

TENNECO INC
Form 10-Q
November 05, 2014
Table of Contents

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, 2014
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: 61,068,245 shares outstanding as of October 31, 2014.

Table of Contents

TABLE OF CONTENTS

	Page
Part I — Financial Information	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>5</u>
Tenneco Inc. and Consolidated Subsidiaries —	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>5</u>
<u>Condensed Consolidated Statements of Income</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>7</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>11</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	<u>13</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>14</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>62</u>
Item 4. <u>Controls and Procedures</u>	<u>62</u>
Part II — Other Information	
Item 1. Legal Proceedings	*
Item 1A. <u>Risk Factors</u>	<u>63</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>63</u>
Item 3. Defaults Upon Senior Securities	*
Item 4. Mine Safety Disclosures	*
Item 5. Other Information	*
Item 6. <u>Exhibits</u>	<u>65</u>

* 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;

• the cost and outcome of existing and any future claims, legal proceedings or investigations, including, but not limited to, any of the foregoing arising in connection with the ongoing global antitrust investigation, product performance, product safety or intellectual property rights;

• 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 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;

3

- our ability to introduce new products and technologies that satisfy customers' needs in a timely fashion;
- 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 the extensive, increasing and changing laws and regulations to which we are subject, including environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved;
- 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, 2013 and "Part II, Item 1A — Risk Factors" of this Form 10-Q 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.

Table of Contents

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, 2014, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and nine month periods ended September 30, 2014 and 2013 and changes in shareholders' equity for the nine months ended September 30, 2014 and 2013. 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, 2013, 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, 2014, 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, 2013, 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 5, 2014

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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
(Millions Except Share and Per Share Amounts)				
Revenues				
Net sales and operating revenues	\$2,081	\$1,963	\$6,416	\$5,933
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,735	1,691	5,340	5,031
Engineering, research, and development	42	35	126	103
Selling, general, and administrative	108	112	379	337
Depreciation and amortization of other intangibles	52	51	155	151
	1,937	1,889	6,000	5,622
Other expense				
Loss on sale of receivables	(1	) (1	) (3	) (3
Other	(3	) (1	) (4	) (2
	(4	) (2	) (7	) (5
Earnings before interest expense, income taxes, and noncontrolling interests	140	72	409	306
Interest expense (net of interest capitalized of \$1 million in both of the three months ended September 30, 2014 and 2013, and \$3 million in both of the nine months ended September 30, 2014 and 2013, respectively)	20	20	58	60
Earnings before income taxes and noncontrolling interests	120	52	351	246
Income tax expense	31	30	117	89
Net income	89	22	234	157
Less: Net income attributable to noncontrolling interests	11	10	29	28
Net income attributable to Tenneco Inc.	\$78	\$12	\$205	\$129
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	60,762,667	60,624,358	60,671,410	60,475,652
Diluted	61,713,851	61,865,375	61,635,062	61,583,629
Basic earnings per share of common stock	\$1.29	\$0.19	3.39	2.13
Diluted earnings per share of common stock	\$1.27	\$0.19	3.33	2.09

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, 2014										
	Tenneco Inc. Accumulated Other Comprehensive Income (Loss) (Millions)		Comprehensive Income (Loss)		Noncontrolling Interests Accumulated Other Comprehensive Income (Loss)		Total Accumulated Other Comprehensive Income (Loss)		Comprehensive Income (Loss)		
Net Income			\$ 78					\$ 11		\$ 89	
Accumulated Other Comprehensive Income (Loss) Cumulative Translation Adjustment											
Balance July 1	\$ (61	)		\$ 4				\$ (57)		
Translation of foreign currency statements	(60)	(60)	—		—	(60)	(60)
Balance September 30	(121	)		4				(117)		
Additional Liability for Pension and Postretirement Benefits											
Balance July 1	(293	)		—				(293)		
Additional Liability for Pension and Postretirement Benefits, net of tax	2		2		—		—	2		2	
Balance September 30	(291	)		—				(291)		
Balance September 30	\$(412	)		\$ 4				\$(408)		
Other Comprehensive Loss			(58)			—			(58)
Comprehensive Income			\$ 20					\$ 11		\$ 31	

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, 2013					
	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	\$ 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 Nine Months Ended September 30, 2014											
	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)						
Net Income		\$ 205		\$ 29		\$ 234						
Accumulated Other Comprehensive Income (Loss)												
Cumulative Translation Adjustment												
Balance January 1	\$ (61	)	\$ 5		\$ (56)						
Translation of foreign currency statements	(60)	\$ (60)	(1)	(1)	(61)	(61)
Balance September 30	(121	)	4		(117)						
Additional Liability for Pension and Postretirement Benefits												
Balance January 1	(299	)	—		(299)						
Additional Liability for Pension and Postretirement Benefits, net of tax	8	8	—	—	8	8						
Balance September 30	(291	)	—		(291)						
Balance September 30	\$(412	)	\$4		\$(408)						
Other Comprehensive Loss		(52	)		(1	)				(53)	
Comprehensive Income		\$ 153		\$ 28		\$ 181						

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 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	\$ 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)	(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 BALANCE SHEETS
 (Unaudited)

	September 30, 2014	December 31, 2013
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$275	\$275
Restricted cash	5	5
Receivables —		
Customer notes and accounts, net	1,244	1,041
Other	21	19
Inventories —		
Finished goods	305	267
Work in process	240	202
Raw materials	151	130
Materials and supplies	59	57
Deferred income taxes	77	71
Prepayments and other	268	223
Total current assets		