TENNECO INC
Form 10-Q
May 08, 2009

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

FORM 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended March 31, 2009 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 þ 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 o 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):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

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: 47,247,724 shares outstanding as of April 30, 2009.

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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 simila (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, including without limitation the severe financial difficulties facing a number of companies in the automotive industry as a result of the current global economic crisis, including the recent filing for bankruptcy protection by Chrysler LLC and a potential filing for bankruptcy protection by General Motors, and the potential impact thereof on labor unrest, supply chain disruptions, weakness in demand and the collectibility of any accounts receivable due to us from such companies;

our ability to access the capital or credit markets and the costs of capital, including the recent global financial and liquidity crisis, changes in interest rates, market perceptions of the industries in which we operate or ratings of securities;

the recent volatility in the credit markets, the losses which may be sustained by our lenders due to their lending and other financial relationships and the general instability of financial institutions due to a weakened economy;

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the significant shift in consumer preferences from light trucks, which tend to be higher margin products for our customers and us, to other vehicles in light of higher fuel cost and the impact of the current global economic crisis, and other factors impacting the cyclicality of automotive production and sales of automobiles which include our products, and the potential negative impact on our revenues and margins from such products;

changes in automotive manufacturers production rates and their actual and forecasted requirements for our products, such as the recent and significant production cuts by automotive manufacturers in response to difficult economic conditions;

the overall highly competitive nature of the automotive parts industry, and our resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing for the applicable program over its life, and is subject to increases or decreases due to changes in customer requirements, customer and consumer preferences, and the number of vehicles actually produced by customers);

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;

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;

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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 automobile parts;

our continued success in cost reduction and cash management programs and our ability to execute restructuring and other cost reduction plans and to realize anticipated benefits from these plans;

costs related to product warranties;

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

operating hazards associated with our business;

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 negative impact of higher fuel prices and overall market weakness on discretionary purchases of aftermarket products by consumers;

the cost and outcome of existing and any future legal proceedings;

economic, exchange rate and political conditions in the foreign 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 inability to successfully integrate any acquisitions that we complete;

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

potential legislation, regulatory changes and other governmental actions, including the ability to receive regulatory approvals and the timing of such approvals;

the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, environmental liabilities in excess of the amount reserved and the adoption of the current mandated timelines for worldwide emission regulation;

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;

acts of war and/or terrorism, including, but not limited to, the events taking place in the Middle East, the current military action in Iraq and Afghanistan, the current situation in North Korea and the continuing war on 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, 2008, 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 (the Company) as of March 31, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss), and changes in shareholders equity for the three-month periods ended March 31, 2009 and 2008. These interim financial statements are the responsibility of the Company s management.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tenneco Inc. and subsidiaries as of December 31, 2008, and the related consolidated statements of income (loss), cash flows, changes in shareholders equity, and comprehensive income (loss) and financial statement schedule for the year then ended prior to retrospective adjustment for the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, (not presented herein); and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule. We also audited the adjustments described in Note 1 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

DELOITTE & TOUCHE LLP

Chicago, Illinois
May 6, 2009

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31, 2009	2008
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	$ 967	$ 1,560
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	827	1,326
Engineering, research, and development	21	36
Selling, general, and administrative	78	105
Depreciation and amortization of other intangibles	52	55
	978	1,522
Other income (expense)		
Loss on sale of receivables	(2)	(2)
Other income		3
	(2)	1
Income (loss) before interest expense, income taxes, and noncontrolling interests	(13)	39
Interest expense (net of interest capitalized of $2 million for each of the three months ended March 31, 2009 and 2008)	31	25
Income tax expense	3	5
Net income (loss)	(47)	9
Less: Net income attributable to noncontrolling interests	2	3
Net income (loss) attributable to Tenneco Inc.	$ (49)	$ 6
Earnings (loss) per share		
Weighted average shares of common stock outstanding		
Basic	46,671,289	46,253,272
Diluted	46,671,289	47,737,835
Basic earnings (loss) per share of common stock	$ (1.05)	$ 0.14
Diluted earnings (loss) per share of common stock	$ (1.05)	$ 0.13

The accompanying notes to financial statements are an integral part of these statements of income (loss).

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TENNECO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2009	December 31, 2008
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 113	$ 126
Receivables		
Customer notes and accounts, net	587	529
Other	23	45
Inventories		
Finished goods	199	211
Work in process	124	143
Raw materials	100	114
Materials and supplies	42	45
Deferred income taxes	21	18
Prepayments and other	104	107
Total current assets	1,313	1,338
Other assets:		
Long-term receivables, net	10	11
Goodwill	91	95
Intangibles, net	26	26
Deferred income taxes	87	88
Other	123	125
	337	345
Plant, property, and equipment, at cost	2,896	2,960
Less Accumulated depreciation and amortization	(1,804)	(1,815)
	1,092	1,145
Total assets	$ 2,742	$ 2,828
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 61	$ 49
Trade payables	663	790
Accrued taxes	29	30
Accrued interest	32	22

Accrued liabilities	205	201
Other	51	65
Total current liabilities	1,041	1,157
Long-term debt	1,526	1,402
Deferred income taxes	51	51
Postretirement benefits	368	377
Deferred credits and other liabilities	60	61
Commitments and contingencies		
Total liabilities	3,046	3,048
Redeemable noncontrolling interests	8	7
Tenneco Inc. Shareholders equity:		
Common stock		
Premium on common stock and other capital surplus	2,812	2,809
Accumulated other comprehensive loss	(358)	(318)
Retained earnings (accumulated deficit)	(2,551)	(2,502)
	(97)	(11)
Less Shares held as treasury stock, at cost	240	240
Total Tenneco Inc. shareholders equity	(337)	(251)
Noncontrolling interests	25	24
Total equity	(312)	(227)
Total liabilities, redeemable noncontrolling interests and equity	$ 2,742	$ 2,828

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

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2009	2008
	(Millions)	
Operating Activities		
Net income (loss)	$ (47)	$ 9
Adjustments to reconcile net income (loss) to cash used by operating activities		
Depreciation and amortization of other intangibles	52	55
Deferred income taxes	1	(5)
Stock-based compensation	2	3
Loss on sale of assets	2	2
Changes in components of working capital		
(Increase) decrease in receivables	(54)	(87)
(Increase) decrease in inventories	34	(43)
(Increase) decrease in prepayments and other current assets	(1)	(17)
Increase (decrease) in payables	(74)	23
Increase (decrease) in accrued taxes	(3)	(1)
Increase (decrease) in accrued interest	10	9
Increase (decrease) in other current liabilities	(3)	(11)
Change in long-term assets	2	(5)
Change in long-term liabilities	(5)	3
Other	3	1
Net cash used by operating activities	(81)	(64)
Investing Activities		
Proceeds from the sale of assets	2	1
Cash payments for plant, property, and equipment	(36)	(63)
Cash payments for software related intangible assets	(2)	(5)
Acquisition of business, net of cash acquired	1	
Net cash used by investing activities	(35)	(67)
Financing Activities		
Issuance of common shares		1
Issuance of long-term debt	2	
Debt issuance cost of long-term debt	(8)	
Retirement of long-term debt	(1)	(3)
Increase (decrease) in bank overdrafts	(13)	(3)
	137	91

Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		
Distributions to noncontrolling interest partners		(2)
Net cash provided by financing activities	117	84
Effect of foreign exchange rate changes on cash and cash equivalents	(14)	20