				
Net income	\$ 95	\$ 57	\$ 131	\$ 109
Adjustments to reconcile net income to cash provided (used) by operating activities				
Depreciation and amortization of other intangibles	50	54	99	105
Deferred income taxes	(2)		(7)	(5)
Stock-based compensation	3	2	7	4
Loss on sale of assets	1	1	2	1
Changes in components of working capital				
(Increase) decrease in receivables	(31)	(39)	(212)	(290)
(Increase) decrease in inventories	(7)	17	(83)	(60)
(Increase) in prepayments and other current assets	(23)	(9)	(39)	(24)
Increase (decrease) in payables	(2)	(5)	86	134
Increase (decrease) in accrued taxes	17	(8)	18	
Increase (decrease) in accrued interest	(4)	(8)	(4)	
Increase in other current liabilities	2	16	15	17
Changes in long-term assets	1		9	(3)
Changes in long-term liabilities	(17)	(9)	(22)	(21)
Other	3	(2)	1	(3)
Net cash provided (used) by operating activities	86	67	1	(36)
Investing Activities				
Proceeds from the sale of assets			1	4
Cash payments for plant, property, and equipment	(60)	(49)	(125)	(95)
Cash payments for software related intangible assets	(3)	(3)	(7)	(6)
Net cash used by investing activities	(63)	(52)	(131)	(97)
Financing Activities				
Retirement of long-term debt	(22)	(1)	(403)	(23)
Issuance of long-term debt		4	250	4
Debt issuance cost of long-term debt	(1)	(1)	(13)	(1)
Purchase of common stock under the share repurchase program	(18)	(11)	(18)	(11)
Increase (decrease) in bank overdrafts	(2)	1		8
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable				
	3	41	236	88
Net increase (decrease) in short-term borrowings secured by accounts receivable	30	(82)	60	
Capital contribution from noncontrolling interest partner	1	1	1	1
Distributions to noncontrolling interest partners	(18)	(10)	(18)	(10)
Net cash provided (used) by financing activities	(27)	(58)	95	56
Effect of foreign exchange rate changes on cash and cash equivalents	(8)	5	2	5

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Increase (decrease) in cash and cash equivalents	(12)	(38)	(33)	(72)
Cash and cash equivalents, April 1 and January 1, respectively	193	199	214	233
Cash and cash equivalents, June 30 (Note)	\$ 181	\$ 161	\$ 181	\$ 161
Supplemental Cash Flow Information				
Cash paid during the period for interest	\$ 24	\$ 34	\$ 59	\$ 53
Cash paid during the period for income taxes (net of refunds)	19	23	36	33
Non-cash Investing and Financing Activities				
Period end balance of trade payables for plant, property, and equipment	\$ 30	\$ 22	\$ 30	\$ 22

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

The accompanying notes to the condensed consolidated financial statements are an integral
part of these condensed consolidated statements of cash flows.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****(Unaudited)**

	Six Months Ended June 30,			
	2012		2011	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	62,101,335	\$ 1	61,541,760	\$ 1
Issued pursuant to benefit plans	152,705		53,302	
Stock options exercised	115,016		207,790	
Balance June 30	62,369,056	1	61,802,852	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,016		3,008
Premium on common stock issued pursuant to benefit plans		6		3
Balance June 30		3,022		3,011
Accumulat				