

TENNECO INC
Form 10-Q
November 07, 2013
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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 September 30, 2013
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 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: 60,834,533 shares outstanding as of November 1, 2013.

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* No response to this item is included herein for the reason that it is inapplicable or the answer to such item is negative.

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 prolonged recession 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;

• our ability to successfully execute cash management and other cost reduction plans, including our current European cost reduction initiatives, and to realize anticipated benefits from these plans;

• 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;

• 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;

• 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;

• costs related to product warranties and other customer satisfaction actions;

• 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;

• the failure or breach of our information technology systems, including the consequences of any misappropriation, exposure or corruption of sensitive information stored on such systems and the interruption to our business that such failure or breach may cause;

• 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;

• 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 introduce new products and technologies that satisfy customers' needs in a timely fashion;

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- 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;
- 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, 2012, 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 September 30, 2013, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and nine month periods ended September 30, 2013 and 2012 and changes in shareholders' equity for the nine months ended September 30, 2013 and 2012. 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, 2012, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated February 27, 2013, 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, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

November 7, 2013

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.

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TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
(Millions Except Share and Per Share Amounts)				
Revenues				
Net sales and operating revenues	\$ 1,963	\$ 1,778	\$ 5,933	\$ 5,610
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,691	1,494	5,031	4,696
Engineering, research, and development	35	28	103	94
Selling, general, and administrative	112	94	337	321
Depreciation and amortization of other intangibles	51	49	151	148
	1,889	1,665	5,622	5,259
Other expense				
Loss on sale of receivables	(1	) (1	) (3	) (3
Other	(1	) (1	) (2	) (4
	(2	) (2	) (5	) (7
Earnings before interest expense, income taxes, and noncontrolling interests	72	111	306	344
Interest expense (net of interest capitalized of \$1 million in both of the three months ended September 30, 2013 and 2012, respectively, and \$3 million in both of the nine months ended September 30, 2013 and 2012, respectively)		21	60	84
Earnings before income taxes and noncontrolling interests	52	90	246	260
Income tax (benefit) expense	30	(42	) 89	(3
Net income	22	132	157	263
Less: Net income attributable to noncontrolling interests	10	7	28	21
Net income attributable to Tenneco Inc.	\$ 12	\$ 125	\$ 129	\$ 242
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	60,624,358	59,766,097	60,475,652	59,983,310
Diluted	61,865,375	60,949,632	61,583,629	61,266,124
Basic earnings per share of common stock	\$0.19	\$2.09	2.13	4.04
Diluted earnings per share of common stock	\$0.19	\$2.05	2.09	3.95

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

TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	For the Three Months Ended September 30, 2013					
	Tenneco Inc. Accumulated		Noncontrolling Interests Accumulated		Total Accumulated	
	Other Comprehensive Income (Loss) (Millions)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Net Income		\$ 12		\$ 10		\$ 22
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	\$ (74	)	\$ 5		\$ (69)
Translation of foreign currency statements	23	23	—	—	23	23
Balance September 30	(51	)	5		(46)
Additional Liability for Pension and Postretirement Benefits						
Balance July 1	(374	)	—		(374)
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance September 30	(371	)	—		(371)
Balance September 30	\$(422	)	\$ 5		\$(417)
Other Comprehensive Income		26		—		26
Comprehensive Income		\$ 38		\$ 10		\$ 48

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

TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	For the Three Months Ended September 30, 2012					
	Tenneco Inc. Accumulated Other Comprehensive Income (Loss) (Millions)		Noncontrolling Interests Accumulated Other Comprehensive Income (Loss)		Total Accumulated Other Comprehensive Income (Loss)	
	Comprehensive Income (Loss)	Comprehensive Income (Loss)	Comprehensive Income (Loss)	Comprehensive Income (Loss)	Comprehensive Income (Loss)	Comprehensive Income (Loss)
Net Income		\$ 125		\$ 7		\$ 132
Accumulated Other Comprehensive Income (Loss) Cumulative Translation Adjustment						
Balance July 1	\$ (47)		\$ 4		\$ (43)	
Translation of foreign currency statements	14	14	—	—	14	14
Balance September 30	(33)		4		(29)	
Additional Liability for Pension and Postretirement Benefits						
Balance July 1	(344)		—		(344)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance September 30	(341)		—		(341)	
Balance September 30	\$(374)		\$ 4		\$(370)	
Other Comprehensive Income		17		—		17
Comprehensive Income		\$ 142		\$ 7		\$ 149

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

TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	For the Nine Months Ended September 30, 2013						
	Tenneco Inc. Accumulated		Noncontrolling Interests Accumulated		Total Accumulated		
	Other Comprehensive Income (Loss) (Millions)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	
Net Income		\$ 129		\$ 28		\$ 157	
Accumulated Other Comprehensive Income (Loss)							
Cumulative Translation Adjustment							
Balance January 1	\$(24	)	\$5		\$(19)	
Translation of foreign currency statements	(27)	(27)	—	(27)
Balance September 30	(51	)	5		(46)	
Additional Liability for Pension and Postretirement Benefits							
Balance January 1	(384	)	—		(384)	
Additional Liability for Pension and Postretirement Benefits, net of tax	13	13			13	13	
Balance September 30	(371	)	—		(371)	
Balance September 30	\$(422	)	\$5		\$(417)	
Other Comprehensive Loss		(14)	—		(14)
Comprehensive Income		\$ 115		\$ 28		\$ 143	

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

TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	For the Nine Months Ended September 30, 2012							
	Tenneco Inc. Accumulated		Noncontrolling Interests Accumulated		Total Accumulated			
	Other Comprehensive Income (Loss) (Millions)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Comprehensive Income (Loss)		
Net Income		\$ 242		\$ 21		\$ 263		
Accumulated Other Comprehensive Income Cumulative Translation Adjustment								
Balance January 1	\$(30	)	\$4		\$(26)	
Translation of foreign currency statements	(3) (3)	—	—	(3) (3)
Balance September 30	(33	)	4		(29)	
Additional Liability for Pension and Postretirement Benefits								
Balance January 1	(352	)	—		(352)	
Additional Liability for Pension and Postretirement Benefits, net of tax	11	11			11	11		
Balance September 30	(341	)	—		(341)	
Balance September 30	\$(374	)	\$4		\$(370)	
Other Comprehensive Income		8		—		8		
Comprehensive Income		\$ 250		\$ 21		\$ 271		

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

TENNECO INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	September 30, 2013	December 31, 2012
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$276	\$223
Restricted cash	5	—
Receivables —		
Customer notes and accounts, net	1,226	966
Other	29	20
Inventories —		
Finished goods	267	273
Work in process	228	207
Raw materials	148	133
Materials and supplies	56	54
Deferred income taxes	76	72
Prepayments and other	268	176
Total current assets	2,579	2,124
Other assets:		
Long-term receivables, net	8	4
Goodwill	70	72
Intangibles, net	31	35
Deferred income taxes	158	116
Other	120	135
	387	362
Plant, property, and equipment, at cost	3,423	3,365
Less — Accumulated depreciation and amortization	(2,290)	(2,243)
	1,133	1,122
Total Assets	\$4,099	\$3,608
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$131	\$113
Trade payables	1,288	1,186
Accrued taxes	45	50
Accrued interest	14	10
Accrued liabilities	270	239
Other	104	51
Total current liabilities	1,852	1,649
Long-term debt	1,226	1,067
Deferred income taxes	25	27
Postretirement benefits	358	407
Deferred credits and other liabilities	199	152
Commitments and contingencies		
Total liabilities	3,660	3,302
Redeemable noncontrolling interests	15	15
Tenneco Inc. Shareholders' equity:		
Common stock	1	1

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Premium on common stock and other capital surplus	3,070	3,031	
Accumulated other comprehensive loss	(422)	(408))
Retained earnings (accumulated deficit)	(1,975)	(2,104))
	674	520	
Less — Shares held as treasury stock, at cost	294	274	
Total Tenneco Inc. shareholders' equity	380	246	
Noncontrolling interests	44	45	
Total equity	424	291	
Total liabilities, redeemable noncontrolling interests and equity	\$4,099	\$3,608	

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

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TENNECO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Three Months Ended September 30, 2013 (Millions)	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income	\$22	\$132	\$157	\$263
Adjustments to reconcile net income to cash provided by operating activities —				
Depreciation and amortization of other intangibles	51	49	151	148
Deferred income taxes	(10)	) (87	) 6	(94
Stock-based compensation	3	2	10	9
Loss on sale of assets	(1	) 1	1	3
Changes in components of working capital —				
(Increase) decrease in receivables	(27	) 55	(280	) (157
(Increase) decrease in inventories	(21	) 2	(39	) (81
(Increase) decrease in prepayments and other current assets	(16	) (1	) (97	) (40
Increase (decrease) in payables	(38	) (50	) 111	36
Increase (decrease) in accrued taxes	8	19	(5	) 37
Increase (decrease) in accrued interest	4	5	4	1
Increase (decrease) in other current liabilities	79	—	86	15
Changes in long-term assets	6	7	9	16
Changes in long-term liabilities	(11	) (13	) (31	) (35
Other	1	4	8	5
Net cash provided by operating activities	50	125	91	126
Investing Activities				
Proceeds from the sale of assets	4	1	6	2
Cash payments for plant, property, and equipment	(54	) (70	) (178	) (195
Cash payments for software related intangible assets	(7	) (3	) (19	) (10
Cash payments for net assets purchased	—	(7	) —	(7
Changes in restricted cash	—	—		