TENNECO INC
Form 10-Q
May 05, 2015

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, 2015
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 incorporation or organization)	(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 þ 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 þ 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 þ Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) 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 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: 61,360,800 shares outstanding as of May 1, 2015.

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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.

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 expr (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 changes in distribution channels for aftermarket products on our ability to increase or maintain

aftermarket sales;

- 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;
- 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, 2014 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, 2015, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three month periods ended March 31, 2015 and 2014 and changes in shareholders' equity for the three months ended March 31, 2015 and 2014. 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, 2014, 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 25, 2015, we expressed an unqualified opinion on those consolidated financial statements. As discussed in notes 3 and 11 to the accompanying condensed consolidated interim financial statements, the Company changed its method of accounting for the presentation of debt issuance costs. The accompanying December 31, 2014 condensed consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
May 5, 2015

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, 2015	Three Months Ended March 31, 2014
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	$2,023	$2,094
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,686	1,754
Engineering, research, and development	41	42
Selling, general, and administrative	125	132
Depreciation and amortization of other intangibles	50	51
	1,902	1,979
Other expense		
Loss on sale of receivables	(1)	(1)
Other	—	(1)
	(1)	(2)
Earnings before interest expense, income taxes, and noncontrolling interests	120	113
Interest expense (net of interest capitalized of $1 million for both three months ended March 31, 2015 and 2014, respectively)	16	19
Earnings before income taxes and noncontrolling interests	104	94
Income tax expense	41	40
Net income	63	54
Less: Net income attributable to noncontrolling interests	14	8
Net income attributable to Tenneco Inc.	$49	$46
Earnings per share		
Weighted average shares of common stock outstanding —		
Basic	61,044,908	60,549,778
Diluted	61,593,087	61,503,302
Basic earnings per share of common stock	0.81	0.76
Diluted earnings per share of common stock	0.80	0.75

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 March 31, 2015					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss) (Millions)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
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.

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

	For the Three Months Ended March 31, 2014					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss) (Millions)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Net Income		$ 46		$ 8		$ 54
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$(61)		$5		$(56)	
Translation of foreign currency statements	(6)	(6)	(2)	(2)	(8)	(8)
Balance March 31	(67)		3		(64)	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(299)		—		(299)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3	—	—	3	3
Balance March 31	(296)		—		(296)	
Balance March 31	$(363)		$3		$(360)	
Other Comprehensive Loss		(3)		(2)		(5)
Comprehensive Income		$ 43		$ 6		$ 49

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)

	March 31, 2015	December 31, 2014
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$288	$282
Restricted cash	—	3
Receivables —		
Customer notes and accounts, net	1,231	1,064
Other	21	24
Inventories —		
Finished goods	275	272
Work in process	240	221
Raw materials	146	137
Materials and supplies	56	58
Deferred income taxes	78	81
Prepayments and other	279	284
Total current assets	2,614	2,426
Other assets:		
Long-term receivables, net	12	12
Goodwill	63	65
Intangibles, net	27	26
Deferred income taxes	152	143
Other	86	93
	340	339
Plant, property, and equipment, at cost	3,365	3,490
Less — Accumulated depreciation and amortization	(2,180)	(2,272)
	1,185	1,218
Total Assets	$4,139	$3,983
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$132	$60
Trade payables	1,391	1,372
Accrued taxes	51	40
Accrued interest	16	3
Accrued liabilities	251	258
Other	59	66
Total current liabilities	1,900	1,799
Long-term debt	1,128	1,042
Deferred income taxes	18	18
Postretirement benefits	324	339
Deferred credits and other liabilities	204	212
Commitments and contingencies		
Total liabilities	3,574	3,410
Redeemable noncontrolling interests	43	35
Tenneco Inc. Shareholders' equity:		
Common stock	1	1

Premium on common stock and other capital surplus	3,067	3,059
Accumulated other comprehensive loss	(614)	(545)
Retained earnings (accumulated deficit)	(1,646)	(1,695)
	808	820
Less — Shares held as treasury stock, at cost	334	323
Total Tenneco Inc. shareholders' equity	474	497
Noncontrolling interests	48	41
Total equity	522	538
Total liabilities, redeemable noncontrolling interests and equity	$4,139	$3,983

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, 2015 (Millions)	Three Months Ended March 31, 2014
Net income	$63	$54
Adjustments to reconcile net income to cash used by operating activities —		
Depreciation and amortization of other intangibles	50	51
Deferred income taxes	(6)	2
Stock-based compensation	6	5
Loss on sale of assets	—	1
Changes in components of working capital —		
(Increase) decrease in receivables	(194)	(234)
(Increase) decrease in inventories	(59)	(81)
(Increase) decrease in prepayments and other current assets	(7)	(38)
Increase (decrease) in payables	77	87
Increase (decrease) in accrued taxes	12	5
Increase (decrease) in accrued interest	13	4
Increase (decrease) in other current liabilities	(2)	13
Changes in long-term assets	2	1
Changes in long-term liabilities	(3)	(13)
Other	(2)	3
Net cash used by operating activities	(50)	(140)
Investing Activities		
Proceeds from the sale of assets	1	—
Cash payments for plant, property, and equipment	(77)	(83)
Cash payments for software related intangible assets	(5)	(7)
Changes in restricted cash	3	(1)
Net cash used by investing activities	(78)	(91)
Financing Activities		
Issuance (repurchase) of common shares	—	(2)
Tax benefit from stock-based compensation	3	12
Retirement of long-term debt	(4)	(3)
Purchase of common stock under the share repurchase program	(11)	—
Increase (decrease) in bank overdrafts	(8)	4
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	111	197
Net decrease in short-term borrowings secured by accounts receivable	50	20
Capital contribution from noncontrolling interest partner	—	1
Net cash provided by financing activities	141	229
Effect of foreign exchange rate changes on cash and cash equivalents	(7)	(6)
Increase (decrease) in cash and cash equivalents	6	(8)
Cash and cash equivalents, January 1	282	275
Cash and cash equivalents, March 31 (Note)	$288	$267
Supplemental Cash Flow Information		

Cash paid during the period for interest	$4	$14
Cash paid during the period for income taxes (net of refunds)	—	21
Non-cash Investing and Financing Activities		
Period end balance of trade payables for plant, property, and equipment	$34	$40

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.

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

	Three Months Ended March 31,			
	2015		2014	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	64,454,248	$1	63,714,728	$1
Issued pursuant to benefit plans	295,682	—	82,743	—
Stock options exercised	97,097	—	25,595	—
Balance March 31	64,847,027	1	63,823,066	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,059		3,014
Premium on common stock issued pursuant to benefit plans		8		15
Balance March 31		3,067		3,029
Accumulated Other Comprehensive Loss				
Balance January 1		(545)		(360)
Other comprehensive income (loss)		(69)		(3)
Balance March 31		(614)		(363)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(1,695)		(1,921)
Net income attributable to Tenneco Inc.		49		46
Balance March 31		(1,646)		(1,875)
Less — Common Stock Held as Treasury Stock, at Cost				
Balance January 1	3,244,692	323	2,844,692	301
Purchase of common stock through stock repurchase program	192,000	11	—	—
Balance March 31	3,436,692	334	2,844,692	301
Total Tenneco Inc. shareholders' equity		$474		$491
Noncontrolling Interests:				
Balance January 1		$41		$39
Net income		6		4
Other comprehensive income (loss)		1		(1)
Balance March 31		$48		$42
Total equity		$522		$533

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

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TENNECO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Consolidation and Presentation

As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2014.

In our opinion, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly Tenneco Inc.'s results of operations, comprehensive income, financial position, cash flows, and changes in shareholders' equity for the periods indicated. We have prepared the unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for annual financial statements.

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies in which the Company does not have a controlling interest, as equity method investments, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated all intercompany transactions.

(2) Financial Instruments

The net carrying and estimated fair values of our financial instruments by class at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015		December 31, 2014	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$1,129	$1,194	$1,044	$1,106
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts:				
Asset derivative contracts	—	—	—	—

Asset and Liability Instruments — The fair value of cash and cash equivalents, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount.

Long-term Debt — The fair value of our public fixed rate senior notes is based on quoted market prices (level 1). The fair value of our private borrowings under our senior credit facility and other long-term debt instruments is based on the market value of debt with similar maturities, interest rates and risk characteristics (level 2). The fair value of our level 1 debt, as classified in the fair value hierarchy, was $764 million and $759 million at March 31, 2015 and December 31, 2014, respectively. We have classified $385 million and $301 million as level 2 in the fair value hierarchy at March 31, 2015 and December 31, 2014, respectively, since we use valuation inputs that are observable both directly and indirectly. We classified the remaining $45 million and $46 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at March 31, 2015 and December 31, 2014, respectively.

The fair value hierarchy definition prioritizes the inputs used in measuring fair value into the following levels:

Level 1	—	Quoted prices in active markets for identical assets or liabilities.
Level 2	—	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
Level 3	—	Unobservable inputs based on our own assumptions.

Foreign Exchange Forward Contracts — We use derivative financial instruments, principally foreign currency forward purchase and sales contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments

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TENNECO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)
(Unaudited)

for speculative purposes. The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income. The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange forward contracts was a net liability position of less than $1 million at both March 31, 2015 and December 31, 2014.

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of March 31, 2015 (all of which mature in 2015):

		Notional Amount in Foreign Currency (Millions)	
Australian dollars	—Purchase	1	
British pounds	—Sell	(46	)
Canadian dollars	—Sell	(20	)
European euro	—Purchase	11	
	—Sell	(5	)
South African rand	—Purchase	138	
Japanese yen	—Purchase	136	
	—Sell	(790	)
U.S. dollars	—Purchase	94	
	—Sell	(22	)
Other	—Purchase	1	

Guarantees —We have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility and our senior notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. No assets or capital stock secure our senior notes. For additional information, refer to Note 13 of our condensed consolidated financial statements, where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have two performance guarantee agreements in the U.K. between Tenneco Management Europe Limited (“TMEL”) and the two Walker Group Retirement Plans, the Walker Group Employee Benefit Plan and the Walker Group Executive Retirement Benefit Plan (the “Walker Plans”), whereby TMEL will guarantee the payment of all current and future pension contributions in the event of a payment default by the sponsoring or participating employers of the Walker Plans. The Walker Plans are comprised of employees from Tenneco Walker (U.K.) Limited and our Futaba-Tenneco U.K. joint venture. Employer contributions are funded by both Tenneco Walker (U.K.) Limited, as the sponsoring employer and Futaba-Tenneco U.K., as a participating employer. The performance guarantee agreements are expected to remain in effect until all pension obligations for the Walker Plans’ sponsoring and participating employers have been satisfied. The maximum amount payable for these pension performance guarantees that is not attributable to Tenneco is approximately $8 million as of March 31, 2015 which is determined by taking 105 percent of the liability of the Walker Plans calculated under section 179 of the U.K. Pension Act of 2004 offset by plan assets multiply by ownership percent attributable to Futaba-Tenneco U.K. We did not record an additional liability for this performance guarantee since Tenneco Walker (U.K.) Limited, as the sponsoring employer of the Walker Plans, already recognizes 100 percent of the pension obligation calculated based on U.S. GAAP, for all of the Walker Plans’ participating employers on its balance sheet, which was $15 million and $17 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, all pension contributions under the Walker Plans were current for all of the Walker Plans' sponsoring and participating employers.

In June 2011, we entered into an indemnity agreement between TMEL and Futaba Industrial Co. Ltd. which requires Futaba to indemnify TMEL for any cost, loss or liability which TMEL may incur under the performance guarantee agreements relating to the Futaba-Tenneco U.K. joint venture. The maximum amount reimbursable by Futaba to TMEL under this indemnity agreement is equal to the amount incurred by TMEL under the performance guarantee agreements multiplied by Futaba's shareholder ownership percentage of the Futaba-Tenneco U.K. joint venture. At March 31, 2015, the maximum amount reimbursable by Futaba to TMEL is approximately $8 million.

We have issued letters of credit in connection with some obligations of our affiliates. As of March 31, 2015, we have issued $38 million in letters of credit to support some of our subsidiaries' insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

Financial Instruments — One of our European subsidiaries receives payment from one of its customers whereby the accounts receivable are satisfied through the early delivery of financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled $1 million at both March 31, 2015 and December 31, 2014. No such financial instruments were held by our European subsidiary as of March 31, 2015 or December 31, 2014.

In certain instances, several of our Chinese subsidiaries receive payments from customers through the receipt of financial instruments on the date the customer payments are due. Several of our Chinese subsidiaries also satisfy vendor payments through the delivery of financial instruments on the date the payments are due. Financial instruments issued to satisfy vendor payables and not redeemed totaled $35 million and $24 million at March 31, 2015 and December 31, 2014, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled $20 million and $17 million at March 31, 2015 and December 31, 2014, respectively. We classify financial instruments received from our customers as other current assets if issued by a financial institution of our customers or as customer notes and accounts, net if issued by our customer. We classified $20 million and $17 million in other current assets at March 31, 2015 and December 31, 2014, respectively. Some of our Chinese subsidiaries that issue their own financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was required at those Chinese subsidiaries at March 31, 2015 for less than $1 million and was not required December 31, 2014.

The financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are drafts drawn that are payable at a future date and, in some cases, are negotiable and/or are guaranteed by banks of the customers. The use of these instruments for payment follows local commercial practice. Because certain of such financial instruments are guaranteed by our customers' banks, we believe they represent a lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

Supply Chain Financing — Near the end of the second quarter of 2013 certain of our suppliers in the U.S. extended their payment terms to Tenneco. The liquidity benefit to Tenneco from the extended payment terms totaled $18 million at March 31, 2015. These suppliers also began participating in a supply chain financing program under which they securitize their accounts receivables from Tenneco with two financial institutions. The financial institutions participate in the supply chain financing program on an uncommitted basis and can cease purchasing receivables from Tenneco's suppliers at any time. If the financial institutions did not continue to purchase receivables from Tenneco's suppliers under this program, the participating vendors could reduce their payment terms to Tenneco which in turn would cause our borrowings under our revolving credit facility to increase.

Restricted Cash - Some of our Chinese subsidiaries are required to maintain a cash balance if they exceed credit limits with the financial institution that guarantees the financial instruments issued by Tenneco to pay vendors. At the end of the first quarter of 2015, one of our Chinese subsidiaries exceeded their credit limits and was required to maintain a cash balance. The cash balance required was less than $1 million which has been classified as restricted cash on the Tenneco Inc. consolidated balance sheet at March 31, 2015.

(3) Long-Term Debt and Financing Arrangements

Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries.

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. We adopted this standard for the first quarter of 2015 and applied retrospectively. The balance for unamortized debt issuance costs was $25 million and $27 million at March 31, 2015 and December 31, 2014, respectively.

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On December 8, 2014, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity dates of our revolving credit facility and our Tranche A Term Facility. As of March 31, 2015, the senior credit facility provides us with a total revolving credit facility size of $1,200 million and had a $296 million balance outstanding under the Tranche A Term Facility, both of which will mature on December 8, 2019. Net carrying amount for the balance outstanding under the Tranche A Term Facility including a $2 million debt issuance cost was $294 million as of March 31, 2015. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty (subject to any customary LIBOR breakage fees). The revolving credit facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. Outstanding letters of credit reduce our availability to borrow revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of $3.75 million through December 31, 2016, $5.625 million beginning March 31, 2017 through December 31, 2017, $7.5 million beginning March 31, 2018 through September 30, 2019 and a final payment of $195 million is due on December 8, 2019. We have excluded the required payments, within the next twelve months, under the Tranche A Term Facility totaling $15 million from current liabilities as of March 31, 2015, because we have the intent and ability to refinance the obligations on a long-term basis by using our revolving credit facility.

The financial ratios required under the amended and restated senior credit facility, and the actual ratios we achieved for the first quarter of 2015, are as follows:

	Quarter Ended March 31, 2015	
	Required	Actual
Leverage Ratio (maximum)	3.50	1.41
Interest Coverage Ratio (minimum)	2.75	11.95

The senior credit facility includes a maximum leverage ratio covenant of 3.50 and a minimum interest coverage ratio of 2.75, in each case through December 8, 2019.

At March 31, 2015, of the $1,200 million available under the revolving credit facility, we had unused borrowing capacity of $1,078 million with $88 million in outstanding borrowings which consisted of a $75 million net carrying amount including a $13 million debt issuance cost and $34 million in outstanding letters of credit. As of March 31, 2015, our outstanding debt also included (i) $296 million of a term loan which consisted of a $294 million net carrying amount including a $2 million debt issuance cost related to our Tranche A Term Facility which is subject to quarterly principal payments as described above through December 8, 2019, (ii) $225 million of notes which consisted of a $221 million net carrying amount including a $4 million debt issuance cost of $5^3/8$ percent senior notes due December 15, 2024, (iii) $500 million of notes which consisted of a $493 million net carrying amount including a $7 million debt issuance cost of $6^7/8$ percent senior notes due December 15, 2020, and (iv) $177 million of other debt.

(4) Income Taxes

For interim tax reporting we estimate our annual effective tax rate and apply it to our year to date ordinary income. Jurisdictions where no tax benefit can be recognized due to a valuation allowance are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective rate calculation could result in a higher or lower effective tax rate during a particular quarter due to the mix and timing of actual earnings versus annual projections. The tax effects of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

We reported income tax expense of $41 million and $40 million in the three month periods ended March 31, 2015 and 2014, respectively. The tax expense recorded in the first quarter of 2015 included a net tax expense of $1 million for prior year tax adjustments primarily relating to changes to uncertain tax positions and prior year income tax estimates. We believe it is reasonably possible that up to $15 million in unrecognized tax benefits related to the expiration of foreign statute of limitations and the conclusion of income tax examinations may be recognized within the coming year.

(5) Accounts Receivable Securitization

We securitize some of our accounts receivable on a limited recourse basis in North America and Europe. As servicer under these accounts receivable securitization programs, we are responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks comprised of a first priority facility and a second priority facility. We securitize original equipment and aftermarket receivables on a daily

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basis under the bank program. In March 2015, the North American program was amended and extended to April 30, 2017. The first priority facility provides financing of up to $130 million and the second priority facility, which is subordinated to the first priority facility, provides up to an additional $50 million of financing. Both facilities monetize accounts receivable generated in the U.S. and Canada that meet certain eligibility requirements, and the second priority facility also monetizes certain accounts receivable generated in the U.S. and Canada that would otherwise be ineligible under the first priority securitization facility. The amount of outstanding third-party investments in our securitized accounts receivable under the North American program was $50 million at March 31, 2015 and zero at December 31, 2014.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, mergers or consolidations and amendments to the agreements underlying the receivables pool. Further, each facility may be terminated upon the occurrence of customary events (with customary grace periods, if applicable), including breaches of covenants, failure to maintain certain financial ratios, inaccuracies of representations and warranties, bankruptcy and insolvency events, certain changes in the rate of default or delinquency of the receivables, a change of control and the entry or other enforcement of material judgments. In addition, each facility contains cross-default provisions, where the facility could be terminated in the event of non-payment of other material indebtedness when due and any other event which permits the acceleration of the maturity of material indebtedness.

We also securitize receivables in our European operations with regional banks in Europe. The arrangements to securitize receivables in Europe are provided under six separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year, but some may be canceled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon notification. The amount of outstanding third-party investments in our securitized accounts receivable in Europe was $180 million and $153 million at March 31, 2015 and December 31, 2014, respectively.

If we were not able to securitize receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreement might increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreement.

In our North American accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our North American securitization program as a secured borrowing. In our European programs, we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, “Transfers and Servicing,” to report the transfer of financial assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized less than $1 million interest expense in each of the three month periods ended March 31, 2015 and 2014, relating to our North American securitization program. In addition, we recognized a loss of $1 million in each of the three month periods ended March 31, 2015 and 2014, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately two percent during the first three months of 2015 and three percent during the first three months of 2014, respectively.

(6) Restructuring and Other Charges

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. For the full year 2014, we incurred $49 million in restructuring and related costs including non-cash charges of $5 million, primarily related to European cost reduction efforts, headcount reductions in Australia and South America, the sale of a closed facility in Cozad, Nebraska and costs related to organizational changes, of which $28 million was recorded in cost of sales, $9 million in SG&A, $7 million in engineering expense, $4 million in other expense and $1 million in depreciation and amortization. In the first quarter of 2015, we incurred $5 million in restructuring and related costs, primarily related to European cost reduction efforts and the closure of a JIT plant in Australia, of which $4 million was recorded in cost of sales and $1 million in SG&A. In the first quarter of 2014, we incurred $10 million in restructuring and related costs primarily related to European cost reduction efforts including non-cash asset write downs of $1 million, all of which was recorded in cost of sales.

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Amounts related to activities that are part of our restructuring reserves are as follows:

	December 31, 2014 Restructuring Reserve	2015 Expenses	2015 Cash Payments	Impact of Exchange Rates	March 31, 2015 Restructuring Reserve
	(Millions)				
Employee Severance, Termination Benefits and Other Related Costs	$40	5	(8)	(4)	$33

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately $60 million annually. We still expect to reach our target annual savings rate in 2016, however the recent dramatic changes in exchange rates will likely have an impact on the actual savings achieved when translated from Euros into U.S. dollars. In the first quarter of 2015, we incurred $5 million in restructuring and related costs, of which $4 million was related to this initiative. While we are nearing the completion of this initiative, we expect to incur additional restructuring and related costs in 2015 and 2016 due to certain ongoing matters. For example, we closed a plant in Gijon Spain in 2013, but subsequently re-opened it in July 2014 with about half of its prior workforce after the employees' works council successfully filed suit challenging the closure decision. Pursuant to an agreement we entered into with employee representatives, we are currently engaged in a sales process for the facility and intend to continue operating it until a complete transfer of ownership takes place in 2016.

Under the terms of our amended and restated senior credit agreement that took effect on December 8, 2014, we are allowed to exclude up to $150 million in the aggregate of all costs, expenses, fees, fines, penalties, judgments, legal settlements and other amounts associated with any restructuring, litigation, claim, proceeding or investigation related to or undertaken by us or any of our subsidiaries, together with any related provision for taxes, incurred after December 8, 2014 in the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2015, we had excluded $5 million of allowable charges relating to restructuring initiatives against the $150 million available under the terms of the senior credit facility.

(7) Environmental Matters, Legal Proceedings and Product Warranties

We are involved in environmental remediation matters, legal proceedings, claims, investigations and warranty obligations. These matters are typically incidental to the conduct of our business and create the potential for contingent losses. We accrue for potential contingent losses when our review of available facts indicates that it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Each quarter we assess our loss contingencies based upon currently available facts, existing technology, presently enacted laws and regulations and taking into consideration the likely effects of inflation and other societal and economic factors and record adjustments to these reserves as required. As an example, we consider all available evidence, including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations when we evaluate our environmental remediation contingencies. All of our loss contingency estimates are subject to revision in future periods based on actual costs or new information. With respect to our environmental liabilities, where future cash flows are fixed or reliably determinable, we have discounted those liabilities. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.

Environmental Matters

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. As of March 31, 2015, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At

March 31, 2015, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately $15 million, of which $2 million is recorded in other current liabilities and $13 million is recorded in deferred credits and other liabilities in our condensed consolidated balance sheet. For those locations where the liability was discounted, the weighted average discount rate used was 2.2 percent. The undiscounted value of the estimated remediation costs was $18 million. Our expected payments of environmental remediation costs are estimated to be approximately $2 million in 2015, $1 million each year beginning 2016 through 2019 and $12 million in aggregate thereafter.

Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute to the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability. We do not believe that any potential costs associated with our current status as a potentially responsible party in the Federal Superfund site, or as a liable party at the other locations referenced herein, will be material to our consolidated financial position, results of operations, or liquidity.

Antitrust Investigations

On March 25, 2014, representatives of the European Commission were at Tenneco GmbH's Edenkoben, Germany administrative facility to gather information in connection with an ongoing global antitrust investigation concerning multiple automotive suppliers. On March 25, 2014, we also received a related subpoena from the U.S. Department of Justice (“DOJ”).

On November 5, 2014, the DOJ granted us conditional leniency pursuant to an agreement we entered into under the Antitrust Division’s Corporate Leniency Policy. This agreement provides us with important benefits in exchange for our self reporting of matters to the DOJ and our continuing full cooperation with the DOJ’s resulting investigation. For example, the DOJ will not bring any criminal antitrust prosecution against us, nor seek any criminal fines or penalties, in connection with the matters we reported to the DOJ. Additionally, there are limits on our liability related to any follow on civil antitrust litigation in the U.S. The limits include single rather than treble damages, as well as relief from joint and several antitrust liability with other relevant civil antitrust action defendants. These limits are subject to our satisfying the DOJ and any court presiding over such follow on civil litigation. We cannot provide any assurance as to when such actions will be filed in the future or how they will ultimately be resolved.

Certain other competition agencies are also investigating possible violations of antitrust laws relating to products supplied by our company. We have cooperated and continue to cooperate fully with all of these antitrust investigations, and take other actions to minimize our potential exposure.

Antitrust law investigations and related matters often continue for several years and can result in significant penalties and liability. At this point, we cannot estimate the ultimate impact on our company from investigations into our antitrust compliance and related matters in light of the uncertainties and many variables involved, and there can be no assurance that the ultimate resolution of these matters, including any civil litigation claims, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Other Legal Proceedings, Claims and Investigations

We are also from time to time involved in other legal proceedings, claims or investigations. Some of these matters involve allegations of damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Additionally, some of these matters involve allegations relating to legal compliance. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, in the U.S. we are subject to an audit in 11 states with respect to the payment of unclaimed property to those states, spanning a period as far back as over 30 years. While we vigorously defend ourselves against all of these legal proceedings, claims and investigations and take other actions to minimize our potential exposure, in future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved on unfavorable terms. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, except as described above under "Antitrust Investigations," we do not expect the legal proceedings, claims or investigations currently pending against us will have any material adverse impact on our consolidated financial position, results of operations or liquidity.

In addition, we are subject to lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000's we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The substantial majority of the remaining claims are related to alleged exposure to asbestos in our automotive products. Only a small percentage of the claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include

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sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers and/or users continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolutions. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial position, results of operations or liquidity.

Warranty Matters

We provide warranties on some of our products. The warranty terms vary but range from one year up to limited lifetime warranties on some of our premium aftermarket products. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified on OE products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. We believe that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. The reserve is included in both current and long-term liabilities on the balance sheet.

Below is a table that shows the activity in the warranty accrual accounts:

	Three Months Ended March 31,	
	2015	2014
	(Millions)	
Beginning Balance January 1,	$26	$24
Accruals related to product warranties	3	5
Reductions for payments made	(4)	(5)
Ending Balance March 31,	$25	$24

(8) Earnings Per Share

Earnings per share of common stock outstanding were computed as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Millions Except Share and Per Share Amounts)	
Basic earnings per share —		
Net income attributable to Tenneco Inc.	$49	$46
Weighted Average shares of common stock outstanding	61,044,908	60,549,778
Earnings per share of common stock	$0.81	$0.76
Diluted earnings per share —		
Net income attributable to Tenneco Inc.	$49	$46
Weighted Average shares of common stock outstanding	61,044,908	60,549,778
Effect of dilutive securities:		
Restricted stock	83,291	160,341
Stock options	464,888	793,183

Weighted Average shares of common stock outstanding including dilutive securities	61,593,087	61,503,302
Earnings per share of common stock	$0.80	$0.75

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Options to purchase 183,315 and 782 shares of common stock were outstanding as of March 31, 2015 and 2014, respectively, but not included in the computation of diluted earnings per share respectively, because the options were anti-dilutive.

(9) Common Stock

Equity Plans — We have granted a variety of awards, including common stock, restricted stock, restricted stock units, performance units, stock appreciation rights (“SARs”), and stock options to our directors, officers, and employees.

Accounting Methods — We recorded compensation expense (net of taxes) of $1 million and $2 million in the three month periods ended March 31, 2015 and 2014, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This resulted in a decrease of $0.01 and $0.04 in both basic and diluted earnings per share for the three month period ended March 31, 2015 and 2014.

For employees eligible to retire at the grant date, we immediately expense stock options and restricted stock. If employees become eligible to retire during the vesting period, we immediately recognize any remaining expense associated with their stock options and restricted stock.

As of March 31, 2015, there was approximately $5 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 0.7 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs (net of taxes) was $6 million and $5 million for the three month periods ended March 31, 2015 and 2014, respectively, and was recorded in selling, general, and administrative expense in our condensed consolidated statements of income.

Cash received from stock option exercises for the three months ended March 31, 2015 and 2014 was $2 million and less than $1 million, respectively.

Stock options exercised in the first three months of 2015 generated a tax benefit of $3 million. We started to record this tax benefit in the third quarter of 2013 when we began utilizing our federal and state NOLs.

Assumptions — We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and market behavior. There were no stock options granted in 2015.

	Three Months Ended March 31,			
	2015		2014	
Stock Options Granted				
Weighted average grant date fair value, per share	$—		$26.46	
Weighted average assumptions used:				
Expected volatility	—	%	52.8	%
Expected lives			5.0	
Risk-free interest rates	—	%	1.7	%
Dividend yields	—	%	—	%

Expected volatility is calculated based on current implied volatility and historical realized volatility for the Company.

Expected lives of options are based upon the historical and expected time to post-vesting forfeiture and exercise. We believe this method is the best estimate of the future exercise patterns currently available.

The risk-free interest rates are based upon the Constant Maturity Rates provided by the U.S. Treasury. For our valuations, we used the continuous rate with a term equal to the expected life of the options.

Stock Options — The following table reflects the status and activity for all options to purchase common stock for the period indicated:

	Three Months Ended March 31, 2015			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2015	1,454,003	$ 31.16	4.4	$ 33
Granted	—	—		
Canceled	(20,427)	23.75		
Forfeited	—	—		
Exercised	(96,997)	20.78		3
Outstanding, March 31, 2015	1,336,579	$ 32.03	4.3	$ 31

The weighted average grant-date fair value of options granted during the three months ended March 31, 2014 was $26.46. There were no stock options granted in 2015. The total fair value of shares vested was $4 million and $6 million for the periods ended March 31, 2015 and 2014, respectively.

Restricted Stock — The following table reflects the status for all nonvested restricted shares for the period indicated:

	Three Months Ended March 31, 2015	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2015	286,051	$ 42.35
Granted	350,101	53.40
Vested	(150,171)	37.86
Forfeited	—	—
Nonvested balance at March 31, 2015	485,981	$ 51.70

The fair value of restricted stock grants is usually equal to the average of the high and low trading price of our stock on the date of grant. As of March 31, 2015, approximately $19 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.8 years. The total fair value of restricted shares vested was $6 million and $7 million at March 31, 2015 and 2014, respectively.

In January 2015, our Board of Directors approved a share repurchase program, authorizing our company to repurchase up to $350 million of our outstanding common stock over a three-year period. This repurchase program does not obligate Tenneco to make repurchases at any specific time or situation and is part of our overall capital allocation strategy. We repurchased 192,000 shares through this program in the three month period ended March 31, 2015. Repurchased shares held as part of our treasury stock were 3,436,692 and 3,244,692 shares at March 31, 2015 and December 31, 2014, respectively.

Long-Term Performance Units, Restricted Stock Units and SARs — Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of March 31, 2015, $30 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 2.2 years.

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(10) Pension Plans, Postretirement and Other Employee Benefits

Net periodic pension costs and postretir