

TENNECO INC  
Form 10-Q/A  
September 08, 2017  
Table of Contents

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

FORM 10-Q/A  
(Amendment No. 1)  
(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, 2017

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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth 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)  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: TENNECO INC - Form 10-Q/A

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: 54,051,912 shares outstanding as of April 28, 2017.

---

Table of Contents

## TABLE OF CONTENTS

	Page
Part I — Financial Information	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>6</u>
Tenneco Inc. and Consolidated Subsidiaries —	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>6</u>
<u>Condensed Consolidated Statements of Income</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>8</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>10</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>11</u>
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	<u>12</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>13</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
Item 4. <u>Controls and Procedures</u>	<u>53</u>
Part II — Other Information	
Item 1. Legal Proceedings	*
Item 1A. <u>Risk Factors</u>	<u>55</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
Item 3. Defaults Upon Senior Securities	*
Item 4. Mine Safety Disclosures	*
Item 5. Other Information	*
Item 6. <u>Exhibits</u>	<u>58</u>

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

Table of Contents

EXPLANATORY NOTE

Tenneco Inc. (together with its subsidiaries, "Tenneco," the "Company," "we" and "our") is filing this Amendment No. 1 on Form 10-Q/A (the "Form 10-Q/A") to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, originally filed with the Securities and Exchange Commission on May 5, 2017 (the "Original Filing"), to make the certain changes as described below.

In preparing the consolidated financial statements for the quarter ended June 30, 2017, the Company identified deficiencies in its internal control over financial reporting. These deficiencies, when aggregated together, resulted in a material weakness in the Company's internal control over financial reporting in China as of June 30, 2017.

Specifically, the Company did not have people with appropriate authority and experience in key positions in China to ensure adherence to Company policies and US GAAP. Additionally, we did not have adequate international oversight to prevent the intentional mischaracterization of the nature of accounting transactions related to payments received from suppliers by certain purchasing and accounting personnel at the Company's China subsidiaries.

The material weakness identified as of June 30, 2017 caused us to reevaluate our previous conclusions on internal control over financial reporting as of December 31, 2016, and we have now concluded that the material weakness relating to our internal control over financial reporting in China existed as of December 31, 2016. As a result, we have restated our December 31, 2016 report on internal control over financial reporting. As a result of the material weakness and our restated report on internal control over financial reporting, we have concluded that our disclosure controls and procedures were not effective as of March 31, 2017 and have determined to amend our report on those disclosure controls and procedures.

The material weakness described above resulted in immaterial errors impacting our previously issued consolidated financial statements for the years ended December 31, 2016, 2015 and 2014, each interim and year-to-date period in those respective years, as well as the first quarter of 2017. We evaluated these errors and concluded that they did not, individually or in the aggregate, result in a material misstatement of our previously issued consolidated financial statements and that such financial statements may continue to be relied upon.

This Form 10-Q/A amends the Original Filing to correct the immaterial errors to the consolidated financial statements, arising from the foregoing and an unrelated immaterial error relating to our accrual for certain substrate liabilities, as described in more detail in Note 14 thereto. Revisions to the Original Filing have been made to the following items solely as a result of and to reflect these revisions:

Part I, Item 1 - Financial Statements (Unaudited)

Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4 - Controls and Procedures

Part II, Item 1A - Risk Factors

Part II, Item 6 - Exhibits

As required by Rule 12b-15 under the Securities Exchange Act of 1934, the Company's principal executive officer and principal financial officer are providing new currently dated certifications. In addition, the Company is filing a new letter from PricewaterhouseCoopers LLP regarding interim financial information. Accordingly, this Form 10-Q/A amends Part II, Item 6 in the Original Filing to reflect the filing of the new certifications and letter.

Except as described above, this Form 10-Q/A does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing thereof. As such, this Form 10-Q/A speaks only as of the date the Original Filing was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendment to those filings. Concurrently with the filing of this Form 10-Q/A, we are also filing an amendment to our Annual Report on Form 10-K for the year ended December 31, 2016. Future Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q will reflect the revisions for financial information included in this Form 10-Q/A and the Form 10-K/A for the year ended December 31, 2016.

Table of Contents

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;
- 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, and to realize the anticipated benefits from these plans;
- risks inherent in operating a multi-national company, including economic, exchange rate and political conditions in the countries where we operate or sell our products, adverse changes in trade agreements, tariffs, immigration policies, political stability, and tax and other laws, and potential disruptions of production and supply;
- 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;

4

---

Table of Contents

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;  
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, 2016 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. Unless otherwise indicated in this report, the forward-looking statements in this report are made as of the date of this report, and, except as required by law, the Company does not undertake any obligation, and disclaims any obligation, to publicly disclose revisions or updates to any forward-looking statements.

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 its subsidiaries as of March 31, 2017 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2017 and 2016. 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, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2017, except for the effects of the revision discussed in Note 16 to the consolidated financial statements, as to which the date is September 8, 2017, 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, 2016, 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

May 5, 2017, except for the effects of the revision discussed in Note 14 to the condensed consolidated financial statements, as to which the date is September 8, 2017

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 March 31, 2017	Three Months Ended March 31, 2016
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	\$2,292	\$ 2,136
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,931	1,770
Engineering, research, and development	39	39
Selling, general, and administrative	148	147
Depreciation and amortization of other intangibles	52	54
	2,170	2,010
Other expense		
Loss on sale of receivables	(1	) (1
Other expense	—	(1
	(1	) (2
Earnings before interest expense, income taxes, and noncontrolling interests	121	124
Interest expense	15	18
Earnings before income taxes and noncontrolling interests	106	106
Income tax expense	33	34
Net income	73	72
Less: Net income attributable to noncontrolling interests	14	15
Net income attributable to Tenneco Inc.	\$59	\$ 57
Earnings per share		
Weighted average shares of common stock outstanding —		
Basic	53,856,357	52,115,496
Diluted	54,231,759	52,445,941
Basic earnings per share of common stock	1.10	1.00
Diluted earnings per share of common stock	1.09	0.99

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 STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended March 31, 2017		
	Tenneco Inc.	Noncontrolling Interests	Total
	Accumulated	Accumulated	Accumulated
	Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Other Comprehensive Income (Loss)
	(Loss)	(Loss)	(Loss)
	(Millions)		
Net Income	\$ 59	\$ 14	\$ 73
Accumulated Other Comprehensive Income (Loss)			