TENNECO INC
Form 10-Q
May 06, 2016
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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, 2016
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12387
TENNECO INC.
(Exact name of registrant as specified in its charter)

Delaware	76-0515284
(State or other jurisdiction of 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 ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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: 57,287,298 shares outstanding as of April 29, 2016.

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

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CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled "Outlook" appearing in Item 2 of this report. The words "may," "will," "believe," "should," "could," "plan," "expect," "anticipate," "estimate," and similar expre (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- general economic, business and market conditions;
- our ability to source and procure needed materials, components and other products and services in accordance with customer demand and at competitive prices;
- the cost and outcome of existing and any future claims, legal proceedings or investigations, including, but not limited to, any of the foregoing arising in connection with the ongoing global antitrust investigation, product performance, product safety or intellectual property rights;
- changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;
- changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks, which tend to be higher margin products for our customers and us, to other lower margin vehicles, for which we may or may not have supply arrangements;
- changes in consumer demand for our automotive, commercial or aftermarket products, or changes in automotive and commercial vehicle manufacturers' production rates and their actual and forecasted requirements for our products, due to difficult economic conditions, such as the prolonged recession in Europe;
- the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);
- the loss of any of our large original equipment manufacturer ("OEM") customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;
- our ability to successfully execute cash management and other cost reduction plans, including our European cost reduction initiatives, and to realize anticipated benefits from these plans;
- economic, exchange rate and political conditions in the countries where we operate or sell our products;
- industrywide strikes, labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers' other suppliers;
- increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;
- the negative impact of fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment;
- the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the impact of vehicle parts' longer product lives;
- costs related to product warranties and other customer satisfaction actions;
- the failure or breach of our information technology systems, including the consequences of any misappropriation, exposure or corruption of sensitive information stored on such systems and the interruption to our business that such failure or breach may cause;
- the impact of consolidation among vehicle parts suppliers and customers on our ability to compete;
-

changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of increasing competition from lower cost, private-label products on our aftermarket business;

- customer acceptance of new products;
- new technologies that reduce the demand for certain of our products or otherwise render them obsolete;
- our ability to introduce new products and technologies that satisfy customers' needs in a timely fashion;

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- our ability to realize our business strategy of improving operating performance;
- our ability to successfully integrate any acquisitions that we complete and effectively manage our joint ventures and other third-party relationships;
- changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;
- changes in accounting estimates and assumptions, including changes based on additional information;
- any changes by the International Organization for Standardization (ISO) or other such committees in their certification protocols for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;
- the impact of the extensive, increasing and changing laws and regulations to which we are subject, including environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved;
- the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;
- potential volatility in our effective tax rate;
- natural disasters, such as earthquakes and flooding, and any resultant disruptions in the supply or production of goods or services to us or by us or in demand by our customers;
- acts of war and/or terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and
- the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

The risks included here are not exhaustive. Refer to “Part I, Item 1A — Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2015 and "Part II, Item 1A — Risk Factors” of this Form 10-Q for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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PART I.
FINANCIAL INFORMATION
ITEM 1.FINANCIAL STATEMENTS (UNAUDITED)
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of Tenneco Inc.:
We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and its subsidiaries as of March 31, 2016, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three month periods ended March 31, 2016 and 2015 and changes in shareholders' equity for the three months ended March 31, 2016 and 2015. These interim financial statements are the responsibility of the Company’s management.
We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.
We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders’ equity for the year then ended (not presented herein), and in our report dated February 24, 2016 (which included an explanatory paragraph with respect to the Company’s change in the manner of accounting in which it classifies deferred taxes in 2015), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015, is fairly stated in all material respects in relation to the condensed consolidated balance sheet from which it has been derived.

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

The “Report of Independent Registered Public Accounting Firm” included above is not a “report” or “part of a Registration Statement” prepared or certified by an independent accountant within the meaning of Sections 7 and 11 of the Securities Act of 1933, and the accountants’ Section 11 liability does not extend to such report.

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TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	$2,136	$ 2,023
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,770	1,686
Engineering, research, and development	39	41
Selling, general, and administrative	147	125
Depreciation and amortization of other intangibles	54	50
	2,010	1,902
Other expense		
Loss on sale of receivables	(1)	(1)
Other	(1)	—
	(2)	(1)
Earnings before interest expense, income taxes, and noncontrolling interests	124	120
Interest expense	18	16
Earnings before income taxes and noncontrolling interests	106	104
Income tax expense	34	41
Net income	72	63
Less: Net income attributable to noncontrolling interests	15	14
Net income attributable to Tenneco Inc.	$57	$ 49
Earnings per share		
Weighted average shares of common stock outstanding —		
Basic	57,115,496	61,044,908
Diluted	57,445,941	61,593,087
Basic earnings per share of common stock	$1.00	$ 0.81
Diluted earnings per share of common stock	$0.99	$ 0.80

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

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

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

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

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

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

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

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TENNECO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

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

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

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

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TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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

intangible assets						
Changes in restricted cash	(1		)	3		
Net cash used by investing activities	(74		)	(78		)
Financing Activities						
Issuance (Repurchase) of common shares	(2		)	—		
Tax benefit from stock-based compensation	—			3		
Retirement of long-term debt	(4		)	(4		)
Issuance of long-term debt	5			—		
Purchase of common stock under the share repurchase program	(16		)	(11		)
Net increase (decrease) in bank overdrafts	7			(8		)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	193			111		
Net increase (decrease) in short-term borrowings secured by accounts receivable	—			50		
Net cash provided by financing activities	183			141		
Effect of foreign exchange rate changes on cash and cash equivalents	7			(7		)
Increase in cash and cash equivalents	87			6		
Cash and cash equivalents, January 1	287			282		
Cash and cash equivalents, March 31 (Note)	$	374		$	288	
Supplemental Cash Flow Information						
Cash paid during the period for interest (net of interest capitalized)	$	6		$	4	
Cash paid during the period for income taxes	21			—		

(net of refunds)		
Non-cash Investing and Financing Activities		
Period end balance of trade payables for plant, property, and equipment	$ 41	$ 34

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.
The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated statements of cash flows.

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

	Three Months Ended March 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	65,067,132	$ 1	64,454,248	$ 1
Issued pursuant to benefit plans	315,706	—	295,682	—
Stock options exercised	21,392	—	97,097	—
Balance March 31	65,404,230	1	64,847,027	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,081		3,059
Premium on common stock issued pursuant to benefit plans		4		8
Balance March 31		3,085		3,067
Accumulated Other Comprehensive Loss				
Balance January 1		(665)		(545)
Other comprehensive income (loss)		27		(69)
Balance March 31		(638)		(614)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(1,448)		(1,695)
Net income attributable to Tenneco Inc.		57		49
Balance March 31		(1,391)		(1,646)
Less — Common Stock Held as Treasury Stock, at Cost				
Balance January 1	7,473,325	536	3,244,692	323
Purchase of common stock through stock repurchase program	360,000	16	192,000	11
Balance March 31	7,833,325	552	3,436,692	334
Total Tenneco Inc. shareholders' equity		$ 505		$ 474
Noncontrolling Interests:				
Balance January 1		$ 42		$ 41
Net income		7		6
Other comprehensive income		—		1
Balance March 31		$ 49		$ 48
Total equity		$ 554		$ 522

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, 2015.

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.

Accounts Payable

Accounts payable included $84 million and $93 million at March 31, 2016 and December 31, 2015 , respectively, for accrued compensation and $23 million and $17 million at March 31, 2016 and December 31, 2015, respectively, for bank overdrafts at our European subsidiaries.

(2) Financial Instruments

The net carrying and estimated fair values of our financial instruments by class at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016		December 31, 2015	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$1,312	$1,348	$1,125	$1,160
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts:				
Asset (Liability) derivative contracts	(1)	(1)	1	1

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 $749 million and $748 million at March 31, 2016 and December 31, 2015, respectively. We have classified $570 million and $390 million as level 2 in the fair value hierarchy at March 31, 2016 and December 31, 2015, respectively, since we utilize valuation inputs that are observable both directly and indirectly. We classified the remaining $29 million and $22 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at March 31, 2016 and December 31, 2015, 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 — When foreign currency exchange rate risk cannot be managed by operational strategies, we use derivative financial instruments, principally foreign currency forward purchase and sales contracts with terms

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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 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 $1 million at March 31, 2016 and a net asset position of $1 million at December 31, 2015.

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of March 31, 2016 (all of which mature in 2016):

		Notional Amount in Foreign Currency (Millions)
Australian dollars	—Purchase	1
British pounds	—Purchase	30
	—Sell	(39)
Canadian dollars	—Sell	(2)
European euro	—Purchase	10
	—Sell	(41)
South African rand	—Purchase	70
	—Sell	(200)
Japanese yen	—Purchase	400
	—Sell	(416)
U.S. dollars	—Purchase	105
	—Sell	(70)

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 the consolidated financial statements of Tenneco Inc., 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 $9 million as of March 31, 2016 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 multiplied by the 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 $10 million and $11 million at March 31, 2016 and

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December 31, 2015, respectively. At March 31, 2016, 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, 2016, the maximum amount reimbursable by Futaba to TMEL is approximately $9 million.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of March 31, 2016, we have guaranteed $32 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 delivery of negotiable 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. Such financial instruments held by our European subsidiary totaled zero and less than $1 million at March 31, 2016 and December 31, 2015, respectively.

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 $23 million and $15 million at March 31, 2016 and December 31, 2015, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled $5 million and $8 million at March 31, 2016 and December 31, 2015, 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 $5 million and $8 million in other current assets at March 31, 2016 and December 31, 2015, respectively.

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 the 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 — Certain of our suppliers in the U.S. participate in a supply chain financing program under which they securitize their accounts receivables from Tenneco. 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 institution did not continue to purchase receivables from Tenneco's suppliers under this program, the participating vendors may have a need to renegotiate their payment terms with Tenneco which in turn would cause our borrowings under our revolving credit facility to increase.

Restricted Cash - Some of our Chinese subsidiaries that issue their own financial instruments to pay vendors are required to maintain a cash balance if they exceed credit limits with the financial institution that guarantees the financial instruments. A restricted cash balance was required at those Chinese subsidiaries for $2 million and $1 million at March 31, 2016 and December 31, 2015, respectively.

(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.

As of March 31, 2016, the senior credit facility provides us with a total revolving credit facility size of $1,200 million and had a $281 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 $279 million as of March 31, 2016. 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

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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 $17 million from current liabilities as of March 31, 2016, 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 2016, are as follows:

	Quarter Ended March 31, 2016	
	Required	Actual
Leverage Ratio (maximum)	3.50	1.54
Interest Coverage Ratio (minimum)	2.75	13.90

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, 2016, of the $1,200 million available under the revolving credit facility, we had unused borrowing capacity of $912 million with $288 million in outstanding borrowings and zero in outstanding letters of credit. As of March 31, 2016, our outstanding debt also included (i) $281 million of a term loan which consisted of a $279 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 $494 million net carrying amount including a $6 million debt issuance cost of $6^7/8$ percent senior notes due December 15, 2020, and (iv) $126 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 $34 million and $41 million in the three month periods ended March 31, 2016 and 2015, respectively. The tax expense recorded in the first quarter of 2016 included a net tax benefit of $3 million primarily relating to tax adjustments to uncertain tax positions and prior year income tax estimates. The tax expense recorded in the first quarter of 2015 included a net tax expense of $1 million primarily relating to changes to uncertain tax positions and prior year income tax estimates.

We believe it is reasonably possible that up to $10 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 next twelve months.

(5) Accounts Receivable Securitization

We securitize some of our accounts receivable on a limited recourse basis in the U.S. 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 the U.S., 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 basis under the bank program. In March 2015, the U.S. 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. that meet certain eligibility requirements, and the second priority facility also monetizes certain accounts receivable generated in the U.S. 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 U.S. program was $30 million at both March 31, 2016 and December 31, 2015.

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 $208 million and $174 million at March 31, 2016 and December 31, 2015, respectively.

If we were not able to securitize receivables under either the U.S. 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 U.S. 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 U.S. 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 $1 million and less than $1 million interest expense in the three month periods ended March 31, 2016 and 2015, respectively, relating to our U.S. securitization program. In addition, we recognized a loss of $1 million in each of the three month periods ended March 31, 2016 and 2015, 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 both 2016 and 2015.

(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 2015, we incurred $63 million in restructuring and related costs including asset write-downs of $10 million, primarily related to European cost reduction efforts, exiting the Marzocchi suspension business, headcount reductions in Australia and South America, and the closure of a JIT plant in Australia, of which $46 million was recorded in cost of sales, $11 million in SG&A, $1 million in engineering expense, $1 million in other expense and $4 million in depreciation and amortization expense. In the first quarter of 2016, we incurred $14 million in restructuring and related costs including asset write-downs of $5 million, primarily related to European cost reduction efforts and headcount reductions in South America, of which $3 million was recorded in cost of sales, $6 million in SG&A, $2 million in other expense and $3 million in depreciation and amortization expense. 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.

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

	December 31, 2015 Restructuring Reserve (Millions)	2016 Expenses	2016 Cash Payments	Impact of Exchange Rates	March 31, 2016 Restructuring Reserve
Employee Severance, Termination Benefits and Other Related Costs	$30	9	(26)	2	$15

On January 31, 2013, we announced our intent to reduce structural costs in Europe by approximately $60 million annually. During the first quarter of 2016, we reached an annualized run rate on this cost reduction initiative of $49 million.

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With the disposition of the Gijon plant, which was completed at the end of the first quarter, the annualized rate will essentially reach our target of $55 million, at the current exchange rates. In the first quarter of 2016, we incurred $14 million in restructuring and related costs, of which $12 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 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 engaged in a sales process for the facility. In March of 2016, we signed an agreement to transfer ownership of the aftermarket shock absorber manufacturing facility in Gijon, Spain to German private equity fund Quantum Capital Partners A.G. (QCP). The transfer to QCP was effective March 31, 2016 and under a three year manufacturing agreement, QCP will also continue as a supplier to Tenneco.

On July 22, 2015, we announced our intention to discontinue our Marzocchi motorcycle fork suspension product line and our mountain bike suspension product line, and liquidate our Marzocchi operations. These actions were subject to a consultation process with the employee representatives and in total eliminated approximately 138 jobs. We employed 127 people at the Marzocchi plant in Bologna, Italy and an additional 11 people in our operations in North America and Taiwan. In November 2015, we closed on the sale of certain assets related to our Marzocchi mountain bike suspension product line to the affiliates of Fox Factory Holding Corp.; and in December 2015, we closed on the sale of the Marzocchi motorcycle fork product line to an Italian company, VRM S.p.A. These actions were a part of our ongoing efforts to optimize our Ride Performance product line globally while continuously improving our operations and increasing profitability. We recorded charges of $29 million in 2015 related to severance and other employee related costs, asset write-downs and other expenses related to these sales.

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, 2016, we had excluded $62 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, 2016, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At March 31, 2016, 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 1.7 percent. The undiscounted value of the estimated remediation costs was $17 million. Our expected payments of environmental remediation costs are estimated to be approximately $2 million in 2016, $1 million each year beginning 2017 through 2020 and $11 million in aggregate thereafter.

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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 and Litigation

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.

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.

Tenneco and certain of its competitors are also currently defendants in civil putative class action litigation in the United States. More related lawsuits may be filed, including in other jurisdictions. Plaintiffs in these cases generally allege that defendants have engaged in anticompetitive conduct, in violation of federal and state laws, relating to the sale of automotive exhaust systems or components thereof. Plaintiffs seek to recover, on behalf of themselves and various purported classes of purchasers, injunctive relief, damages and attorneys' fees. However, as explained above, because we received conditional leniency from the DOJ, our civil liability in these follow on actions is limited to single damages and we will not be jointly and severally liable with the other defendants, provided that we have satisfied our obligations under the DOJ leniency agreement and approval is granted by the presiding court.

Antitrust law investigations, civil litigation, and related matters often continue for several years and can result in significant penalties and liability. We intend to vigorously defend the company and/or take other actions to minimize our potential exposure. In light of the many uncertainties and variables involved, we cannot estimate the ultimate impact that these matters may have on our company. Further, there can be no assurance that the ultimate resolution of these matters 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 itself 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

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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, for many years we have been and continue to be subject to lawsuits initiated by claimants alleging health problems as a result of exposure to asbestos. Our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted against one of our subsidiaries by railroad workers alleging exposure to asbestos products in railroad cars. The substantial majority of the remaining claims are related to alleged exposure to asbestos in our automotive products although a significant number of those claims appear also to involve occupational exposures sustained in industries other than automotive. We believe, based on scientific and other evidence, it is unlikely that claimants 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 with our 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,	
	2016	2015
	(Millions)	
Beginning Balance January 1,	$23	$26
Accruals related to product warranties	2	3
Reductions for payments made	(1)	(4)
Ending Balance March 31,	$24	$25

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(8) Earnings Per Share

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(Millions Except Share and Per Share Amounts)	
Basic earnings per share —		
Net income attributable to Tenneco Inc.	$57	$ 49
Weighted Average shares of common stock outstanding	57,115,496	61,044,908
Earnings per share of common stock	$1.00	$ 0.81
Diluted earnings per share —		
Net income attributable to Tenneco Inc.	$57	$ 49
Weighted Average shares of common stock outstanding	57,115,496	61,044,908
Effect of dilutive securities:		
Restricted stock	48,603	83,291
Stock options	281,842	464,888
Weighted Average shares of common stock outstanding including dilutive securities	57,445,941	61,593,087
Earnings per share of common stock	$0.99	$ 0.80

Options to purchase 335,826 and 183,315 shares of common stock were outstanding as of March 31, 2016 and 2015, 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 less than $1 million and $1 million in the three month periods ended March 31, 2016 and 2015, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This had no impact on basic or diluted earnings per share for the three month period ended March 31, 2016 and resulted in a decrease of $0.01 in both basic and diluted earnings per share for the three month period ended March 31, 2015.

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, 2016, there was approximately $1 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 0.2 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs (net of taxes) was $7 million and $6 million for the three month periods ended March 31, 2016 and 2015, 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, 2016 and 2015 was less than $1 million and $2 million, respectively.

Stock options exercised in the first three months of 2016 and 2015 generated a tax shortfall of less than $1 million and a tax benefit of $3 million, respectively. We started to record this tax effect in the third quarter of 2013 when we began utilizing our federal and state NOLs.

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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, 2016			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2016	1,144,719	$ 34.69	3.7	$ 19
Adjustment	2,200	1.99		
Exercised	(21,392)	8.56		1
Outstanding, March 31, 2016	1,125,527	$ 35.12	3.5	$ 12

There were no stock options granted in 2015 or 2016. The total fair value of shares vested from options that were granted prior to 2015 was $2 million and $4 million for the periods ended March 31, 2016 and 2015, respectively.

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

	Three Months Ended March 31, 2016	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2016	496,842	$ 51.65
Granted	347,398	35.98
Vested	(156,109)	46.50
Nonvested balance at March 31, 2016	688,131	$ 44.90

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, 2016, approximately $22 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.3 years. The total fair value of restricted shares vested was $7 million and $6 million at March 31, 2016 and 2015, 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. In October 2015, our Board of Directors expanded our company's share repurchase plan, authorizing the repurchase of an additional $200 million of our company's outstanding common stock. This authorization is in addition to the $350 million share repurchase program our company announced in January 2015. We repurchased 360,000 shares for $16 million through this program in the three months ended March 31, 2016. Since we announced the current share repurchase program in January 2015, we have repurchased 4.6 million shares for $229 million through March 31, 2016.

Treasury stock shares including repurchased shares were 7,833,325 and 7,473,325 shares at March 31, 2016 and December 31, 2015, 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, 2016, $35 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 1.3 years.

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(10) Pension Plans, Postretirement and Other Employee Benefits

Net periodic pension costs and postretirement benefit costs consist of the following components:

	Three Months Ended March 31,					
	Pension				Postretirement	
	2016		2015		2016	2015
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost — benefits earned during the period	$—	$ 2	$—	$ 2	$ —	$ —
Interest cost	4	4	5	4	1	1
Expected return on plan assets	(6)	(5)	(6)	(5)	—	—
Net amortization:						
Actuarial loss	2	2	2	2	1	1
Prior service cost	—	—	—	—	—	(1)
Net pension and postretirement costs	$—	$ 3	$1	$ 3	$ 2	$ 1

For the three months ended March 31, 2016, we made pension contributions of $1 million and $3 million for our domestic and foreign pension plans, respectively. Based on current actuarial estimates, we believe we will be required to contribute approximately $38 million for the remainder of 2016, which includes estimated contributions for the pension buyout. Pension contributions beyond 2016 will be required, but those amounts will vary based upon many factors including, for example, the performance of our pension fund investments during 2016.

In February 2016, the Company launched a voluntary program to buy out active employees and retirees who have earned benefits in the U.S. pension plans and announced that the program is expected to be completed by the end of 2016. We will record a non-cash charge at that time. Cash payments to those who elect to take the buyout will be made from pension plan assets.

We made postretirement contributions of approximately $2 million during the first three months of 2016. Based on current actuarial estimates, we believe we will be required to contribute approximately $7 million for the remainder of 2016.

The assets of some of our pension plans are invested in trusts that permit commingling of the assets of more than one employee benefit plan for investment and administrative purposes. Each of the plans participating in the trust has interests in the net assets of the underlying investment pools of the trusts. The investments for all our pension plans are recorded at estimated fair value, in compliance with the accounting guidance on fair value measurement.

Amounts recognized for pension and postretirement benefits in other comprehensive income for the three months ended March 31, 2016 and 2015 include the following components:

	Three Months Ended March 31,					
	2016			2015		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
	(Millions)					
Defined benefit pension and postretirement plans:						
Amortization of prior service cost included in net periodic pension and postretirement cost	$—	$ —	$ —	$(1)	$ —	$ (1)
Amortization of actuarial loss included in net periodic pension and postretirement cost	5	(1)	4	5	(1)	4
Other comprehensive income – pension benefits	$5	$ (1)	$ 4	$4	$ (1)	$ 3

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(11) New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standard Update 2016-02, Leases (Topic 842). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flow arising from a lease. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. We will adopt this amendment on January 1, 2019. We are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

In May 2015, the FASB issued Accounting Standard Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Such investments should be disclosed separate from the fair value hierarchy. 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. The adoption of this guidance did not have an impact on the Company's consolidated financial statements but will impact pension asset disclosure in our annual report on Form 10-K going forward.

In May 2014, the FASB issued an amendment on revenue recognition. The amendment in this update creates Topic 606, Revenue from Contracts with Customers, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendment supersedes the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has voted to approve a one-year deferral of the effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017 for public entities. We will adopt this amendment on January 1, 2018. We are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

(12) Segment Information

We are organized and manage our business along our two major product lines (clean air and ride performance) and three geographic areas (North America; Europe, South America and India; and Asia Pacific), resulting in six operating segments (North America Clean Air, North America Ride Performance, Europe, South America and India Clean Air, Europe, South America and India Ride Performance, Asia Pacific Clean Air and Asia Pacific Ride Performance). Within each geographical area, each operating segment manufactures and distributes either clean air or ride performance products primarily for the original equipment and aftermarket industries. Each of the six operating segments constitutes a reportable segment. Costs related to other business activities, primarily corporate headquarter functions, are disclosed separately from the six operating segments as "Other." We evaluate segment performance based primarily on earnings before interest expense, income taxes, and noncontrolling interests. Products are transferred between segments and geographic areas on a basis intended to reflect as nearly as possible the “market value” of the products.

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The following table summarizes certain Tenneco Inc. segment information:

	Clean Air Division			Ride Performance Division					
	North America	Europe, South America & India	Asia Pacific	North America	Europe, South America & India	Asia Pacific	Other	Reclass & Elims	Total
	(Millions)								
At March 31, 2016 and for the Three Months Ended March 31, 2016									
Revenues from external customers	$764	$ 483	$ 267	$323	$ 237	$ 62	$ —	$ —	$2,136
Intersegment revenues	3	22	—	2	7	12	—	(46)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	62	16	33	42	(4)	11	(36)	—	124
Total assets	1,352	806	609	779	530	238	—	34	4,348
At March 31, 2015 and for the Three Months Ended March 31, 2015									
Revenues from external customers	684	457	264	331	230	57	—	—	2,023
Intersegment revenues	4	27	—	3	7	12	—	(53)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	54	10	27	35	8	10	(24)	—	120
Total assets	1,263	812	606	734	480	225	—	31	4,151

(13) Supplemental Guarantor Condensed Consolidating Financial Statements

Basis of Presentation

Substantially all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior notes due in 2020 and 2024 on a joint and several basis. However, a subsidiary's guarantee may be released in certain customary circumstances such as a sale of the subsidiary or all or substantially all of its assets in accordance with the indenture applicable to the notes. The Guarantor Subsidiaries are combined in the presentation below.

These consolidating financial statements are presented on the equity method. Under this method, our investments are recorded at cost and adjusted for our ownership share of a subsidiary's cumulative results of operations, capital contributions and distributions, and other equity changes. You should read the condensed consolidating financial information of the Guarantor Subsidiaries in connection with our condensed consolidated financial statements and related notes of which this note is an integral part.

Distributions

There are no significant restrictions on the ability of the Guarantor Subsidiaries to make distributions to us.

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STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31, 2016				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$996	$ 1,140	$ —	$ —	$ 2,136
Affiliated companies	127	190	—	(317)	—
	1,123	1,330	—	(317)	2,136
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	949	1,138	—	(317)	1,770
Engineering, research, and development	20	19	—	—	39
Selling, general, and administrative	68	79	—	—	147
Depreciation and amortization of other intangibles	21	33	—	—	54
	1,058	1,269	—	(317)	2,010
Other income (expense)					
Loss on sale of receivables	—	(1)	—	—	(1)
Other income (expense)	(6)	5	—	—	(1)
	(6)	4	—	—	(2)
Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	59	65	—	—	124
Interest expense —					
External (net of interest capitalized)	—	—	18	—	18
Affiliated companies (net of interest income)	(3)	2	1	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	62	63	(19)	—	106
Income tax expense	13	21	—	—	34
Equity in net income (loss) from affiliated companies	27	—	76	(103)	—
Net Income (loss)	76	42	57	(103)	72
Less: Net income attributable to noncontrolling interests	—	15	—	—	15
Net income (loss) attributable to Tenneco Inc.	$76	$ 27	$ 57	$ (103)	$ 57
Comprehensive income (loss) attributable to Tenneco Inc.	$76	$ 27	$ 84	$ (103)	$ 84

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STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31, 2015				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$897	$ 1,126	$ —	$ —	$ 2,023
Affiliated companies	106	145	—	(251)	—
	1,003	1,271	—	(251)	2,023
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	842	1,095	—	(251)	1,686
Engineering, research, and development	21	20	—	—	41
Selling, general, and administrative	46	77	2	—	125
Depreciation and amortization of other intangibles	22	28	—	—	50
	931	1,220	2	(251)	1,902
Other income (expense)					
Loss on sale of receivables	—	(1)	—	—	(1)
Other income (expense)	(4)	4	—	—	—
	(4)	3	—	—	(1)
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	68	54	(2)	—	120
Interest expense —					
External (net of interest capitalized)	—	—	16	—	16
Affiliated companies (net of interest income)	17	(17)	—	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	51	71	(18)	—	104
Income tax expense	18	23	—	—	41
Equity in net income (loss) from affiliated companies	30	—	67	(97)	—
Net income (loss)	63	48	49	(97)	63
Less: Net income attributable to noncontrolling interests	—	14	—	—	14
Net income (loss) attributable to Tenneco Inc.	$63	$ 34	$ 49	$ (97)	$ 49
Comprehensive income (loss) attributable to Tenneco Inc.	$63	$ 34	$ (20)	$ (97)	$ (20)

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BALANCE SHEET

	March 31, 2016				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$4	$ 370	$ —	$—	$ 374
Restricted cash	—	2	—	—	2
Receivables, net	503	1,334	—	(551)	1,286
Inventories	354	392	—	—	746
Prepayments and other	73	181	—	—	254
Total current assets	934	2,279	—	(551)	2,662
Other assets:					
Investment in affiliated companies	1,136	—	1,005	(2,141)	—
Notes and advances receivable from affiliates	952	14,112	4,954	(20,018)	—
Long-term receivables, net	10	1	—	—	11
Goodwill	22	37	—	—	59
Intangibles, net	9	12	—	—	21
Deferred income taxes	121	27	66	—	214
Other	42	50	11	—	103
	2,292	14,239	6,036	(22,159)	408
Plant, property, and equipment, at cost	1,281	2,232	—	—	3,513
Less — Accumulated depreciation and amortization	(856)	(1,379)	—	—	(2,235)
	425	853	—	—	1,278
Total assets	$3,651	$ 17,371	$ 6,036	$(22,710)	$ 4,348
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	$—	$ 82	$ 15	$—	$ 97
Short-term debt — affiliated	121	233	—	(354)	—
Accounts payable	540	1,058	—	(136)	1,462
Accrued taxes	14	38	—	—	52
Other	125	231	15	(61)	310
Total current liabilities	800	1,642	30	(551)	1,921
Long-term debt — non-affiliated	—	28	1,283	—	1,311
Long-term debt — affiliated	1,732	14,068	4,218	(20,018)	—
Deferred income taxes	—	9	—	—	9
Postretirement benefits and other liabilities	419	83	—	—	502
Commitments and contingencies					
Total liabilities	2,951	15,830	5,531	(20,569)	3,743
Redeemable noncontrolling interests	—	51	—	—	51
Tenneco Inc. shareholders' equity	700	1,441	505	(2,141)	505
Noncontrolling interests	—	49	—	—	49
Total equity	700	1,490	505	(2,141)	554
	$3,651	$ 17,371	$ 6,036	$(22,710)	$ 4,348

Total liabilities, redeemable noncontrolling interests and equity

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BALANCE SHEET

	December 31, 2015				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2	$ 285	$ —	$ —	$ 287
Restricted cash	—	1	—	—	1
Receivables, net	299	1,241	—	(428)	1,112
Inventories	333	349	—	—	682
Prepayments and other	67	162	—	—	229
Total current assets	701	2,038	—	(428)	2,311
Other assets:					
Investment in affiliated companies	1,146	—	891	(2,037)	—
Notes and advances receivable from affiliates	938	13,291	4,788	(19,017)	—
Long-term receivables, net	11	2	—	—	13
Goodwill	22	38	—	—	60
Intangibles, net	9	13	—	—	22
Deferred income taxes	122	28	68		