TENNECO INC
Form 10-Q
August 05, 2014
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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 June 30, 2014
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: 61,058,556 shares outstanding as of August 1, 2014.

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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 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 current European cost reduction initiatives, and to realize anticipated benefits from these plans;
- 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 higher fuel prices on transportation and logistics costs, raw material costs and discretionary purchases of vehicles or aftermarket products;
- 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;

- economic, exchange rate and political conditions in the countries where we operate or sell our products;
- customer acceptance of new products;
- new technologies that reduce the demand for certain of our products or otherwise render them obsolete;

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- 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, 2013 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 consolidated subsidiaries as of June 30, 2014, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three and six month periods ended June 30, 2014 and 2013 and changes in shareholders' equity for the six months ended June 30, 2014 and 2013. 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, 2013, 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 27, 2014, 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, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
August 5, 2014

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	$2,241	$2,067	$4,335	$3,970
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,851	1,736	3,605	3,340
Engineering, research, and development	42	33	84	68
Selling, general, and administrative	139	106	271	225
Depreciation and amortization of other intangibles	52	50	103	100
	2,084	1,925	4,063	3,733
Other expense				
Loss on sale of receivables	(1)	(1)	(2)	(2)
Other	—	—	(1)	(1)
	(1)	(1)	(3)	(3)
Earnings before interest expense, income taxes, and noncontrolling interests	156	141	269	234
Interest expense (net of interest capitalized of $1 million in both of the three months ended June 30, 2014 and 2013, and $2 million in both of the six months ended June 30, 2014 and 2013, respectively)	19	20	38	40
Earnings before income taxes and noncontrolling interests	137	121	231	194
Income tax expense	46	47	86	59
Net income	91	74	145	135
Less: Net income attributable to noncontrolling interests	10	11	18	18
Net income attributable to Tenneco Inc.	$81	$63	$127	$117
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	60,736,737	60,542,361	60,631,080	60,424,540
Diluted	61,661,896	61,724,124	61,583,725	61,532,550
Basic earnings per share of common stock	$1.34	$1.04	2.10	1.94
Diluted earnings per share of common stock	$1.32	$1.02	2.06	1.91

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 June 30, 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		$ 81		$ 10		$ 91
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	$(67)		$3		$(64)	
Translation of foreign currency statements	6	6	1	1	7	7
Balance June 30	(61)		4		(57)	
Additional Liability for Pension and Postretirement Benefits						
Balance April 1	(296)		—		(296)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance June 30	(293)		—		(293)	
Balance June 30	$(354)		$4		$(350)	
Other Comprehensive Income		9		1		10
Comprehensive Income		$ 90		$ 11		$ 101

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 June 30, 2013					
	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		$ 63		$ 11		$ 74
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	$(50)		$5		$(45)	
Translation of foreign currency statements	(24)	(24)	—	—	(24)	(24)
Balance June 30	(74)		5		(69)	
Additional Liability for Pension and Postretirement Benefits						
Balance April 1	(380)		—		(380)	
Additional Liability for Pension and Postretirement Benefits, net of tax	6	6			6	6
Balance June 30	(374)		—		(374)	
Balance June 30	$(448)		$5		$(443)	
Other Comprehensive Loss		(18)		—		(18)
Comprehensive Income		$ 45		$ 11		$ 56

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)

	For the Six Months Ended June 30, 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		$ 127		$ 18		$ 145
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$(61)		$5		$(56)	
Translation of foreign currency statements	—	$ —	(1)	(1)	(1)	(1)
Balance June 30	(61)		4		(57)	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(299)		—		(299)	
Additional Liability for Pension and Postretirement Benefits, net of tax	6	6	—		6	6
Balance June 30	(293)		—		(293)	
Balance June 30	$(354)		$4		$(350)	
Other Comprehensive Loss		6		(1)		5
Comprehensive Income		$ 133		$ 17		$ 150

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)

	For the Six Months Ended June 30, 2013					
	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		$ 117		$ 18		$ 135
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$(24)		$5		$(19)	
Translation of foreign currency statements	(50)	(50)	—	—	(50)	(50)
Balance June 30	(74)		5		(69)	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(384)		—		(384)	
Additional Liability for Pension and Postretirement Benefits, net of tax	10	10	—		10	10
Balance June 30	(374)		—		(374)	
Balance June 30	$(448)		$5		$(443)	
Other Comprehensive Loss		(40)		—		(40)
Comprehensive Income		$ 77		$ 18		$ 95

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)

	June 30, 2014	December 31, 2013
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$260	$275
Restricted cash	5	5
Receivables —		
Customer notes and accounts, net	1,334	1,041
Other	24	19
Inventories —		
Finished goods	315	267
Work in process	238	202
Raw materials	149	130
Materials and supplies	59	57
Deferred income taxes	72	71
Prepayments and other	273	223
Total current assets	2,729	2,290
Other assets:		
Long-term receivables, net	14	14
Goodwill	68	69
Intangibles, net	28	30
Deferred income taxes	121	125
Other	126	127
	357	365
Plant, property, and equipment, at cost	3,617	3,498
Less — Accumulated depreciation and amortization	(2,386)	(2,323)
	1,231	1,175
Total Assets	$4,317	$3,830
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$91	$83
Trade payables	1,494	1,359
Accrued taxes	41	40
Accrued interest	10	10
Accrued liabilities	280	252
Other	93	94
Total current liabilities	2,009	1,838
Long-term debt	1,206	1,019
Deferred income taxes	29	28
Postretirement benefits	222	249
Deferred credits and other liabilities	204	204
Commitments and contingencies		
Total liabilities	3,670	3,338
Redeemable noncontrolling interests	22	20
Tenneco Inc. Shareholders' equity:		
Common stock	1	1

Premium on common stock and other capital surplus	3,037	3,014
Accumulated other comprehensive loss	(354)	(360)
Retained earnings (accumulated deficit)	(1,794)	(1,921)
	890	734
Less — Shares held as treasury stock, at cost	301	301
Total Tenneco Inc. shareholders' equity	589	433
Noncontrolling interests	36	39
Total equity	625	472
Total liabilities, redeemable noncontrolling interests and equity	$4,317	$3,830

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Millions)			
Net income	$91	$74	$145	$135
Adjustments to reconcile net income to cash provided (used) by operating activities —				
Depreciation and amortization of other intangibles	52	50	103	100
Deferred income taxes	(3)	21	(1)	16
Stock-based compensation	3	2	8	7
Loss on sale of assets	1	2	2	2
Changes in components of working capital —				
(Increase) decrease in receivables	(69)	(77)	(303)	(253)
(Increase) decrease in inventories	(23)	22	(104)	(18)
(Increase) decrease in prepayments and other current assets	(14)	(32)	(52)	(81)
Increase (decrease) in payables	73	72	160	149
Increase (decrease) in accrued taxes	(5)	(8)	—	(13)
Increase (decrease) in accrued interest	(4)	(4)	—	—
Increase (decrease) in other current liabilities	11	15	24	7
Changes in long-term assets	—	3	1	3
Changes in long-term liabilities	3	(10)	(10)	(20)
Other	(2)	3	1	7
Net cash provided (used) by operating activities	114	133	(26)	41
Investing Activities				
Proceeds from the sale of assets	—	—	—	2
Cash payments for plant, property, and equipment	(84)	(54)	(167)	(124)
Cash payments for software related intangible assets	(2)	(6)	(9)	(12)
Changes in restricted cash	1	4	—	(5)
Net cash (used) by investing activities	(85)	(56)	(176)	(139)
Financing Activities				
Issuance (repurchase) of common shares	1	12	(1)	13
Tax benefit from stock-based compensation	5	—	17	—
Retirement of long-term debt	(7)	(3)	(10)	(8)
Issuance of long-term debt	45	—	45	—
Purchase of common stock under the share repurchase program	—	(2)	—	(2)
Increase (decrease) in bank overdrafts	(5)	44	(1)	35
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	(30)	(84)	167	107
Net decrease in short-term borrowings secured by accounts receivable	(30)	—	(10)	—
Capital contribution from noncontrolling interest partner	4	—	5	—
Distributions to noncontrolling interest partners	(23)	(23)	(23)	(23)

Net cash provided (used) by financing activities	(40)	(56)	189	122
Effect of foreign exchange rate changes on cash and cash equivalents	4	(19)	(2)	(12)
Increase (decrease) in cash and cash equivalents	(7)	2	(15)	12
Cash and cash equivalents, April 1 and January 1, respectively	267	233	275	223
Cash and cash equivalents, June 30 (Note)	$260	$235	$260	$235
Supplemental Cash Flow Information				
Cash paid during the period for interest	$24	$23	$38	$39
Cash paid during the period for income taxes (net of refunds)	53	46	74	71
Non-cash Investing and Financing Activities				
Period end balance of trade payables for plant, property, and equipment	$39	$24	$39	$24

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)

	Six Months Ended June 30,			
	2014		2013	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	63,714,728	$1	62,789,382	$1
Issued pursuant to benefit plans	77,651	—	156,357	—
Stock options exercised	57,828	—	491,064	—
Balance June 30	63,850,207	1	63,436,803	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,014		3,031
Premium on common stock issued pursuant to benefit plans		23		18
Balance June 30		3,037		3,049
Accumulated Other Comprehensive Loss				
Balance January 1		(360)		(408)
Other comprehensive income (loss)		6		(40)
Balance June 30		(354)		(448)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(1,921)		(2,104)
Net income attributable to Tenneco Inc.		127		117
Balance June 30		(1,794)		(1,987)
Less — Common Stock Held as Treasury Stock, at Cost				
Balance January 1	2,844,692	301	2,294,692	274
Purchase of common stock through stock repurchase program	—	—	45,000	2
Balance June 30	2,844,692	301	2,339,692	276
Total Tenneco Inc. shareholders' equity		$589		$339
Noncontrolling Interests:				
Balance January 1		$39		$45
Net income		9		12
Other comprehensive income (loss)		—		(1)
Dividends declared		(12)		(15)
Balance June 30		$36		$41
Total equity		$625		$380

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

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, 2013.

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 carrying and estimated fair values of our financial instruments by class at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$1,207	$1,262	$1,021	$1,089
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 $780 million and $790 million at June 30, 2014 and December 31, 2013, respectively. We have classified $428 million and $287 million as level 2 in the fair value hierarchy at June 30, 2014 and December 31, 2013, respectively, since we utilize valuation inputs that are observable both directly and indirectly. We classified the remaining $54 million and $10 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at June 30, 2014 and December 31, 2013, respectively.

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 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, presented on a gross basis at June 30, 2014 and December 31, 2013, respectively, was as follows:

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	Fair Value of Derivative Instruments					
	June 30, 2014			December 31, 2013		
	Asset Derivatives (Millions)	Liability Derivatives	Total	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	$—	$—	$—	$—	$—	$—

The fair value of our recurring financial assets at June 30, 2014 and December 31, 2013, respectively, are as follows:

	June 30, 2014			December 31, 2013		
	Level 1 (Millions)	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets:						
Foreign exchange forward contracts	n/a	$—	n/a	n/a	$—	n/a

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.

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of June 30, 2014 (all of which mature in 2014):

		Notional Amount in Foreign Currency (Millions)
Australian dollars	—Purchase	2
	—Sell	(1)
British pounds	—Purchase	34
	—Sell	(2)
Canadian dollars	—Sell	(18)
European euro	—Purchase	2
	—Sell	(9)
South African rand	—Purchase	127
	—Sell	(3)
Japanese yen	—Purchase	271
	—Sell	(531)
Polish zloty	—Purchase	25
U.S. dollars	—Purchase	29
	—Sell	(74)
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 of our direct or indirect subsidiaries 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 event of a payment default by the sponsoring or participating employers of the Walker Plans. As a result of our decision to enter into these performance guarantee agreements, the levy due to the U.K. Pension Protection Fund was reduced. 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 is approximately $27 million as of June 30, 2014 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. 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 $7 million and $10 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, 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 June 30, 2014, the maximum amount reimbursable by Futaba to TMEL is approximately $5 million.

We have issued letters of credit in connection with some obligations of our affiliates. As of June 30, 2014, we have issued $83 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 $5 million at both June 30, 2014 and December 31, 2013. No such financial instruments were held by our European subsidiary as of June 30, 2014 or December 31, 2013.

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 $29 million and $13 million at June 30, 2014 and December 31, 2013, respectively, and were classified as notes payable. Financial instruments received from customers and not redeemed totaled $17 million and $12 million at June 30, 2014 and December 31, 2013, 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 $17 million and $12 million in other current assets at June 30, 2014 and December 31, 2013, 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 June 30, 2014 for $1 million and was not required at December 31, 2013.

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 $14 million at June 30, 2014. 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 - Two of our Australian subsidiaries arranged for $4 million in guarantees to be issued by a financial institution to support some of our subsidiaries' property lease arrangements and workers compensation programs. These guarantees were supported by a cash deposit with the financial institution which has been classified as restricted cash on the Tenneco Inc. consolidated balance sheet at June 30, 2014.

Some of our Chinese subsidiaries are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees the financial instruments issued by Tenneco to pay vendors. At the end of the second quarter of 2014, one of our Chinese subsidiaries exceeded their credit limits and was required to maintain a cash balance. The cash balance required was $1 million which has been classified as restricted cash on the Tenneco Inc. consolidated balance sheet at June 30, 2014.

(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.

On March 22, 2012, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity date of our revolving credit facility and adding a new $250 million Tranche A Term Facility. As of June 30, 2014, the senior credit facility provides us with a total revolving credit facility size of $850 million and had a $219 million balance outstanding under the Tranche A Term Facility, both of which will mature on March 22, 2017. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. 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 enter into revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of $6.3 million through March 31, 2015, $9.4 million beginning June 30, 2015 through March 31, 2016, $12.5 million beginning June 30, 2016 through December 31, 2016 and a final payment of $125 million is due on March 22, 2017. We have excluded the required payments, within the next twelve months, under the Tranche A Term Facility totaling $28 million from current liabilities as of June 30, 2014, 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 two quarters of 2014, are as follows:

	Quarter Ended			
	June 30, 2014		March 31, 2014	
	Required	Actual	Required	Actual
Leverage Ratio (maximum)	3.50	1.57	3.50	1.63
Interest Coverage Ratio (minimum)	2.75	10.62	2.75	10.39

The senior credit facility includes a maximum leverage ratio covenant of 3.50 and a minimum interest coverage ratio of 2.75 through March 22, 2017.

At June 30, 2014, of the $850 million available under the revolving credit facility, we had unused borrowing capacity of $560 million with $208 million in outstanding borrowings and $82 million in outstanding letters of credit. As of June 30, 2014, our outstanding debt also included $219 million related to our Tranche A Term Facility which is subject to quarterly principal payments as described above through March 22, 2017, $225 million of 7.75 percent senior notes due August 15, 2018, $500 million of 6.875 percent senior notes due December 15, 2020, and $145 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 with a projected loss for the year or an actual year-to-date loss 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,

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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 $46 million and $47 million in the three month periods ended June 30, 2014 and 2013, respectively. The tax expense recorded in the second quarter of 2014 included $1 million for tax adjustment to prior year estimates.

We reported income tax expense of $86 million and $59 million in the six month periods ended June 30, 2014 and 2013, respectively. The tax expense recorded in the first six months of 2014 included $1 million for tax adjustments to prior year estimates. The tax expense recorded in the first six months of 2013 included a net tax benefit of $13 million for tax adjustments primarily related to recognizing a U.S. tax benefit for foreign taxes and changes to prior year estimates. U.S. tax benefit for foreign taxes is driven by our ability to claim a U.S. foreign tax credit beginning in 2013. The U.S. foreign tax credit law provides for a credit against U.S. taxes otherwise payable for foreign taxes paid with regard to dividends, interest and royalties paid to us in the U.S.

In 2012, we reversed the tax valuation allowance against our net deferred tax assets in the U.S. based on operating improvements we had made, the outlook for light and commercial vehicle production in the U.S. and the positive impact this should have on our U.S. operations. We have fully utilized our federal net operating loss ("NOL") as of June 30, 2014. The state NOLs expire in various tax years through 2032.

(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 basis under the bank program. In March 2014, the North American program was amended and extended to March 20, 2015. The first priority facility continues to provide financing of up to $110 million and the second priority facility, which is subordinated to the first priority facility, continues to provide up to an additional $40 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 zero at June 30, 2014 and $10 million at December 31, 2013.

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 under various separate facilities. 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 15 days, or less, notification. The amount of outstanding third-party investments in our securitized accounts receivable in Europe was $186 million and $134 million at June 30, 2014 and December 31, 2013, 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 Accounting Standards Codification (ASC) Topic 860, "Transfers and Servicing," to report the transfer of financial assets in their entirety as a sale. The proceeds received 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 June 30, 2014 and 2013, and $1 million for each of the six month periods ended June 30, 2014 and 2013, relating to our North American securitization program. In addition, we recognized a loss of $1 million in each of the three month periods ended June 30, 2014 and 2013, and $2 million for each of the six month periods ended June 30, 2014, and 2013, 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 half of 2014 and three percent during the first half of 2013, 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. In 2013, we incurred $78 million in restructuring and related costs, primarily related to European cost reduction efforts including non-cash asset write downs of $3 million, our exit from the distribution of aftermarket exhaust products and ending production of leaf springs in Australia, headcount reductions in various regions and the net impact of freezing our defined benefits plans in the United Kingdom, of which $70 million was recorded in cost of sales and $6 million was recorded in SG&A, $1 million in engineering expense and $1 million in other expense. In the second quarter of 2014, we incurred $10 million in restructuring and related costs, primarily related to European cost reduction efforts and headcount reductions in Australia and South America, of which $5 million was recorded in cost of sales, $3 million in SG&A, $1 million in engineering expense and $1 million in other expense. During the second quarter of 2013, we incurred $7 million in restructuring and related costs, primarily related to European cost reduction efforts, the ending of production of leaf springs in Australia, headcount reductions in various regions, and the net impact of freezing our defined benefit plans in the United Kingdom, of which $4 million was recorded in cost of sales and $3 million in SG&A. For the first six months of 2014, we incurred $20 million in restructuring and related costs, primarily related to European cost reduction efforts including non-cash asset write downs of $1 million and headcount reductions in Australia and South America, of which $15 million was recorded in cost of sales, $3 million in SG&A , $1 million was recorded in engineering expense and $1 million was recorded in other expense. For the first six months of 2013, we incurred $11 million in restructuring and related costs, primarily related to European cost reduction efforts, the costs to exit the distribution of aftermarket exhaust products and the ending of production of leaf springs in Australia, headcount reductions in various regions, and the net impact of freezing our defined benefit plans in the United Kingdom, of which $7 million was recorded in cost of sales and $4 million in SG&A.

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

	December 31, 2013 Restructuring Reserve (Millions)	2014 Expenses	2014 Cash Payments	June 30, 2014 Restructuring Reserve
Employee Severance, Termination Benefits and Other Related Costs	$44	19	(19)	$44

Under the terms of our amended and restated senior credit agreement that took effect on March 22, 2012, we are allowed to exclude $80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 22, 2012 from the calculation of the financial covenant ratios required under our senior credit facility. As of December 31, 2013, we had excluded all allowable charges relating to restructuring initiatives against the $80 million available under the terms of the senior credit facility.

On January 31, 2013, we announced our intent to reduce structural costs in Europe. This initiative includes the closing of the Vittaryd facility in Sweden that we announced in September 2012 and a $7 million charge recorded in the fourth quarter of 2012 related to the impairment of certain assets in the European ride performance business. As part of our European structural cost reduction initiative, on September 5, 2013 we announced our intent to close our ride performance plant in Gijon, Spain and reduce the workforce at our ride performance plant in Sint-Truiden, Belgium. The actions were subject to consultation with the relevant employee representatives. We incurred $78 million in restructuring and related costs in 2013, of which $69 million million was related to this initiative including $3 million non-cash asset write downs. In the second quarter of 2014, we incurred $10 million in restructuring and related costs, of which $4 million was related to this initiative. In the first half of 2014, we incurred $20 million million in restructuring and related costs, of which $14 million was related to this initiative including $1 million for non-cash asset write downs. We concluded the consultation period with employee representatives at Gijon without having reached agreement and on December 17, 2013 notified the Gijon employees' works council that the Company was proceeding with the plant closure. Employee terminations at Gijon were completed by the end of 2013. During the first quarter of 2014, the employees' works council filed suit challenging the decision to close the Gijon plant and local High Court of Justice of Asturias ruled in favor of the employees' works council. On February 25, 2014, we announced the

intention of the Company to appeal that decision to the Supreme Court of Spain in Madrid, and at the same time we worked closely with local and European government officials to reach a solution to address the challenge to our restructuring plan by the Gijon plant's employees' works council. In July 2014, we finalized the agreements related to restructuring with employee representatives at Gijon as well as Sint-Truiden. Under the final agreement for Gijon, the plant re-opened in July 2014 with about half of its prior workforce and will continue to be operated by Tenneco until a complete transfer of ownership takes place in approximately two years. We recorded $60 million in 2013, $3 million in the second quarter of 2014 and $5 million in the first half of 2014 related to these actions at Gijon and Sint-Truiden.
In the first quarter of 2014, we announced and finalized the closure of the clean air just-in-time plant in Iwuy, France, due to reduced demand for the plant's products. The actions were subject to the required consultation process with the relevant employee representatives.

(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 June 30, 2014, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At June 30, 2014, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately $15 million, of which $3 million is recorded in other current liabilities and $12 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 2.30 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 2014, $1 million each year beginning 2015 through 2018 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. We have cooperated and continue to cooperate fully with 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 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 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:

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	Six Months Ended June 30, 2014	2013
	(Millions)	
Beginning Balance January 1,	$24	$23
Accruals related to product warranties	12	6
Reductions for payments made	(10)	(9)
Ending Balance June 30,	$26	$20

(8) Earnings Per Share
Earnings per share of common stock outstanding were computed as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Millions Except Share and Per Share Amounts)			
Basic earnings per share —				
Net income attributable to Tenneco Inc.	$81	$63	$127	$117
Weighted Average shares of common stock outstanding	60,736,737	60,542,361	60,631,080	60,424,540
Earnings per share of common stock	$1.34	$1.04	$2.10	$1.94
Diluted earnings per share —				
Net income attributable to Tenneco Inc.	$81	$63	$127	$117
Weighted Average shares of common stock outstanding	60,736,737	60,542,361	60,631,080	60,424,540
Effect of dilutive securities:				
Restricted stock	104,679	170,950	139,024	157,551
Stock options	820,480	1,010,813	813,621	950,459
Weighted Average shares of common stock outstanding including dilutive securities	61,661,896	61,724,124	61,583,725	61,532,550
Earnings per share of common stock	$1.32	$1.02	$2.06	$1.91

Options to purchase 523 and 830,486 shares of common stock were outstanding as of June 30, 2014 and 2013, 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 $1 million in compensation expense in each of the three month periods ended June 30, 2014 and 2013 and $3 million in compensation expense for each of the six month periods ended June 30, 2014 and 2013, related to nonqualified stock options as part of our selling, general and administrative expense. This resulted in a decrease of $0.01 and $0.02 in both basic and diluted earnings per share for the three month period ended June 30, 2014 and 2013 and a decrease of $0.04 and $0.05 in both basic and diluted earnings per share for the six month period ended June 30, 2014 and 2013.

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 June 30, 2014, there was approximately $8 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 1.4 years.

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Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs was $5 million for both the three month periods ended June 30, 2014 and 2013 and $10 million and $8 million for the six month periods ended June 30, 2014 and 2013, 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 six months ended June 30, 2014 and 2013 was $1 million and $10 million, respectively.

Stock options exercised in the first six months of 2014 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. In the first six months of 2014, we recorded a tax benefit of $17 million, of which $14 million was related to the historic tax benefit on stock options from 2011 through 2013.

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.

	Six Months Ended June 30,	
	2014	2013
Stock Options Granted		
Weighted average grant date fair value, per share	$26.46	$19.84
Weighted average assumptions used:		
Expected volatility	52.8 %	66.4 %
Expected lives	5.0	4.9
Risk-free interest rates	1.7 %	0.7 %
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:

	Six Months Ended June 30, 2014			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2014	1,983,573	$ 22.93	4.5	$62
Granted	192,624	56.23		
Canceled	(31,299)	19.78		
Forfeited	(300)	22.77		
Exercised	(25,595)	14.72		1
Outstanding, March 31, 2014	2,119,003	$ 26.10	4.6	$67
Granted	—	—		
Forfeited	—	—		
Exercised	(32,233)	25.49		1

Outstanding, June 30, 2014	2,086,770	$ 26.11	4.3	$ 75

The weighted average grant-date fair value of options granted during the six months ended June 30, 2014 and 2013 was $26.46 and $19.84, respectively. The total fair value of shares vested was $6 million and $5 million for the periods ended June 30, 2014 and 2013, respectively.

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

	Six Months Ended June 30, 2014	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2014	368,268	$34.90
Granted	131,561	54.90
Vested	(186,112)	36.57
Forfeited	—	—
Nonvested balance at March 31, 2014	313,717	$42.30
Granted	2,838	66.96
Vested	(2,286)	31.63
Forfeited	(575)	38.52
Nonvested balance at June 30, 2014	313,694	$42.60

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 June 30, 2014, approximately $8 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.1 years. The total fair value of restricted shares vested was $7 million and $5 million at June 30, 2014 and 2013, respectively.

In January 2014, our Board of Directors approved a share repurchase program, authorizing our company to repurchase up to 400,000 shares of our outstanding common stock over a 12 month period. This repurchase program does not obligate Tenneco to make repurchases at any specific time or situation and is intended to offset dilution from shares of restricted stock and stock options issued in 2014 to employees. We did not purchase any shares through this program in the six month period ended June 30, 2014.

Repurchased shares held as part of our treasury stock were at 2,844,692 shares at both June 30, 2014 and December 31, 2013.

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 June 30, 2014, $25 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 2.0 years.

(10) Pension Plans, Postretirement and Other Employee Benefits

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

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	Three Months Ended June 30,					
	Pension				Postretirement	
	2014		2013		2014	2013
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost — benefits earned during the period	$—	$2	$1	$3	$—	$—
Interest cost	5	4	4	4	2	2
Expected return on plan assets	(6)	(5)	(6)	(5)	—	—
Net amortization:						
Actuarial loss	2	2	3	3	1	1
Prior service cost (credit)	—	—	—	1	(2)	(2)
Net pension and postretirement costs	$1	$3	$2	$6	$1	$1

	Six Months Ended June 30,					
	Pension				Postretirement	
	2014		2013		2014	2013
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost — benefits earned during the period	$—	$4	$1	$5	$—	$—
Interest cost	10	9	9	8	3	3
Expected return on plan assets	(12)	(12)	(11)	(10)	—	—
Net amortization:						
Actuarial loss	4	4	5	6	1	2
Prior service cost (credit)	—	1	—	1	(3)	(3)
Net pension and postretirement costs	$2	$6	$4	$10	$1	$2

For the six months ended June 30, 2014, we made pension contributions of $14 million and $9 million for our domestic and foreign pension plans, respectively. Based on current actuarial estimates, we believe we will be required to contribute approximately $24 million for the remainder of 2014. Pension contributions beyond 2014 will be required, but those amounts will vary based upon many factors including, for example, the performance of our pension fund investments during 2014.

We made postretirement contributions of approximately $3 million during the first six months of 2014. Based on current actuarial estimates, we believe we will be required to contribute approximately $5 million for the remainder of 2014.

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 and six month periods ended June 30, 2014 and 2013 include the following components:

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	Three Months Ended June 30,					
	2014			2013		
	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	$(2)	$—	$(2)	$(1)	$—	$(1)
Amortization of actuarial loss included in net periodic pension and postretirement cost	5	—	5	7	—	7
Other comprehensive income – pension benefits	$3	$—	$3	$6	$—	$6

	Six Months Ended June 30,					
	2014			2013		
	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	$(2)	$—	$(2)	$(2)	$—	$(2)
Amortization of actuarial loss included in net periodic pension and postretirement cost	9	1	8	13	(1)	12
Other comprehensive income – pension benefits	$7	$1	$6	$11	$(1)	$10

(11) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("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 amendment is effective for reporting periods beginning after December 15, 2016 for public entities. We will adopt this amendment on January1, 2017. We are currently evaluating the potential impact of this new guidance on our consolidated financial statements.

In July 2013, the FASB issued an amendment to provide explicit guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The objective of the amendment is to eliminate the diversity in practice in the presentation of unrecognized tax benefits in those instances. This amendment is effective for reporting periods beginning after December 15, 2013. We adopted this amendment on January 1, 2014. This amendment did not have a material impact on our consolidated financial statements.

In April 2013, the FASB issued an amendment to clarify when an entity should apply the liquidation basis of accounting and to provide principles for the measurement of assets and liabilities under the liquidation basis of accounting, as well as any required disclosures. The amendment applies to all entities that issue financial statements that are presented in conformity with

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U.S. GAAP except investment companies that are regulated under the Investment Company Act of 1940. This amendment is effective for reporting periods beginning after December 15, 2013. This amendment did not have any impact on our consolidated financial statements.

In February 2013, the FASB issued an amendment to resolve the diversity in practice about whether Subtopic 810-10, Consolidation-Overall, or Subtopic 830-30, Foreign Currency Matters-Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real state or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This amendment is effective for reporting periods beginning after December 15, 2013. This amendment did not have any impact on our consolidated financial statements.

In February 2013, the FASB issued an amendment to the accounting guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement amount its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this amendment also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This amendment is effective for reporting periods beginning after December 15, 2013. This amendment did not have any impact on our consolidated financial statements.

(12) Segment Information

We are managed and organized 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.

The following table summarizes certain Tenneco Inc. segment information:

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	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 June 30, 2014 and for the Three Months Ended June 30, 2014									
Revenues from external customers	$755	$ 523	$263	$364	$ 280	$56	$—	$—	$2,241
Intersegment revenues	7	28	—	3	11	11	—	(60)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	74	18	23	48	14	8	(29)	—	156
Total assets	1,238	946	589	718	558	233	—	35	4,317
At June 30, 2013 and for the Three Months Ended June 30, 2013									
Revenues from external customers	687	516	203	324	281	56	—	—	2,067
Intersegment revenues	1	26	—	3	9	8	—	(47)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	68	18	21	36	14	6	(22)	—	141
Total assets	1,099	869	451	682	593	208	—	37	3,939
At June 30, 2014 and for the Six Months Ended June 30, 2014									
Revenues from external customers	$1,453	$ 1,029	$503	$699	$ 543	$108	$—	$—	$4,335
Intersegment revenues	14	58	—	6	21	19	—	(118)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	130	27	43	78	30	15	(54)	—	269
Total assets	1,238	946	589	718	558	233	—	35	4,317
At June 30, 2013 and for the Six Months Ended June 30, 2013									
Revenues from external customers	1,333	983	386	631	533	104	—	—	3,970
Intersegment revenues	2	57	—	5	21	15	—	(100)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	117	29	36	61	24	10	(43)	—	234
Total assets	1,099	869	451	682	593	208	—	37	3,939

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(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 2018 and 2020 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.

We revised the supplemental guarantor statements of comprehensive income and cash flows as a result of a correction to comprehensive income and to the classification of intercompany dividends in the cash flow. These revisions had no impact on any of the company's current or previously issued consolidated financial statements. The misclassification in the supplemental cash flow statements consisted of including $40 million of intercompany dividend payments by the nonguarantor subsidiaries in operating activities which should have instead been included in financing activities for both the three and six month periods ended on June 30, 2013. Other comprehensive loss of $18 million was excluded in the net comprehensive income of the parent company for the three month period ended on June 30, 2013 and $40 million of other comprehensive loss was excluded for the six month period ended June 30, 2013. The impact of these corrections to the applicable prior periods are reflected in the guarantor financial information herein and will be reflected in future filings.

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)

	For the Three Months Ended June 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$1,007	$ 1,234	$—	$—	$2,241
Affiliated companies	103	157	—	(260)	—
	1,110	1,391	—	(260)	2,241
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	975	1,136	—	(260)	1,851
Engineering, research, and development	18	24	—	—	42
Selling, general, and administrative	55	82	2	—	139
Depreciation and amortization of other intangibles	21	31	—	—	52
	1,069	1,273	2	(260)	2,084
Other income (expense)					
Loss on sale of receivables	—	(1)	—	—	(1)
Other income (loss)	27	(1)	—	(26)	—
	27	(2)	—	(26)	(1)
Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	68	116	(2)	(26)	156
Interest expense —					
External (net of interest capitalized)	(1)	1	19	—	19
Affiliated companies (net of interest income)	21	(21)	—	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	48	136	(21)	(26)	137
Income tax expense	6	40			46
Equity in net income (loss) from affiliated companies	83	—	102	(185)	—
Net Income (loss)	125	96	81	(211)	91
Less: Net income attributable to noncontrolling interests	—	10	—	—	10
Net income (loss) attributable to Tenneco Inc.	$125	$ 86	$81	$(211)	$81
Comprehensive income (loss) attributable to Tenneco Inc.	$123	$ 97	$90	$(220)	$90

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STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended June 30, 2013				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$904	$ 1,163	$—	$—	$2,067
Affiliated companies	92	141	—	(233)	—
	996	1,304	—	(233)	2,067
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	776	1,192	—	(232)	1,736
Engineering, research, and development	14	19	—	—	33
Selling, general, and administrative	45	60	1	—	106
Depreciation and amortization of other intangibles	19	31	—	—	50
	854	1,302	1	(232)	1,925
Other income (expense)					
Loss on sale of receivables	—	(1)	—	—	(1)
Other income (expense)	34	5	—	(39)	—
	34	4	—	(39)	(1)
Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	176	6	(1)	(40)	141
Interest expense —					
External (net of interest capitalized)	(1)	1	20	—	20
Affiliated companies (net of interest income)	18	(18)	—	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	159	23	(21)	(40)	121
Income tax expense	40	7	—	—	47
Equity in net income (loss) from affiliated companies	2	—	84	(86)	—
Net income (loss)	121	16	63	(126)	74
Less: Net income attributable to noncontrolling interests	—	11	—	—	11
Net income (loss) attributable to Tenneco Inc.	$121	$ 5	$63	$(126)	$63
Comprehensive income (loss) attributable to Tenneco Inc.	$126	$ (18)	$45	$(108)	$45

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	For the Six Months Ended June 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$1,927	$2,408	$—	$—	$4,335
Affiliated companies	206	305	—	(511)	—
	2,133	2,713	—	(511)	4,335
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	1,777	2,339	—	(511)	3,605
Engineering, research, and development	40	44	—	—	84
Selling, general, and administrative	106	161	4	—	271
Depreciation and amortization of other intangibles	42	61	—	—	103
	1,965	2,605	4	(511)	4,063
Other income (expense)					
Loss on sale of receivables	—	(2)	—	—	(2)
Other income (expense)	25	—	—	(26)	(1)
	25	(2)	—	(26)	(3)
Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	193	106	(4)	(26)	269
Interest expense —					
External (net of interest capitalized)	(1)	1	38		38
Affiliated companies (net of interest income)	37	(37)	—	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	157	142	(42)	(26)	231
Income tax expense	36	50	—	—	86
Equity in net income (loss) from affiliated companies	68	—	169	(237)	—
Net income (loss)	189	92	127	(263)	145
Less: Net income attributable to noncontrolling interests	—	18	—	—	18
Net income (loss) attributable to Tenneco Inc.	$189	$74	$127	$(263)	$127
Comprehensive income (loss) attributable to Tenneco Inc.	$188	$81	$133	$(269)	$133

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STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the Six Months Ended June 30, 2013				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues —					
External	$1,756	$2,214	$—	$—	$3,970
Affiliated companies	171	291	—	(462)	—
	1,927	2,505	—	(462)	3,970
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	1,518	2,283	—	(461)	3,340
Engineering, research, and development	29	39	—	—	68
Selling, general, and administrative	98	124	3	—	225
Depreciation and amortization of other intangibles	38	62	—	—	100
	1,683	2,508	3	(461)	3,733
Other income (expense)					
Loss on sale of receivables	—	(2)	—	—	(2)
Other income (expense)	33	5	—	(39)	(1)
	33	3	—	(39)	(3)
Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	277	—	(3)	(40)	234
Interest expense —					
External (net of interest capitalized)	(1)	2	39	—	40
Affiliated companies (net of interest income)	36	(37)	1	—	—
Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies	242	35	(43)	(40)	194
Income (benefit) tax expense	46	13		—	59
Equity in net income (loss) from affiliated companies	(3)	—	160	(157)	—
Net income (loss)	193	22	117	(197)	135
Less: Net income attributable to noncontrolling interests	—	18	—	—	18
Net income (loss) attributable to Tenneco Inc.	$193	$4	$117	$(197)	$117
Comprehensive income (loss) attributable to Tenneco Inc.	$193	$(36)	$77	$(157)	$77

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BALANCE SHEET

	June 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 260	$—	$—	$260
Restricted cash	—	5	—	—	5
Receivables, net	569	1,505	—	(716)	1,358
Inventories	321	440	—	—	761
Deferred income taxes	88	—	7	(23)	72
Prepayments and other	48	225	—	—	273
Total current assets	1,026	2,435	7	(739)	2,729
Other assets:					
Investment in affiliated companies	998	—	907	(1,905)	—
Notes and advances receivable from affiliates	983	9,010	4,951	(14,944)	—
Long-term receivables, net	12	2	—	—	14
Goodwill	21	47	—	—	68
Intangibles, net	12	16	—	—	28
Deferred income taxes	60	9	52	—	121
Other	44	61	21	—	126
	2,130	9,145	5,931	(16,849)	357
Plant, property, and equipment, at cost	1,202	2,415	—	—	3,617
Less — Accumulated depreciation and amortization	(826)	(1,560)	—	—	(2,386)
	376	855	—	—	1,231
Total assets	$3,532	$ 12,435	$5,938	$(17,588)	$4,317
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	$—	$ 76	$15	$—	$91
Short-term debt — affiliated	205	295	10	(510)	—
Trade payables	541	1,109	—	(156)	1,494
Accrued taxes	(12)	25	28	—	41
Other	144	303	9	(73)	383
Total current liabilities	878	1,808	62	(739)	2,009
Long-term debt — non-affiliated	—	53	1,153	—	1,206
Long-term debt — affiliated	1,831	8,978	4,135	(14,944)	—
Deferred income taxes	—	29	—	—	29
Postretirement benefits and other liabilities	342	81	(1)	4	426
Commitments and contingencies					
Total liabilities	3,051	10,949	5,349	(15,679)	3,670

Redeemable noncontrolling interests	—	22	—	—	22
Tenneco Inc. shareholders’ equity	481	1,428	589	(1,909)	589
Noncontrolling interests	—	36	—	—	36
Total equity	481	1,464	589	(1,909)	625
Total liabilities, redeemable noncontrolling interests and equity	$3,532	$ 12,435	$5,938	$(17,588)	$4,317

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

BALANCE SHEET

	December 31, 2013				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$6	$ 269	$—	$—	$275
Restricted cash	—	5	—	—	5
Receivables, net	387	1,306	16	(649)	1,060
Inventories	279	377	—	—	656
Deferred income taxes	87	—	7	(23)	71
Prepayments and other	35	188	—	—	223
Total current assets	794	2,145	23	(672)	2,290
Other assets:					
Investment in affiliated companies	944	—	696	(1,640)	—
Notes and advances receivable from affiliates	1,026	7,320	4,826	(13,172)	—
Long-term receivables, net	12	2	—	—	14
Goodwill	22	47	—	—	69
Intangibles, net	13	17	—	—	30
Deferred income taxes	72	9	44	—	125
Other	44	60	23	—	127
	2,133	7,455	5,589	(14,812)	365
Plant, property, and equipment, at cost	1,173	2,325	—	—	3,498
Less — Accumulated depreciation and amortization	(807)	(1,516)	—	—	(2,323)
	366	809	—	—	1,175
Total assets	$3,293	$ 10,409	$5,612	$(15,484)	$3,830
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt — non-affiliated	$—	$ 68	$15	$—	$83
Short-term debt — affiliated	247	176	10	(433)	—
Trade payables	521	1,011	—	(173)	1,359
Accrued taxes	9	31	—	—	40
Other	128	285	9	(66)	356
Total current liabilities	905	1,571	34	(672)	1,838
Long-term debt — non-affiliated	—	8	1,011	—	1,019
Long-term debt — affiliated	1,700	7,338	4,134	(13,172)	—
Deferred income taxes	—	28	—	—	28
Postretirement benefits and other liabilities	357	92	—	4	453
Commitments and contingencies					
Total liabilities	2,962	9,037	5,179	(13,840)	3,338

Redeemable noncontrolling interests	—	20	—	—	20
Tenneco Inc. shareholders' equity	331	1,313	433	(1,644)	433
Noncontrolling interests	—	39	—	—	39
Total equity	331	1,352	433	(1,644)	472
Total liabilities, redeemable noncontrolling interests and equity	$3,293	$ 10,409	$5,612	$(15,484)	$3,830

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

STATEMENT OF CASH FLOWS

	Three Months Ended June 30, 2014				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Operating Activities					
Net cash provided by operating activities	$52	$ 80	$8	$(26)	$114
Investing Activities					
Cash payments for plant, property, and equipment	(22)	(62)	—	—	(84)
Cash payments for software related intangible assets	(2)	—	—	—	(2)
Changes in restricted cash	—	1	—	—	1
Net cash used by investing activities	(24)	(61)	—	—	(85)
Financing Activities					
Issuance of common shares	—	—	1	—	1
Tax benefit from stock-based compensation	—	—	5	—	5
Retirement of long-term debt	—	—	(7)	—	(7)
Issuance of long-term debt		45		—	45
Increase (decrease) in bank overdrafts	—	(5)		—	(5)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables	—	(17)	(13)	—	(30)
Net increase (decrease) in short-term borrowings secured by accounts receivables	—	—	(30)	—	(30)
Intercompany dividend payments and net increase (decrease) in intercompany obligations	(30)	(32)	36	26	—
Capital contribution from noncontrolling interest partners	—	4	—	—	4
Net cash used by financing activities	(30)	(28)	(8)	26	(40)
Effect of foreign exchange rate changes on cash and cash equivalents	—	4	—	—	4
Increase (decrease) in cash and cash equivalents	(2)	(5)	—	—	(7)
Cash and cash equivalents, April 1	2	265	—	—	267
Cash and cash equivalents, June 30 (Note)	$—	$ 260	$—	$—	$260

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —(Continued)

(Unaudited)

STATEMENT OF CASH FLOWS