

TENNECO INC
Form 10-Q
November 07, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- b** QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2011
OR
o 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 **b** No **o**

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 **b** No **o**

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):

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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: 60,296,327 shares outstanding as of October 31, 2011.

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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.

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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 (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 contracts;

changes in automotive and commercial vehicle manufacturers' production rates and their actual and forecasted requirements for our products, such as the significant production cuts during 2008 and 2009 by automotive manufacturers in response to difficult economic conditions;

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 for the applicable program over its life);

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;

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 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, low cost country sourcing, and price recovery efforts with aftermarket and OE customers;

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

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

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

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;

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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 legal proceedings, including, but not limited to, proceedings against us or our customers relating to 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 partnerships;

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 International Standards Organization (ISO), Technical Specifications (TS) and other such committees in their certification processes 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, the implementation of mandated timelines for worldwide emission regulation, which could impact the demand for certain of our products, and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;

decisions by federal, state and local governments to provide (or discontinue) incentive programs related to automobile or other vehicle purchases;

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 recent earthquake in Japan and flooding in Thailand, and any resultant disruptions in the supply of goods or services to us or in production or 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, 2010, 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, 2011, and the related condensed consolidated statements of income (loss), of cash flows, and of comprehensive income for the three-month and nine-month periods ended September 30, 2011 and 2010, and of changes in shareholders' equity for the nine-month periods ended September 30, 2011 and 2010. 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, 2010, and the related consolidated statements of income (loss), of cash flows, of changes in shareholders' equity and of comprehensive income (loss) for the year then ended (not presented herein), and in our report dated February 25, 2011, 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, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chicago, Illinois

November 7, 2011

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
(Millions Except Share and Per Share Amounts)				
Revenues				
Net sales and operating revenues	\$ 1,773	\$ 1,542	\$ 5,421	\$ 4,360
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,492	1,280	4,523	3,575
Goodwill impairment charge	11		11	
Engineering, research, and development	32	30	102	90
Selling, general, and administrative	101	109	328	307
Depreciation and amortization of other intangibles	51	55	156	163
	1,687	1,474	5,120	4,135
Other income (expense)				
Loss on sale of receivables	(1)	(1)	(4)	(3)
Other income (expense)	(1)		(6)	(3)
	(2)	(1)	(10)	(6)
Earnings before interest expense, income taxes, and noncontrolling interests	84	67	291	219
Interest expense (net of interest capitalized of \$1 million in each of the three months ended September 30, 2011 and 2010, respectively and \$3 million in each of the nine months ended September 30, 2011 and 2010, respectively)	27	36	81	100
Income tax expense	21	15	65	45
Net income	36	16	145	74
Less: Net income attributable to noncontrolling interests	6	6	18	17

Net income attributable to Tenneco Inc.

\$	30	\$	10	\$	127	\$	57
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Earnings per share

Weighted average shares of common stock outstanding

Basic	59,793,866	59,235,282	59,866,717	59,102,041
Diluted	61,541,476	61,079,919	61,738,278	60,859,093

Basic earnings per share of common stock	\$	0.51	\$	0.17	\$	2.12	\$	0.97
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Diluted earnings per share of common stock	\$	0.49	\$	0.17	\$	2.06	\$	0.94
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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 BALANCE SHEETS
(Unaudited)**

	September 30, 2011	December 31, 2010
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163	\$ 233
Receivables		
Customer notes and accounts, net	1,073	796
Other	44	30
Inventories		
Finished goods	250	222
Work in process	194	164
Raw materials	131	118
Materials and supplies	46	43
Deferred income taxes	42	38
Prepayments and other	160	146
Total current assets	2,103	1,790
Other assets:		
Long-term receivables, net	13	9
Goodwill	75	89
Intangibles, net	33	32
Deferred income taxes	87	92
Other	99	105
	307	327
Plant, property, and equipment, at cost	3,136	3,109
Less Accumulated depreciation and amortization	(2,110)	(2,059)
	1,026	1,050
Total assets	\$ 3,436	\$ 3,167

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 70	\$ 63
Trade payables	1,181	1,048
Accrued taxes	46	51
Accrued interest	23	13

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Accrued liabilities	246	227
Other	56	66
Total current liabilities	1,622	1,468
Long-term debt	1,234	1,160
Deferred income taxes	50	56
Postretirement benefits	279	311
Deferred credits and other liabilities	121	125
Commitments and contingencies		
Total liabilities	3,306	3,120
Redeemable noncontrolling interests	10	12
Tenneco Inc. Shareholders' equity:		
Common stock	1	1
Premium on common stock and other capital surplus	3,012	3,008
Accumulated other comprehensive loss	(265)	(237)
Retained earnings (accumulated deficit)	(2,409)	(2,536)
	339	236
Less: Shares held as treasury stock, at cost	256	240
Total Tenneco Inc. shareholders' equity	83	(4)
Noncontrolling interests	37	39
Total equity	120	35
Total liabilities, redeemable noncontrolling interests and equity	\$ 3,436	\$ 3,167

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Millions)			
Operating Activities				
Net income	\$ 36	\$ 16	\$ 145	\$ 74
Adjustments to reconcile net income to cash provided by operating activities				
Goodwill impairment charge	11		11	
Depreciation and amortization of other intangibles	51	55	156	163
Deferred income taxes	2	(6)	(3)	(4)
Stock-based compensation	2	2	6	7
Loss on sale of assets	2		3	3
Changes in components of working capital				
(Increase) decrease in receivables	(24)	(81)	(314)	(374)
(Increase) decrease in inventories	(25)	(52)	(85)	(123)
(Increase) decrease in prepayments and other current assets	6	(3)	(18)	(1)
Increase (decrease) in payables	25	33	159	265
Increase (decrease) in accrued taxes	(7)	12	(7)	13
Increase (decrease) in accrued interest	9	7	9	8
Increase (decrease) in other current liabilities	(2)	15	15	34
Changes in long-term assets	1	3	(2)	4
Changes in long-term liabilities	(10)	18	(31)	(3)
Other	3	(2)		(2)
Net cash provided by operating activities	80	17	44	64
Investing Activities				
Proceeds from the sale of assets		2	4	3
Cash payments for plant, property, and equipment	(50)	(33)	(145)	(105)
Cash payments for software related intangible assets	(4)	(3)	(10)	(11)
Other		(1)		1
Net cash used by investing activities	(54)	(35)	(151)	(112)
Financing Activities				
Purchase of common stock under the share repurchase program	(5)		(16)	
Issuance of long-term debt	1	225	5	380

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Debt issuance cost of long-term debt		(5)		(1)		(14)
Retirement of long-term debt		(246)		(23)		(383)
Increase (decrease) in bank overdrafts	(5)	10		3		12
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	20	63		108		83
Capital contribution from noncontrolling interest partner				1		
Purchase of additional noncontrolling equity interest	(4)			(4)		
Distributions to noncontrolling interest partners	(10)	(3)		(20)		(14)
Net cash provided (used) by financing activities	(3)	44		53		64
Effect of foreign exchange rate changes on cash and cash equivalents	(21)	12		(16)		1
Increase (decrease) in cash and cash equivalents	2	38		(70)		17
Cash and cash equivalents, July 1 and January 1, respectively	161	146		233		167
Cash and cash equivalents, September 30 (Note)	\$ 163	\$ 184	\$ 163	\$ 184		
Supplemental Cash Flow Information						
Cash paid during the period for interest	\$ 18	\$ 28	\$ 71	\$ 89		
Cash paid during the period for income taxes (net of refunds)	25	18	58	42		
Non-cash Investing and Financing Activities						
Period end balance of trade payables for plant, property, and equipment	\$ 23	\$ 12	\$ 23	\$ 12		

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)**

	Nine Months Ended September 30,			
	2011		2010	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	61,541,760	\$ 1	60,789,739	\$ 1
Issued pursuant to benefit plans	52,394		172,022	
Stock options exercised	323,039		301,029	
Balance September 30	61,917,193	1	61,262,790	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,008		3,005
Purchase of additional noncontrolling equity interest		(2)		(11)
Premium on common stock issued pursuant to benefit plans		6		8
Balance September 30		3,012		3,002
Accumulated Other Comprehensive Loss				
Balance January 1		(237)		(212)
Other comprehensive loss		(28)		(28)
Balance September 30		(265)		(240)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,536)		(2,575)
Net income attributable to Tenneco Inc.		127		57
Balance September 30		(2,409)		(2,518)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1	1,294,692	240	1,294,692	240
Purchase of common stock through stock repurchase program	400,000	16		
Balance September 30	1,694,692	256	1,294,692	240
Total Tenneco Inc. shareholders' equity		\$ 83		\$ 5

Noncontrolling Interests:

Balance January 1	\$	39	\$	32
Net income		13		11
Sale of twenty percent equity interest to Tenneco Inc.				(4)
Other comprehensive income		(1)		2
Dividends declared		(14)		(8)
Balance September 30	\$	37	\$	33
Total equity	\$	120	\$	38

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of changes in shareholders' equity.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(Unaudited)**Three Months Ended September 30, 2011**

	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated
	Other	Other	Other	Other	Other	Other
	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Income	Income	Income	Income	Income	Income
	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
	(Millions)					
Net Income	\$	30	\$	6	\$	36
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	\$	59	\$	5	\$	64
Translation of foreign currency statements	(82)	(82)	(1)	(1)	(83)	(83)
Balance September 30	(23)		4		(19)	
Additional Liability for Pension Benefits						
Balance July 1	(246)				(246)	
Additional Liability for Pension and Postretirement Benefits, net of tax	4	4			4	4
Balance September 30	(242)				(242)	
Balance September 30	\$	(265)	\$	4	\$	(261)
Other Comprehensive Income (Loss)		(78)		(1)		(79)
Comprehensive Income (Loss)	\$	(48)	\$	5	\$	(43)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended September 30, 2010

Tenneco Inc.		Noncontrolling Interests		Total	
Accumulated		Accumulated		Accumulated	
Other		Other		Other	
Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
Income	Income	Income	Income	Income	Income
(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
(Millions)					

Net Income