

TENNECO INC  
Form 10-Q  
May 06, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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 March 31, 2016  
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 76-0515284  
(State or other jurisdiction of (I.R.S.  
incorporation or organization) Employer  
Identification  
No.)

500 North Field Drive, Lake Forest, Illinois 60045  
(Address of principal executive offices) (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: 57,287,298 shares outstanding as of April 29, 2016.

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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 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 European cost reduction initiatives, and to realize anticipated benefits from these plans;
- economic, exchange rate and political conditions in the countries where we operate or sell our products;
- 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 fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment;
- 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 increasing competition from lower cost, private-label products on our aftermarket business;  
• 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 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 earthquakes and flooding, 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, 2015 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.

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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 its subsidiaries as of March 31, 2016, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three month periods ended March 31, 2016 and 2015 and changes in shareholders' equity for the three months ended March 31, 2016 and 2015. 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, 2015, 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 24, 2016 (which included an explanatory paragraph with respect to the Company's change in the manner of accounting in which it classifies deferred taxes in 2015), 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, 2015, is fairly stated in all material respects in relation to the condensed consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin  
May 6, 2016

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 March 31, 2016	Three Months Ended March 31, 2015
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	\$2,136	\$ 2,023
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,770	1,686
Engineering, research, and development	39	41
Selling, general, and administrative	147	125
Depreciation and amortization of other intangibles	54	50
	2,010	1,902
Other expense		
Loss on sale of receivables	(1	) (1
Other	(1	) —
	(2	) (1
Earnings before interest expense, income taxes, and noncontrolling interests	124	120
Interest expense	18	16
Earnings before income taxes and noncontrolling interests	106	104
Income tax expense	34	41
Net income	72	63
Less: Net income attributable to noncontrolling interests	15	14
Net income attributable to Tenneco Inc.	\$57	\$ 49
Earnings per share		
Weighted average shares of common stock outstanding —		
Basic	57,115,496	61,044,908
Diluted	57,445,946	61,593,087
Basic earnings per share of common stock	\$1.00	\$ 0.81
Diluted earnings per share of common stock	\$0.99	\$ 0.80

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

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

	Three Months Ended March 31, 2016		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)
Net Income	\$ 57	\$ 15	\$ 72
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance January 1	\$(297)	\$ (1 )	\$(298 )
Translation of foreign currency statements	23 23	1 1	24 24
Balance March 31	(274 )	—	(274 )
Additional Liability for Pension and Postretirement Benefits			
Balance January 1	(368 )	—	(368 )
Additional Liability for Pension and Postretirement Benefits, net of tax	4 4	— —	4 4
Balance March 31	(364 )	—	(364 )
Balance March 31	\$(638)	\$ —	\$(638 )
Other Comprehensive Income	27	1	28
Comprehensive Income	\$ 84	\$ 16	\$ 100

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



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

	Three Months Ended March 31, 2015		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)	Accumulated Other Comprehensive Income (Loss) (Millions)
Net Income	\$ 49	\$ 14	\$ 63
Accumulated Other Comprehensive Income (Loss)			
Cumulative Translation Adjustment			
Balance January 1	\$(166)	\$ 3	\$(163 )
Translation of foreign currency statements	(72 ) (72 )	1 1	(71 ) (71 )
Balance March 31	(238 )	4	(234 )
Additional Liability for Pension and Postretirement Benefits			
Balance January 1	(379 )	—	(379 )
Additional Liability for Pension and Postretirement Benefits, net of tax	3 3	— —	3 3
Balance March 31	(376 )	—	(376 )
Balance March 31	\$(614)	\$ 4	\$(610 )
Other Comprehensive Income (Loss)	(69 )	1	(68 )
Comprehensive Income (Loss)	\$ (20 )	\$ 15	\$ (5 )

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

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TENNECO INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	March 31,	December 31,
	2016	2015
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$374	\$ 287
Restricted cash	2	1
Receivables —		
Customer notes and accounts, net	1,269	1,102
Other	17	10
Inventories —		
Finished goods	296	257
Work in process	248	233
Raw materials	142	135
Materials and supplies	60	57
Prepayments and other	254	229
Total current assets	2,662	2,311
Other assets:		
Long-term receivables, net	11	13
Goodwill	59	60
Intangibles, net	21	22
Deferred income taxes	214	218
Other	103	100
	408	413
Plant, property, and equipment, at cost	3,513	3,418
Less — Accumulated depreciation and amortization	(2,235 )	(2,175 )
	1,278	1,243
Total Assets	\$4,348	\$ 3,967
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$97	\$ 86
Accounts payable	1,462	1,376
Accrued taxes	52	37
Accrued interest	16	4
Accrued liabilities	253	250
Other	41	41
Total current liabilities	1,921	1,794
Long-term debt	1,311	1,124
Deferred income taxes	9	7
Postretirement benefits	313	318
Deferred credits and other liabilities	189	206
Commitments and contingencies		
Total liabilities	3,743	3,449
Redeemable noncontrolling interests	51	43
Tenneco Inc. Shareholders' equity:		
Common stock	1	1

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Premium on common stock and other capital surplus	3,085	3,081
Accumulated other comprehensive loss	(638 )	(665 )
Retained earnings (accumulated deficit)	(1,391 )	(1,448 )
	1,057	969
Less — Shares held as treasury stock, at cost	552	536
Total Tenneco Inc. shareholders' equity	505	433
Noncontrolling interests	49	42
Total equity	554	475
Total liabilities, redeemable noncontrolling interests and equity	\$4,348	\$ 3,967

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 March 31, 2016 (Millions)	Three Months Ended March 31, 2015
Operating Activities		
Net income	\$ 72	\$ 63
Adjustments to reconcile net income to cash used by operating activities —		
Depreciation and amortization of other intangibles	54	50
Deferred income taxes	3	(6)
Stock-based compensation	7	6
Changes in components of working capital —		
(Increase) decrease in receivables	(160)	(194)
(Increase) decrease in inventories	(51)	(59)
(Increase) decrease in prepayments and other current assets	(19)	(7)
Increase (decrease) in payables	56	77
Increase (decrease) in accrued taxes	15	12
Increase (decrease) in accrued interest	12	13
Increase (decrease) in other current liabilities	(17)	(2)
Changes in long-term assets	3	2
Changes in long-term liabilities	(5)	(3)
Other	1	(2)
Net cash used by operating activities	(29)	(50)
Investing Activities		
Proceeds from sale of assets	1	1
Cash payments for plant, property, and equipment	(68)	(77)
Cash payments for software related	(6)	(5)

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intangible assets				
Changes in restricted cash	(1	)	3	
Net cash used by investing activities	(74	)	(78	)
Financing Activities				
Issuance (Repurchase) of common shares	(2	)	—	
Tax benefit from stock-based compensation	—		3	
Retirement of long-term debt	(4	)	(4	)
Issuance of long-term debt	5		—	
Purchase of common stock under the share repurchase program	(16	)	(11	)
Net increase (decrease) in bank overdrafts	7		(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	193		111	
Net increase (decrease) in short-term borrowings secured by accounts receivable	—		50	
Net cash provided by financing activities	183		141	
Effect of foreign exchange rate changes on cash and cash equivalents	7		(7	)
Increase in cash and cash equivalents	87		6	
Cash and cash equivalents, January 1	287		282	
Cash and cash equivalents, March 31	\$	374	\$	288
(Note)				
Supplemental Cash Flow Information				
Cash paid during the period for interest (net of \$ interest capitalized)	6		\$	4
Cash paid during the period for income taxes	21		—	

(net of refunds)

Non-cash Investing and  
Financing Activities

Period end balance of  
trade payables for plant, \$  
property, and equipment

41

\$

34

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.

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TENNECO INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 (Unaudited)

	Three Months Ended March 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	65,067,132	\$ 1	64,454,248	\$ 1
Issued pursuant to benefit plans	315,706	—	295,682	—
Stock options exercised	21,392	—	97,097	—
Balance March 31	65,404,230	1	64,847,027	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,081		3,059
Premium on common stock issued pursuant to benefit plans		4		8
Balance March 31				