TENNECO INC
Form 10-Q
November 07, 2018

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 September 30, 2018
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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

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

The number of shares of Class A Voting Common Stock, par value $0.01 per share: 57,086,965 shares outstanding as of November 5, 2018. The number of shares of Class B Non-Voting Common Stock, par value $0.01 per share: 23,793,669 shares outstanding as of November 5, 2018.

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

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

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

- general economic, business and market conditions;
- our ability to source and procure needed materials, components and other products and services in accordance with customer demand and at competitive prices;
- the cost and outcome of existing and any future claims, legal proceedings or investigations, including, but not limited to, any of the foregoing arising in connection with the ongoing global antitrust investigation, product performance, product safety or intellectual property rights;
- changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;
- changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks or diesel engines, which tend to be higher margin products for 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 and/or regulatory or legal changes affecting internal combustion engines and/or aftermarket products;
- new technologies that reduce the demand for certain of our products or otherwise render them obsolete;
- our ability to introduce new products and technologies that satisfy customers' needs in a timely fashion;
- the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);
- the loss of any of our large original equipment manufacturer ("OEM") customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;
- our ability to successfully execute cash management and other cost reduction plans, and to realize the anticipated benefits from these plans;
- risks inherent in operating a multi-national company, including economic conditions, such as currency exchange and inflation rates, and political conditions in the countries where we operate or sell our products, adverse changes in trade agreements, tariffs, immigration policies, political stability, and tax and other laws, and potential disruptions of production and supply;
- industrywide strikes, labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers' other suppliers;
- increases in the costs of raw materials or components, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;
- the negative impact of fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment;
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- 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;

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- the impact of consolidation among vehicle parts suppliers and customers on our ability to compete;
- changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of increasing competition from lower cost, private-label products on our aftermarket business;
- customer acceptance of new products;
- our ability to realize our business strategy of improving operating performance;
- our ability to successfully integrate, and benefit from, 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 or increased costs or loss of revenues relating to products subject to changing regulation;
- the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;
- potential volatility in our effective tax rate;
- disasters, such as fires, earthquakes and flooding, and any resultant disruptions in the supply or production of goods or services to us or by us, in demand by our customers or in the operation of our system, disaster recovery capabilities or business continuity capabilities;
- 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.

In addition, important factors related to the transaction with Federal-Mogul LLC ("Federal-Mogul") that could cause actual results to differ materially from the expectations reflected in the forward-looking statements, including:

- the risk that the benefits of the acquisition of Federal-Mogul, including synergies, may not be fully realized or may take longer to realize than expected;
- the risk that the acquisition of Federal-Mogul may not advance our business strategy;
- the risk that we may experience difficulty integrating or separating all employees or operations;
- the risk that the transaction may have an adverse impact on existing arrangements with us, including those related to transition, manufacturing and supply services and tax matters, our ability to retain and hire key personnel or our ability to maintain relationships with customers, suppliers or other business partners; and
- the risk that the company may not complete a separation of its powertrain technology business and its aftermarket and ride performance business (or achieve some or all of the anticipated benefits of such a separation).

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, 2017 and "Part II, Item 1A — Risk Factors” of this Form 10-Q for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Unless otherwise indicated in this report, the forward-looking statements in this report are made as of the date of this report, and, except as required by law, we do not undertake any obligation, and disclaims any obligation, to publicly disclose revisions or updates to any forward-looking statements.

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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.
Results of Review of Financial Statements
We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and its subsidiaries as of September 30, 2018, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month and nine-month periods ended September 30, 2018 and 2017 and the condensed consolidated statements of changes in shareholders' equity for the nine-month periods ended September 30, 2018 and 2017, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.
We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and of cash flows for the year then ended (not presented herein), and in our report dated February 28, 2018, except for the change in composition of reportable segments discussed in Note 11 to the consolidated financial statements and the changes in the manner in which the Company accounts for certain components of net periodic pension and postretirement benefit costs, cash received to settle the deferred purchase price of factored receivables and restricted cash discussed in Note 1 to the consolidated financial statements, as to which the date is September 28, 2018, which included a paragraph describing a change in the manner of accounting for certain components of net periodic pension and postretirement benefit costs and the manner in which it accounts for the cash received to settle the deferred purchase price of factored receivables, 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, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.
Basis for Review Results
These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
November 7, 2018

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TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	$2,372	$ 2,274	$7,483	$ 6,883
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	2,014	1,911	6,371	5,789
Engineering, research, and development	39	40	122	115
Selling, general, and administrative	141	127	450	520
Depreciation and amortization of other intangibles	65	58	183	165
	2,259	2,136	7,126	6,589
Other expense				
Loss on sale of receivables	3	2	8	4
Other expense, net	6	2	15	8
	9	4	23	12
Earnings before interest expense, income taxes, and noncontrolling interests	104	134	334	282
Interest expense	21	19	61	54
Earnings before income taxes and noncontrolling interests	83	115	273	228
Income tax expense	20	16	72	41
Net income	63	99	201	187
Less: Net income attributable to noncontrolling interests	9	16	39	48
Net income attributable to Tenneco Inc.	$54	$ 83	$162	$ 139
Earnings per share				
Weighted average shares of common stock outstanding —				
Basic	51,272,612	52,508,078	51,247,664	53,265,149
Diluted	51,401,829	52,687,656	51,395,927	53,501,864
Basic earnings per share of common stock	$1.05	$ 1.57	$3.17	$ 2.61
Diluted earnings per share of common stock	$1.05	$ 1.57	$3.16	$ 2.60
Cash dividends declared per share	$0.25	$ 0.25	$0.75	$ 0.75

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

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

	Three Months Ended September 30, 2018					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income		$ 54		$ 9		$ 63
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	$ (315)		$ (2)		$ (317)	
Translation of foreign currency statements	(28)	(28)	(3)	(3)	(31)	(31)
Balance September 30	(343)		(5)		(348)	
Additional Liability for Pension and Postretirement Benefits						
Balance July 1	(293)		—		(293)	
Additional liability for pension and postretirement benefits, net of tax	4	4	—	—	4	4
Balance September 30	(289)		—		(289)	
Balance September 30	$ (632)		$ (5)		$ (637)	
Other Comprehensive Loss		(24)		(3)		(27)
Comprehensive Income		$ 30		$ 6		$ 36

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

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

	Three Months Ended September 30, 2017					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
	(Millions)					
Net Income		$ 83		$ 16		$ 99
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	$ (285)		$ (2)		$ (287)	
Translation of foreign currency statements	28	28	1	1	29	29
Balance September 30	(257)		(1)		(258)	
Additional Liability for Pension and Postretirement Benefits						
Balance July 1	(316)		—		(316)	
Additional liability for pension and postretirement benefits, net of tax	3	3	—	—	3	3
Balance September 30	(313)		—		(313)	
Balance September 30	$ (570)		$ (1)		$ (571)	
Other Comprehensive Income		31		1		32
Comprehensive Income		$ 114		$ 17		$ 131

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)

	Nine Months Ended September 30, 2018					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income		$ 162		$ 39		$ 201
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$(241)		$ (3)		$(244)	
Translation of foreign currency statements	(102)	(102)	(2)	(2)	(104)	(104)
Balance September 30	(343)		(5)		(348)	
Additional Liability for Pension and Postretirement Benefits					z	
Balance January 1	(300)		—		(300)	
Additional liability for pension and postretirement benefits, net of tax	11	11	—	—	11	11
Balance September 30	(289)		—		(289)	
Balance September 30	$(632)		$ (5)		$(637)	
Other Comprehensive Loss		(91)		(2)		(93)
Comprehensive Income		$ 71		$ 37		$ 108

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)

	Nine Months Ended September 30, 2017					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
	(Millions)					
Net Income		$ 139		$ 48		$ 187
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ (338)		$ (5)		$ (343)	
Translation of foreign currency statements	81	81	4	4	85	85
Balance September 30	(257)		(1)		(258)	
Additional Liability for Pension and Postretirement Benefits						
Balance January 1	(327)		—		(327)	
Additional liability for pension and postretirement benefits, net of tax	14	14	—	—	14	14
Balance September 30	(313)		—		(313)	
Balance September 30	$ (570)		$ (1)		$ (571)	
Other Comprehensive Income		95		4		99
Comprehensive Income		$ 234		$ 52		$ 286

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

TENNECO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$202	$ 315
Restricted cash	1	3
Receivables —		
Customer notes and accounts, net	1,389	1,294
Other	19	27
Inventories —		
Finished goods	372	349
Work in process	307	268
Raw materials	197	178
Materials and supplies	80	74
Prepayments and other	369	291
Total current assets	2,936	2,799
Other assets:		
Long-term receivables, net	12	9
Goodwill	47	49
Intangibles, net	20	22
Deferred income taxes	227	204
Other	154	144
	460	428
Plant, property, and equipment, at cost	4,068	4,008
Less — Accumulated depreciation and amortization	(2,436)	(2,393)
	1,632	1,615
Total assets	$5,028	$ 4,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$240	$ 83
Accounts payable	1,769	1,705
Accrued taxes	38	45
Accrued interest	10	14
Accrued liabilities	299	287
Other	136	132
Total current liabilities	2,492	2,266
Long-term debt	1,304	1,358
Deferred income taxes	11	11
Pension and postretirement benefits	258	268
Deferred credits and other liabilities	160	155
Commitments and contingencies (Note 8)	—	—
Total liabilities	4,225	4,058
Redeemable noncontrolling interests	28	42
Tenneco Inc. shareholders' equity:		

Common stock	1	1
Premium on common stock and other capital surplus	3,121	3,112
Accumulated other comprehensive loss	(632)	(541)
Accumulated deficit	(823)	(946)
	1,667	1,626
Less — Shares held as treasury stock, at cost	930	930
Total Tenneco Inc. shareholders' equity	737	696
Noncontrolling interests	38	46
Total equity	775	742
Total liabilities, redeemable noncontrolling interests and equity	$5,028	$ 4,842

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Millions)			
Operating Activities				
Net income	$63	$99	$201	$187
Adjustments to reconcile net income to cash (used) provided by operating activities —				
Depreciation and amortization of other intangibles	65	58	183	165
Deferred income taxes	(13)	(1)	(22)	(1)
Stock-based compensation	5	1	12	12
Loss on sale of assets	3	1	8	2
Changes in components of working capital —				
(Increase) decrease in receivables	(29)	13	(268)	(212)
Increase in inventories	(65)	(56)	(118)	(116)
Increase in prepayments and other current assets	(21)	(8)	(91)	(76)
(Decrease) increase in accounts payable	(26)	(29)	141	57
(Decrease) increase in accrued taxes	(3)	16	(6)	(22)
Decrease in accrued interest	(3)	(3)	(3)	(5)
(Decrease) increase in other current liabilities	(19)	(51)	11	101
Changes in long-term assets	(4)	(10)	(18)	(10)
Changes in long-term liabilities	1	(6)	2	1
Other	5	1	5	3
Net cash (used) provided by operating activities	(41)	25	37	86
Investing Activities				
Proceeds from sale of assets	1	—	6	6
Proceeds from sale of equity interest	—	—	—	9
Cash payments for plant, property, and equipment	(78)	(90)	(242)	(283)
Cash payments for software related intangible assets	(3)	(5)	(13)	(17)
Proceeds from deferred purchase price of factored receivables	36	28	102	77
Other	(4)	(1)	(2)	(5)
Net cash used by investing activities	(48)	(68)	(149)	(213)
Financing Activities				
(Repurchase) issuance of common shares	(1)	1	(2)	(2)
Cash dividends	(14)	(14)	(39)	(40)
Payments of long-term debt	(5)	(1)	(17)	(9)
Issuance of long-term debt	—	—	—	136
Debt issuance cost of long-term debt	—	—	(2)	(8)
Purchase of common stock under the share repurchase program	—	(71)	—	(131)
Net increase (decrease) in bank overdrafts	2	(3)	(5)	(12)
	(77)	84	(29)	144

Net (decrease) increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable				
Net increase in short-term borrowings secured by accounts receivable	170	—	150	20
Distributions to noncontrolling interest partners	(16)	(12)	(44)	(45)
Net cash provided (used) by financing activities	59	(16)	12	53
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(4)	3	(15)	4
Decrease in cash, cash equivalents and restricted cash	(34)	(56)	(115)	(70)
Cash, cash equivalents and restricted cash, beginning of period	237	335	318	349
Cash, cash equivalents and restricted cash, end of period (Note)	$203	$279	$203	$279
Supplemental Cash Flow Information				
Cash paid during the period for interest (net of interest capitalized)	$25	$23	$65	$61
Cash paid during the period for income taxes (net of refunds)	23	31	79	74
Non-cash Investing and Financing Activities				
Period end balance of accounts payable for plant, property, and equipment	$52	$53	$52	$53
Deferred purchase price of receivables factored in the period	34	27	105	80

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

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

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

	Nine Months Ended September 30,			
	2018		2017	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	66,033,509	$ 1	65,891,930	$ 1
(Repurchased) issued pursuant to benefit plans	(18,553)	—	35,843	—
Restricted shares forfeited	(8,062)	—	(126,682)	—
Stock options exercised	16,199	—	208,818	—
Balance September 30	66,023,093	1	66,009,909	1
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,112		3,098
Premium on common stock issued pursuant to benefit plans		9		11
Balance September 30		3,121		3,109
Accumulated Other Comprehensive Loss				
Balance January 1		(541)		(665)
Other comprehensive (loss) income		(91)		95
Balance September 30		(632)		(570)
Accumulated Deficit				
Balance January 1		(946)		(1,100)
Net income attributable to Tenneco Inc.		162		139
Cash dividends declared		(39)		(40)
Adjustments to adopt new accounting standards				
Revenue recognition (notes 11 and 14)		1		—
Tax accounting for intra-entity asset transfers (note 11)		(2)		—
Balance September 30		(823)		(1,001)
Less — Common Stock Held as Treasury Stock at Cost				
Balance January 1	14,592,888	930	11,655,938	761
Purchase of common stock through stock repurchase program	—	—	2,310,443	131
Balance September 30	14,592,888	930	13,966,381	892
Total Tenneco Inc. shareholders' equity		$ 737		$ 647
Noncontrolling Interests:				
Balance January 1		$ 46		$ 47
Net income		17		21
Other comprehensive income		1		2
Dividends declared		(26)		(31)
Balance September 30		$ 38		$ 39
Total Equity		$ 775		$ 686

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

Tenneco Inc. ("Tenneco" or "the Company") is one of the world's leading manufacturers of clean air and ride performance products and systems for light vehicle, commercial truck and off-highway applications. We also engineer, manufacture, market and distribute leading brand name products to a diversified and global aftermarket customer base. Unless the context indicates otherwise, references herein to and words such as "we," "us," or "our" include the Company and its consolidated subsidiaries.

As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission (SEC) on February 28, 2018 (the "2017 Form 10-K"). A Form 8-K was also filed with the SEC on September 28, 2018 to recast certain portions of the 2017 Form 10-K to retrospectively reflect the effect of the Company's change in reporting segments that took effect in the first quarter of 2018, and to recast certain financial information and related disclosures for accounting standards adopted in 2018, for which retrospective application was required.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the Company'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 SEC 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 unaudited condensed consolidated financial statements include all majority-owned subsidiaries. We have eliminated all intercompany transactions.

Segment Information

In the first quarter of 2018, the Company's reportable segments were revised, and now consist of the following three segments: Clean Air, Ride Performance and Aftermarket. See Note 13, Segment Information for further information.

Prepayments and Other

Prepayments and other included $156 million and $117 million at September 30, 2018 and December 31, 2017, respectively, for in-process tools and dies that we are building for our original equipment customers.

Accounts Payable

Accounts payable included $110 million and $77 million at September 30, 2018 and December 31, 2017, respectively, for accrued compensation and $15 million and $20 million at September 30, 2018 and December 31, 2017, respectively, for bank overdrafts at our European subsidiaries.

Redeemable Noncontrolling Interests

The following is a rollforward of activities in our redeemable noncontrolling interests for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
	2018	2017
	(Millions)	
Balance January 1	$42	$40
Net income attributable to redeemable noncontrolling interests	22	27
Other comprehensive (loss) income	(3)	2
Dividends declared	(33)	(37)
Balance September 30	$28	$32

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Reclassifications
Reclassifications to certain prior year amounts have been made to conform to current year presentation. See Note 12, New Accounting Pronouncements for additional information.

(2) Acquisition of Federal-Mogul
On October 1, 2018, we closed on the acquisition of all of the interests in Federal-Mogul LLC ("Federal-Mogul"), (the "Acquisition") pursuant to the Membership Interest Purchase Agreement, dated as of April 10, 2018 (the “Purchase Agreement”), by and among the Company, Federal-Mogul, American Entertainment Properties Corp. (“AEP” and, together with certain affiliated entities, the “Sellers”) and Icahn Enterprises L.P. (“IEP”). Total consideration was approximately $5.2 billion. Following the completion of the Acquisition, Federal-Mogul was merged with and into the Company, with the Company continuing as the surviving company.
At the effective time of the Acquisition, the Company’s certificate of incorporation was amended and restated (the “Amended and Restated Certificate of Incorporation”) in order to create a new class of non-voting common stock of the Company called “Class B Non-Voting Common Stock” (“Class B Common Stock”) with 25,000,000 shares authorized, and to reclassify the Company’s existing common stock as “Class A Voting Common Stock” (“Class A Common Stock”). Under the Amended and Restated Certificate of Incorporation, the authorized number of shares was increased from 185,000,000 shares, divided into 135,000,000 shares of common stock, par value $0.01, and 50,000,000 shares of preferred stock, par value $0.01, to 250,000,000 shares, divided into 175,000,000 shares of Class A Common Stock, 25,000,000 shares of Class B Common Stock and 50,000,000 shares of preferred stock, par value $0.01.
The Company (i) paid to AEP an aggregate amount in cash equal to $800 million (the “Cash Consideration”) and (ii) issued and delivered to AEP an aggregate of 29,444,846 shares of common stock at $41.99 per share. The $1.2 billion of common stock was comprised of: (a) 5,651,177 shares of Class A Common Stock, par value $0.01 equal to 9.9 percent of the aggregate number of shares of Class A Common Stock issued and outstanding immediately following the closing of the Acquisition, and (b) 23,793,669 shares of newly created Class B Common Stock, par value $0.01. The remaining of approximately $3.2 billion of consideration was comprised of the assumption of Federal-Mogul debt obligations.
Following the closing of the Acquisition, the Company has agreed to use its reasonable best efforts to pursue the separation of the combined company’s powertrain technology business and its aftermarket and ride performance business into two separate, publicly traded companies in a spin-off transaction that is expected to be treated as a tax-free reorganization for U.S. federal income tax purposes.
Advisory costs associated with the Acquisition were $12 million and $43 million for the three and nine months ended September 30, 2018, respectively, and have been recognized as a component of selling, general, and administrative expenses in the condensed consolidated statements of income.

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(3) Financial Instruments
The net carrying and estimated fair values of our financial instruments by class at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018		December 31, 2017	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$1,308	$1,252	$1,361	$1,398
Equity swap agreement and foreign currency forward contracts:				
Asset derivative contracts (a)	5	5	4	4

(a) All derivatives are categorized within Level 2 of the fair value hierarchy.
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 as of September 30, 2018 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 $657 million and $749 million at September 30, 2018 and December 31, 2017, respectively. We have classified $582 million and $634 million as level 2 in the fair value hierarchy at September 30, 2018 and December 31, 2017, respectively, since we utilize valuation inputs that are observable either directly or indirectly. We classified the remaining $13 million and $15 million, consisting of foreign subsidiary debt, as level 3 in the fair value hierarchy at September 30, 2018 and December 31, 2017, respectively.
The fair value hierarchy definition prioritizes the inputs used in measuring fair value into the following levels:
Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs based on our own assumptions.
Foreign Currency 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 currency forward contracts as part of currency gains (losses) within cost of sales in the consolidated statements of income. The fair value of foreign currency forward contracts are recorded in prepayments and other current assets or other current liabilities in the consolidated balance sheets. The fair value of our foreign currency forward contracts

was a net liability position of less than $1 million at both September 30, 2018 and December 31, 2017.

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The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of September 30, 2018 (all of which mature in 2018):

		Notional Amount in Foreign Currency (Millions)
Canadian dollars	—Sell	(2)
Chinese yuan	—Purchase	4
U.S. dollars	—Purchase	1

Cash-settled Share Swap Transactions — We selectively use cash-settled share swaps to reduce market risk associated with our deferred liabilities. These equity compensation liabilities increase as our stock price increases and decrease as our stock price decreases. In contrast, the value of the swap agreement moves in the opposite direction of these liabilities, allowing us to fix a portion of the liabilities at a stated amount. As of September 30, 2018, we had hedged our deferred liability related to approximately 250,000 common share equivalents. The fair value of the equity swap agreement is recorded in other current assets in the condensed consolidated balance sheets. The fair value of our equity swap agreement was a net asset position of $5 million and $4 million at September 30, 2018 and December 31, 2017, respectively.

Guarantees —We have from time to time issued guarantees for the performance of obligations of some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. At September 30, 2018, all of our existing and future material domestic subsidiaries fully and unconditionally guaranteed our senior credit facility and our senior notes on a joint and several basis. The arrangement for the senior credit facility was 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. At September 30, 2018, no assets or capital stock secured our senior notes. For additional information, refer to Note 14, Supplemental Guarantor Condensed Consolidating Financial Statements.

We have two performance guarantee agreements in the U.K. between Tenneco Management (Europe) Limited ("TMEL") and the two Walker Group Retirement Plans, the Walker Group Employee Benefit Plan and the Walker Group Executive Retirement Benefit Plan (the "Walker Plans"), whereby TMEL will guarantee the payment of all current and future pension contributions in the event of a payment default by the sponsoring or participating employers of the Walker Plans. The Walker Plans are comprised of employees from Tenneco Walker (U.K.) Limited and Futaba (U.K.) Limited, formerly our Futaba-Tenneco (U.K.) joint venture. Employer contributions are funded by Tenneco Walker (U.K.) Limited, as the sponsoring employer, and were also funded by Futaba (U.K.) Limited prior to its ceasing, on April 28, 2017, to be an entity in which the Company has an equity interest. 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. 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% of the pension obligation calculated based on U.S. GAAP, for all of the Walker Plans' participating employers on its balance sheet. As of September 30, 2018 and December 31, 2017, these plans were in an overfunded position and shown under other assets, other on our condensed consolidated balance sheets. At September 30, 2018, all pension contributions under the Walker Plans were current for all of the Walker Plans' sponsoring and participating employers.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of September 30, 2018, we have guaranteed $27 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 — In certain instances, several of our Chinese subsidiaries receive payment 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 $12 million and $11 million at

September 30, 2018 and December 31, 2017, respectively, and were classified as notes payable recorded in short-term debt in our condensed consolidated balance sheets. Financial instruments received from original equipment (OE) customers and not redeemed totaled $27 million and $10 million at September 30, 2018 and December 31, 2017, respectively, and were classified as other current assets in our condensed consolidated balance sheets. We classify financial instruments received from our customers as other current assets, recorded in prepayments and other, if issued by a financial institution of our customers or as customer notes and accounts, net if issued by our customer.

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

Supply Chain Financing — Certain of our suppliers in the U.S. participate in supply chain financing programs under which they securitize their accounts receivables from the Company. Financial institutions participate in the supply chain financing program on an uncommitted basis and can cease purchasing receivables or drafts from the Company's suppliers at any time. If the financial institutions do not continue to purchase receivables or drafts from the Company's suppliers under these programs, the participating vendors may have a need to renegotiate their payment terms with the Company which in turn would cause our borrowings under our revolving credit facility to increase.

Restricted Cash — Some of our Chinese subsidiaries that issue their own financial instruments to pay vendors are required to maintain a cash balance if they exceed credit limits with the financial institution that guarantees the financial instruments. There was no restricted cash balance required at those Chinese subsidiaries at September 30, 2018 and $2 million at December 31, 2017.

One of our subsidiaries in Spain is required by law to maintain a cash deposit with a financial institution to guarantee the maximum estimated loss related to a tax audit until a settlement is reached. The cash deposit required was less than $1 million which has been classified as restricted cash on the Company's condensed consolidated balance sheets at both September 30, 2018 and December 31, 2017. As of December 31, 2017, there was a similar cash deposit required for one of our subsidiaries in Brazil for approximately $1 million. The audit was closed in 2018 and the Brazil subsidiary has no restricted cash balance as of September 30, 2018.

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(4) Debt and Other Financing Arrangements

Long-Term Debt

A summary of our long-term debt obligations at September 30, 2018 and December 31, 2017 is set forth in the following table:

	September 30, 2018		December 31, 2017	
	Principal	Carrying Amount (1)	Principal	Carrying Amount (1)
	(Millions)			
Tenneco Inc. —				
Revolver borrowings due 2022	$207	$ 207	$244	$ 244
Senior Tranche A Term Loan due 2022	375	373	390	388
5 3/8% Senior Notes due 2024	225	222	225	222
5% Senior Notes due 2026	500	493	500	492
Other subsidiaries —				
Other long-term debt due in 2020	6	6	5	5
Notes due 2018 through 2028	8	7	12	10
	1,321	1,308	1,376	1,361
Less — maturities classified as current	4	4	3	3
Total long-term debt	$1,317	$ 1,304	$1,373	$ 1,358

(1) Carrying amount is net of unamortized debt issuance costs and debt discounts. Total unamortized debt issuance costs were $11 million and $13 million as of September 30, 2018 and December 31, 2017, respectively, and the total unamortized debt discount was $2 million as of both September 30, 2018 and December 31, 2017.

Short-Term Debt

Our short-term debt includes the current portion of long-term debt, borrowings by the parent company and foreign subsidiaries, which includes borrowings under both committed credit facilities and uncommitted lines of credit and similar arrangements, and borrowings under the U.S. accounts receivable securitization program as discussed in Note 6, Accounts Receivable Securitization and Factoring Programs. Information regarding our short-term debt as of September 30, 2018 and December 31, 2017 is as follows:

	September 30, 2018	December 31, 2017
	(Millions)	
Maturities classified as current	$ 4	$ 3
Short-term borrowings	236	80
Total short-term debt	$ 240	$ 83

Financing Arrangements

As of September 30, 2018, our financing arrangements were primarily provided by a committed senior secured credit facility with a syndicate of banks and other financial institutions. The arrangement was 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.

We were required to make quarterly principal payments under the term loan A facility of $5 million through June 30, 2019, $7.5 million beginning September 30, 2019 through June 30, 2020, $10 million beginning September 30, 2020 through March 31, 2022 and a final payment of $260 million is due on May 12, 2022. We excluded the required payments, within the twelve months after September 30, 2018, under the term loan A facility totaling $22.5 million from current liabilities as of September 30, 2018, because we had the intent and the ability to refinance the obligations on a long-term basis by using our revolving credit facility.

New Credit Facility

On October 1, 2018, the Company entered into a new credit agreement with JPMorgan Chase Bank, N.A., as administrative agent and other lenders (the "New Credit Facility") in connection with the acquisition of Federal-Mogul. The New Credit Facility consists of $4.9 billion of total debt financing, consisting of a five-year $1.5 billion revolving credit facility, a five-year $1.7 billion term loan A facility and a seven-year $1.7 billion term loan B facility. Proceeds from the New Credit Facility were used to finance the Cash Consideration portion of the Acquisition purchase price, to refinance the Company's then existing senior credit facilities, inclusive of the revolver and the term loan A then outstanding, and certain senior credit facilities of Federal-Mogul, and to pay fees and expenses relating to the Acquisition and the financing thereof, and the remainder, including future borrowings under the revolving credit facility, will be used for general corporate purposes.

Each of the Company and Tenneco Automotive Operating Company Inc. are borrowers under the New Credit Facility, and the Company is the sole borrower under the term loan A and term loan B facilities. The New Credit Facility is guaranteed on a senior basis by certain material domestic subsidiaries of the Company. Drawings under the revolving credit facility may be in U.S. Dollars, Pounds Sterling or Euros.

The New Credit Facility is secured by substantially all domestic assets of the Company and the subsidiary guarantors and by pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. The security for the New Credit Facility will be pari passu with the security for outstanding senior secured notes of Federal-Mogul that were assumed by the Company in connection with the Acquisition. If any foreign subsidiary of the Company is added to the revolving credit facility as a borrower, the obligations of such foreign borrower will be secured by the assets of such foreign borrower, and also will be secured by the assets of, and guaranteed by, the domestic borrowers and domestic guarantors as well as certain foreign subsidiaries of the Company in the chain of ownership of such foreign borrower.

The term loan A and revolving credit facilities will mature on the fifth anniversary of closing, and the term loan B facility will mature on the seventh anniversary of closing. The term loan A facility is payable in 19 consecutive quarterly installments, commencing March 31, 2019, with 5% being paid annually in each of the first two years, 7.5% in the third year, 10% annually in each of the fourth and fifth years and the remainder on the maturity date. The term loan B facility is payable in 27 consecutive quarterly installments, commencing March 31, 2019, with 0.25% being paid in 27 quarterly installments and the remainder on the maturity date.

The interest rate on borrowings under the revolving credit facility and the term loan A facility will initially be LIBOR plus 1.75%, which interest rate will be subject to change if the Company's consolidated net leverage ratio changes. Initially, and so long as the Company's corporate family rating is Ba3 (with a stable outlook) or higher from Moody's Investors Service, Inc. ("Moody's") and BB- (with a stable outlook) or higher from Standard & Poor's Financial Services LLC ("S&P"), the interest rate on borrowings under the term loan B facility will be LIBOR plus 2.75%; at any time the foregoing conditions are not satisfied, the interest rate on the term loan B facility will be LIBOR plus 3.00%. When the term loan B facility is no longer outstanding and the Company and its subsidiaries have no other secured indebtedness (with certain exceptions set forth in the New Credit Facility), and upon the Company achieving and maintaining two or more corporate credit and/or corporate family ratings higher than or equal to BBB- from S&P, BBB- from Fitch Ratings Inc. ("Fitch") and/or Baa3 from Moody's (in each case, with a stable or positive outlook), the collateral under the New Credit Facility may be released.

The New Credit Facility contains representations and warranties and affirmative and negative covenants which are customary for debt facilities of this type. The negative covenants limit the ability of the Company and its restricted subsidiaries to, among other things, (i) incur additional indebtedness or issue preferred stock, (ii) pay dividends or make distributions to the Company's stockholders, (iii) purchase or redeem the Company's equity interests, (iv) make investments, (v) create liens on their assets, (vi) enter into transactions with the Company's affiliates, (vii) sell assets and (viii) merge or consolidate with, or dispose of substantially all of the Company's assets to, other companies. The New Credit Facility also contains two financial maintenance covenants for the revolving credit facility and the term loan A facility including (x) a requirement to have a consolidated net leverage ratio (as defined in the New Credit

Facility) as of the end of each fiscal quarter of not greater than 4.0 to 1 through September 30, 2019, 3.75 to 1 through September 30, 2020 and 3.5 to 1 thereafter; and (y) a requirement to maintain consolidated interest coverage ratio (as defined in the New Credit Facility) for any period of four consecutive fiscal quarters of not less than 2.75 to 1.

The New Credit Facility includes customary events of default and other provisions that could require all amounts due thereunder to become immediately due and payable, either automatically or at the option of the lenders, if the Company fails to comply with the terms of the New Credit Facility or if other customary events occur. The New Credit Facility does not contain any terms that could accelerate the payment of it as a result of a credit rating change.

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The financial ratios required under the senior credit facility outstanding as of September 30, 2018, and the actual ratios we achieved for the first three quarters of 2018, are as follows:

	Quarter Ended					
	September 30, 2018		June 30, 2018		March 31, 2018	
	Required	Actual	Required	Actual	Required	Actual
Leverage Ratio (maximum)	3.50	2.05	3.50	1.79	3.50	2.09
Interest Coverage Ratio (minimum)	2.75	10.05	2.75	10.84	2.75	9.87

At September 30, 2018, the senior credit facility included a maximum leverage ratio covenant of 3.50 and a minimum interest coverage ratio of 2.75, in each case through May 12, 2022. The senior credit facility provided us with the flexibility not to exclude certain otherwise excludable charges incurred in any relevant period from the calculation of the leverage and interest coverage ratios for such period.

At September 30, 2018, of the $1.6 billion available under the revolving credit facility, we had unused borrowing capacity of $1,393 million with $207 million in outstanding borrowings and no outstanding letters of credit.

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(5) Income Taxes

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

We reported income tax expense of $20 million and $16 million in the three month periods ended September 30, 2018 and 2017, respectively. The tax expense recorded in the third quarter of 2018 included a tax benefit of $5 million relating to acquisition and restructuring charges, a tax benefit of $10 million relating to a valuation allowance release at our Australian entities and $9 million of tax expense for changes in the toll tax as discussed below. The tax benefit recorded in the third quarter of 2017 included a tax benefit of $12 million primarily relating to valuation allowance releases.

We reported income tax expense of $72 million and $41 million in the nine month periods ended September 30, 2018 and 2017, respectively. The tax expense recorded in the first nine months of 2018 included tax benefits of $12 million relating to acquisition and restructuring charges, a tax benefit of $10 million relating to a valuation allowance release at our Australian entities and $11 million of tax expense for changes in the toll tax as discussed below. The tax expense recorded in the first nine months of 2017 included a tax benefit of $12 million primarily relating to valuation allowance releases. In addition, the 2017 tax expense included a $50 million tax benefit related to an antitrust settlement accrual.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into U.S. law, which, among other provisions, lowered the corporate income tax rate effective January 1, 2018 from 35% to 21%, and implemented significant changes with respect to U.S. tax treatment of earnings originating from outside the U.S. Many of the provisions of TCJA are subject to regulatory interpretation and U.S. state conforming enactments. The Internal Revenue Service (IRS) issued Notice 2018-26 on April 2, 2018, which provided additional guidance to assist taxpayers in computing the toll tax. Based on the new guidance, a $2 million discrete charge was recorded in income tax expense for the second quarter of 2018. On August 1 2018, the IRS issued proposed regulations under section 965, which provided additional guidance to assist taxpayers in computing the toll tax. Based on the new guidance, an additional $9 million discrete charge was recorded in income tax expense for the third quarter of 2018. Material U.S. state income tax conformity to current federal tax code is still pending as of September 30, 2018. We will continue to refine our estimates throughout the measurement period provided for in SEC Staff Accounting Bulletin 118, or until our accounting is complete, whichever comes first.

Our losses in various foreign taxing jurisdictions represented sufficient negative evidence to require us to maintain a full valuation allowance against certain of our net deferred tax assets. We evaluate our deferred tax assets quarterly to determine if valuation allowances are required or should be adjusted. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified. If recent operational improvements continue in our foreign subsidiaries or if certain restructuring steps are completed as part of the Acquisition and planned spin-off of the ride performance and aftermarket company, we believe it is reasonably possible that sufficient positive evidence may be available to release all, or a portion, of the valuation allowance in the next twelve months. This may result in a one-time tax benefit of up to $53 million, primarily related to China and Spain.

We believe it is reasonably possible that up to $6 million in unrecognized tax benefits related to the expiration of foreign statute of limitations and the conclusion of income tax examinations may be recognized within the next twelve months.

(6) Accounts Receivable Securitization and Factoring Programs

We securitize or factor some of our accounts receivable on a limited recourse basis in the U.S. and Europe. As a servicer under these accounts receivable securitization and factoring programs, we are responsible for performing all accounts receivable administration functions for these securitized and factored financial assets including collections and processing of customer invoice adjustments. In the U.S., we have an accounts receivable securitization program with three commercial banks comprised of a first priority facility and a second priority facility. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. In April 2017, the U.S. program was amended and extended to April 30, 2019. The first priority facility provides financing of up to $155 million and the second priority facility, which is subordinated to the first priority facility, provides up to an additional $25 million of financing. Both facilities monetize accounts receivable generated in the U.S. that meet certain eligibility requirements and the second priority facility also monetizes certain accounts receivable generated in the U.S. that would otherwise be ineligible under the first priority securitization facility. The amount of outstanding third-party investments in our securitized accounts receivable under the U.S. program was $180 million and $30 million, recorded in short-term debt, at September 30, 2018 and December 31, 2017, respectively.

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.

On December 14, 2017, we entered into a new accounts receivable factoring program in the U.S. with a commercial bank. Under this program, we sell receivables from one of our U.S. OE customers at a rate that is favorable versus our senior credit facility. This arrangement is uncommitted and provides for cancellation by the commercial bank with no less than 30 days prior written notice. The amount of outstanding third-party investments in our accounts receivable sold under this program was $152 million and $107 million at September 30, 2018 and December 31, 2017, respectively.

We also factor 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 cancelled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon notification. The amount of outstanding third-party investments in our accounts receivable sold under programs in Europe was $189 million and $218 million at September 30, 2018 and December 31, 2017, respectively.

Certain programs in Europe have deferred purchase price arrangements with the banks. We received cash to settle the deferred purchase price of factored receivables for $36 million and $28 million in the three month periods ended September 30, 2018 and 2017, respectively, and $102 million and $77 million in the nine month periods ended September 30, 2018 and 2017, respectively. The cash received to settle the deferred purchase price of factored receivables is included as part of our investing activities in the condensed consolidated statements of cash flows.

If we were not able to securitize or factor our accounts receivable under either the U.S. or European programs, our borrowings under our revolving credit agreement might increase. These accounts receivable securitization and factoring 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 one of our U.S. accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our U.S. accounts receivable securitization program as a secured borrowing. In one U.S. program and our European accounts receivable factoring programs, we transfer accounts receivable 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 as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under the U.S. and European factoring programs approximates the fair value of such receivables. We recognized $1 million interest expense in each of the three month periods ended September 30, 2018 and 2017, and $4 million and $3 million in the nine month periods ended September 30, 2018 and 2017, respectively, relating to our U.S. accounts receivable securitization program. In addition, we recognized a loss of $2 million in each of the three month periods ended September 30, 2018 and 2017, and $5 million and $4 million in the nine month periods ended September 30, 2018 and 2017, respectively, on the sale of accounts receivable in our U.S. and European accounts receivable factoring programs, representing the discount from book values at which these receivables were sold to our banks. The remaining loss on receivables recognized in our condensed consolidated statements of income is unrelated to the aforementioned factoring programs. The discount rate varies based on funding costs incurred by our banks, which averaged approximately 2% during both the first nine months of 2018 and 2017 for the European programs and 3% during both the first nine months of 2018 and 2017 for the U.S. program.

(7) Restructuring and Other Charges

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 the third quarter of 2018, we incurred $12 million in restructuring and related costs, primarily related to the accelerated move of our Beijing Ride Performance plant, and other cost improvement initiatives. In the first nine months of 2018, we incurred $55 million in restructuring and related costs, primarily related to the accelerated move of our Beijing Ride Performance plant, headcount reduction at a Clean Air manufacturing plant in Germany and other cost improvement initiatives. We expect all assembly to be relocated to the new China facility by the end of the year and the component manufacturing relocation to be complete during the first quarter of 2019.

In the third quarter of 2017, we incurred $20 million in restructuring and related costs, including asset write-downs of $1 million, primarily related to closing a Clean Air manufacturing plant and downsizing Ride Performance operations in Australia and other cost improvement initiatives. In the first nine months of 2017, we incurred $52 million in restructuring and related costs, including asset write-downs of $3 million, primarily related to closing a Clean Air Belgian JIT plant in response to the end of production on a customer platform, closing a Clean Air manufacturing plant and downsizing Ride Performance operations in Australia and other cost improvement initiatives.

The Company's restructuring and other charges are classified in the condensed consolidated statements of income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Millions)			
Cost of sales	$12	$8	$44	$31
Engineering, research, and development	—	—	1	—

Selling, general, and administrative	—	11	10	18
Depreciation and amortization of other intangibles	—	1	—	3
	$12	$ 20	$ 55	$ 52

Other Structural Cost Reductions

The Company has also been tracking other costs, unrelated to manufacturing operations, which are intended to support the achievement of Acquisition synergies. In the third quarter of 2018, these other costs were $4 million, of which $3 million was recorded in selling, general, and administrative and $1 million in other expense, net. In the first nine months of 2018, these other costs were $13 million, of which $8 million was recorded in selling, general, and administrative expenses, $4 million was recorded in engineering, research, and development and $1 million was recorded in other expense, net.

Amounts related to activities that were charged to our restructuring reserves, including costs incurred to support future structural cost reductions, are as follows:

	December 31, 2017 Restructuring Reserve	2018 Expenses	2018 Cash Payments	Impact of Exchange Rates	September 30, 2018 Restructuring Reserve
	(Millions)				
Employee severance, termination benefits and other related costs	$25	$ 55	$ (47)	$ (1)	$ 32

Under the terms of our amended and restated senior credit agreement that took effect on May 12, 2017, we were allowed to exclude, at our discretion, (i) up to $35 million in 2017 and $25 million each year thereafter of cash restructuring charges and related expenses, with the ability to carry forward any amount not used in one year to the following year, and (ii) up to $150 million in the aggregate of all costs, expenses, fees, fines, penalties, judgments, legal settlements and other amounts associated with any restructuring, litigation, claim, proceeding or investigation related to or undertaken by us or any of our subsidiaries, together with any related provision for taxes, incurred for any quarterly period ending after May 12, 2017 in the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2018, we elected not to exclude any of the $106 million of allowable cash charges and related expenses recognized in the fourth quarter of 2017 and in the first nine months of 2018 for restructuring related costs and antitrust settlements against the $35 million annual limit for 2017, the $25 million limit for 2018 and the $150 million aggregate limit that was available under the terms of the senior credit facility.

(8) Environmental Matters, Legal Proceedings and Product Warranties

We are involved in environmental remediation matters, legal proceedings, claims (including warranty claims) and investigations. These matters are typically incidental to the conduct of our business and create the potential for contingent losses. We accrue for 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 U.S. 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. As of September 30, 2018, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. Our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately $17 million at September 30, 2018, of which $3 million is recorded in other current liabilities and $14 million is recorded in deferred credits and other liabilities in our consolidated balance sheet. For those locations where the liability was discounted, the weighted-average discount rate used was 2.6 percent. The undiscounted value of the estimated remediation costs was $21 million. Our expected payments of environmental remediation costs are estimated to be approximately $2 million in 2018, $3 million in 2019, $1 million each year beginning 2020 through 2022 and $13 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 and Litigation

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

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

On April 27, 2017, the Company received notification from the European Commission (EC) that it has administratively closed its global antitrust inquiry regarding the production, assembly, and supply of complete exhaust systems. No charges against the Company or any other competitor were initiated at any time and the EC inquiry is now closed.

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

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

Following the EC's decision to administratively close its antitrust inquiry into exhaust systems in 2017, the Company's receipt of conditional leniency from the DOJ in 2014 and discussions during the third quarter of 2017 following the appointment of a special settlement master in the civil putative class action cases pending against the Company and/or certain of its competitors in the U.S., the Company continues to vigorously defend itself and/or take actions to minimize its potential exposure to matters pertaining to the global antitrust investigation, including engaging in settlement discussions when it is in the best interests of the Company and its stockholders. For example, in October 2017, the Company settled an administrative action brought by Brazil's competition authority for an amount that was not material. Additionally, in February 2018, the Company settled civil putative class action litigation in the United States brought by classes of direct purchasers, end-payors and auto dealers. No other classes of plaintiffs have brought claims against the Company in the United States. Based upon earlier developments, including settlement discussions, the Company established a reserve of $132 million in its second quarter 2017 financial results for settlement costs that were probable, reasonably estimable, and expected to be necessary to resolve the Company's antitrust matters globally, which primarily involves the resolution of civil suits and related claims. Of the $132 million reserve that was established, $64 million has been paid through September 30, 2018 resulting in a remaining reserve of $68 million as of September 30, 2018, which is recorded in other current liabilities. While the Company continues to cooperate with certain competition agencies investigating possible violations of antitrust laws relating to products supplied by the Company, and the Company may be subject to other civil lawsuits and/or related claims, no amount of this reserve is attributable to matters with the DOJ or the EC, and no such amount is expected based on current information.

Our reserve for antitrust matters is based upon all currently available information and an assessment of the probability of events for those matters where the Company can make a reasonable estimate of the costs to resolve such outstanding matters. The Company's estimate involves significant judgment, given the number, variety and potential outcomes of actual and potential claims, the uncertainty of future rulings and approvals by a court or other authority, the behavior or incentives of adverse parties or regulatory authorities, and other factors outside of the control of the Company. As a result, the Company's reserve may change from time to time, and actual costs may vary. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, we do not expect that any such change in the reserve will have a material adverse impact on our annual consolidated financial position, results of operations or liquidity.

Other Legal Proceedings, Claims and Investigations

For many years we have been and continue to be subject to lawsuits initiated by claimants alleging health problems as a result of exposure to asbestos. Our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted against one of our subsidiaries by railroad workers alleging exposure to asbestos products in railroad cars. The substantial majority of the remaining claims are related to alleged exposure to asbestos in our automotive products although a significant number of those claims appear also to involve occupational exposures sustained in industries other than automotive. We believe, based on scientific and other evidence, it is unlikely that claimants were exposed to asbestos by our former products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number in some cases exceeding 100 defendants from a variety of industries. Additionally, in many cases 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.

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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, unclaimed property, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Additionally, some of these matters involve allegations relating to legal compliance.

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.

Warranty Matters

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

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

	Nine Months Ended September 30,	
	2018	2017
	(Millions)	
Beginning Balance January 1,	$26	$20
Accruals related to product warranties	13	13
Reductions for payments made	(11)	(8)
Ending Balance September 30,	$28	$25

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(9) Earnings Per Share

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(Millions Except Share and Per Share Amounts)			
Basic earnings per share —				
Net income attributable to Tenneco Inc.	$54	$ 83	$162	$ 139
Weighted average shares of common stock outstanding	51,272,621	51,808,078	51,247,664	51,265,149
Earnings per share of common stock	$1.05	$ 1.57	$3.17	$ 2.61
Diluted earnings per share —				
Net income attributable to Tenneco Inc.	$54	$ 83	$162	$ 139
Weighted average shares of common stock outstanding	51,272,621	51,808,078	51,247,664	51,265,149
Effect of dilutive securities:				
Restricted stock, PSUs and RSUs	93,956	89,666	95,022	106,320
Stock options	35,255	89,912	53,241	130,395
Weighted average shares of common stock outstanding including dilutive securities	51,401,832	51,987,656	51,395,927	51,501,864
Earnings per share of common stock	$1.05	$ 1.57	$3.16	$ 2.60

As of September 30, 2018 and 2017, the outstanding options to purchase shares of common stock that were not included in the computation of diluted earnings per share because they were anti-dilutive were 124,865 and 127,359 shares for the three months ended September 30, 2018 and 2017, respectively, and 124,606 and 834 shares for the nine months ended September 30, 2018 and 2017, respectively.

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(10) Common Stock

Common Stock — As discussed in Note 2, Acquisition of Federal-Mogul, pursuant to the Amended and Restated Certificate of Incorporation, a new class of Class B Common Stock was created and the Company's existing common stock was reclassified as Class A Common Stock. See Note 2, Acquisition of Federal-Mogul for additional information.

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

Accounting Methods — Prior to 2018, for employees eligible to retire at grant date, we immediately expensed stock options and restricted stock. In 2018, we prospectively changed our vesting policy regarding retirement eligibility and now require a retirement eligible employee (or an employee who becomes retirement eligible) to provide at least one year of service from the grant date in order for the award to vest. If an employee becomes retirement eligible after the first year of vesting but before completion of the three-year term, we amortize the expense for the share-based awards over a period starting at the grant date to the date an employee becomes retirement eligible.

Stock Options — There have been no stock options granted since 2014. There is no compensation expense in each of the three month periods ended September 30, 2018 and 2017, and the nine month periods ended September 30, 2018. There is less than $1 million of compensation expense (net of tax) for the nine month period ended September 30, 2017 related to nonqualified stock options, which was recorded in selling, general, and administrative expense. This had no impact on basic or diluted earnings per share for the three month periods ended September 30, 2018 and 2017 and nine month period ended September 30, 2018 and a decrease of less than $0.01 in both basic and diluted earnings per share for the nine month period ended September 30, 2017.

As of September 30, 2018, there was no unrecognized compensation cost related to our stock option awards.

Cash received from stock option exercises for the nine month periods ended September 30, 2018 and 2017 was less than $1 million and $7 million, respectively.

Stock options exercised in the first nine months of 2018 and 2017 generated a tax benefit of less than $1 million and $2 million, respectively.

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

	Nine Months Ended September 30, 2018			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2018	318,016	$ 43.60	2.6	$ 5
Exercised	(4,607)	26.78		—
Outstanding, March 31, 2018	313,409	43.84	2.1	4
Forfeited	(2,368)	54.34		—
Outstanding, June 30, 2018	311,041	43.76	1.8	2
Exercised	(11,420)	29.93		—
Outstanding, September 30, 2018	299,621	$ 44.29	2.4	$ 1

As mentioned above, there have been no stock options granted since 2014. Accordingly, no options vested during the nine month period ended September 30, 2018. The total fair value of shares vested from options that were granted prior to 2015 for the nine month period ended September 30, 2017 was $2 million.

Long-Term Performance Units, PSUs, RSUs and SARs — Long-term performance units, RSUs granted prior to 2018 and SARs are paid in cash (cash-settled awards) and recognized as a liability based upon their fair value. PSUs and RSUs granted in 2018 onward (share-settled RSUs) are settled in shares upon vesting and recognized in equity based on their fair value. As of September 30, 2018, $3 million of total unrecognized compensation costs is expected to be recognized on the cash-settled awards over a weighted-average period of approximately 1.2 years.

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Compensation expense for restricted stock, RSUs, long-term performance units, PSUs and SARs (net of tax) was $3 million and $2 million for the three month periods ended September 30, 2018 and 2017, respectively, and $7 million and $10 million for the nine month periods ended September 30, 2018 and 2017, respectively, and was recorded in selling, general, and administrative expense.
The following table reflects the status for all nonvested restricted shares, share-settled RSUs and PSUs for the period indicated:

	Restricted Shares		Share-Settled RSUs		PSUs	
	Shares	Weighted Avg. Grant Date Fair Value	Shares	Weighted Avg. Grant Date Fair Value	Shares	Weighted Avg. Grant Date Fair Value
Nonvested balance at January 1, 2018	410,251	$ 49.95	—	$ —	—	$ —
Granted	17,440	55.05	253,257	55.02	214,348	50.75
Vested	(168,409)	47.08	—	—	—	—
Forfeited	(5,108)	48.68	(1,362)	55.04	—	—
Nonvested balance at March 31, 2018	254,174	52.23	251,895	55.02	214,348	50.75
Granted	1,573	47.97	16,995	47.17	25,957	35.64
Vested	(60,434)	49.89	(192)	55.04	—	—
Forfeited	(2,482)	57.15	(8,001)	55.04	(4,051)	50.75
Nonvested balance at June 30, 2018	192,831	53.14	260,697	54.51	236,254	49.28
Granted	—	—	14,903	42.22	8,623	32.24
Vested	(6,443)	53.31	—	—	—	—
Forfeited	(1,210)	62.79	(6,408)	55.04	(5,882)	50.75
Nonvested balance at September 30, 2018	185,178	$ 53.07	269,192	$ 57.51	238,995	$ 48.68

The fair value of restricted stock grants is equal to the average of the high and low trading price of our common stock on the date of grant. As of September 30, 2018, approximately $4 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.2 years. The total fair value of restricted shares vested was $11 million and $14 million at September 30, 2018 and 2017, respectively.
The fair value of share-settled RSU grants is equal to the average of the high and low trading price of our common stock on the date of the grant and vest ratably over a three-year period. As of September 30, 2018, approximately $10 million of total unrecognized compensation costs related to share-settled RSUs is expected to be recognized over a weighted-average period of approximately 2.4 years.
PSU grants are subject to service, market and performance conditions. PSU grants are valued based on the fair value of the high and low trading price of our common stock at grant date and at the end of a three-year period, if performance measures are met. As of September 30, 2018, approximately $8 million of total unrecognized compensation costs related to PSUs is expected to be recognized over a weighted-average period of approximately 2.4 years.
Share Repurchase Program — In January 2015, our Board of Directors approved a share repurchase program, authorizing our Company to repurchase up to $350 million of our outstanding common stock over a three year period. In October 2015, our Board of Directors expanded this share repurchase program, authorizing the repurchase of an additional $200 million of the Company's outstanding common stock.
In February 2017, our Board of Directors authorized the repurchase of up to $400 million of the Company's outstanding common stock over the next three years, inclusive of $112 million that remained authorized under earlier repurchase programs. The Company anticipates acquiring the shares through open market or privately negotiated transactions, which will be funded from cash flow from operations. The repurchase program does not obligate the

Company to repurchase shares within any specific time or situations, and opportunities in higher priority areas could affect the cadence of this program. We did not repurchase any shares through this program in the nine months ended September 30, 2018. Since we announced the share repurchase program in January 2015, we have repurchased 11.3 million shares for $607 million through September 30, 2018.

Treasury shares were 14,592,888 shares at September 30, 2018 and December 31, 2017, respectively.

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Dividends — On February 1, 2017, the Company announced the reinstatement of a quarterly dividend program under which we expect to pay quarterly dividends of $0.25 per share on our common stock, representing planned annual dividends of $1.00 per share. We paid a quarterly dividend of $0.25 per share in each of the first three quarters of 2017 and 2018. Dividends declared and paid were $39 million and $40 million in the nine month periods ended September 30, 2018 and 2017, respectively. As a result of the Federal-Mogul transaction, and the resulting higher share count, the quarterly dividend payment will increase to $20 million beginning in the fourth quarter. In view of our current stock price and overall sector valuations, we will evaluate the best methodology to return this value to our shareholders. This may result in a change in the dividend and returning that capital via share buybacks in a comparable amount.

(11) Pension Plans, Postretirement and Other Employee Benefits
Net periodic pension and other postretirement benefit costs consist of the following components:

	Three Months Ended September 30,					
	Pension				Postretirement	
	2018		2017		2018	2017
	U.S.	Foreign	U.S.	Foreign	U.S.	U.S.
	(Millions)					
Service cost — benefits earned during the period	$1	$ 3	$1	$ 3	$ —	$ —
Interest cost (a)	3	3	2	4	2	1
Expected return on plan assets (a)	(4)	(5)	(4)	(4)	—	—
Net amortization:						
Actuarial loss (a)	1	2	1	1	2	2
Prior service cost (a)	—	—	—	1	—	—
Net pension and postretirement costs	$1	$ 3	$—	$ 5	$ 4	$ 3

	Nine Months Ended September 30,					
	Pension				Postretirement	
	2018		2017		2018	2017
	U.S.	Foreign	U.S.	Foreign	U.S.	US
	(Millions)					
Service cost — benefits earned during the period	$1	$ 8	$1	$ 7	$ —	$ —
Interest cost (a)	8	9	7	10	5	4
Expected return on plan assets (a)	(11)	(15)	(11)	(19)	—	—
Settlement loss (a)	—	—	6	—	—	—
Net amortization:						
Actuarial loss (a)	3	6	4	6	6	5
Prior service cost (credit) (a)	—	—	—	1	(1)	(1)
Net pension and postretirement costs	$1	$ 8	$7	$ 5	$ 10	$ 8

(a) Recorded in other expense, net.

For the nine months ended September 30, 2018, we made pension contributions of $1 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 $5 million for the remainder of 2018 for domestic and foreign plans. Pension contributions beyond 2018 will be required, but those amounts will vary based upon many factors including, for example, the performance of our pension fund investments during 2018.

We made postretirement contributions of approximately $6 million during the first nine months of 2018. Based on current actuarial estimates, we believe we will be required to contribute approximately $3 million for the remainder of 2018.

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In February 2016, the Company launched a voluntary program to buy out active employees and retirees who had earned benefits in the U.S. pension plans. This program was completed and all cash payments were made from pension plan assets to those who elected to take the buyout as of June 30, 2017. In connection with this program, the Company contributed $10 million into the pension trust and recognized a non-cash settlement loss of $6 million in the first quarter of 2017.

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 nine months ended September 30, 2018 and 2017 include the following components:

	Three Months Ended September 30,					
	2018			2017		
	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 costs	$—	$ —	$ —	$1	$ —	$ 1
Amortization of actuarial loss included in net periodic pension and postretirement costs	5	(1)	4	4	(2)	2
Other comprehensive income – pension benefits	$5	$ (1)	$ 4	$5	$ (2)	$ 3

	Nine Months Ended September 30,					
	2018			2017		
	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 credit included in net periodic pension and postretirement costs	$(1)	$ —	$ (1)	$—	$ —	$ —
Amortization of actuarial loss included in net periodic pension and postretirement costs	15	(3)	12	15	(5)	10
Settlement charge	—	—	—	6	(2)	4
Other comprehensive income – pension benefits	$14	$ (3)	$ 11	$21	$ (7)	$ 14

(12) New Accounting Pronouncements

Adoption of New Accounting Standards

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new guidance improved the presentation of net periodic pension and postretirement benefit costs. We retrospectively adopted this standard in the first quarter of 2018. We recorded other pension and postretirement costs of $4 million and $10 million in other expense, net for the three and nine month periods ended September 30, 2018, respectively. Prior to adoption, this amount would have been recorded in selling, general, and administrative expenses and cost of sales in the condensed consolidated statements of income. Prior year net pension and postretirement costs of $3 million and $10 million for the three and nine month periods ended September 30, 2017, respectively, have been reclassified from selling, general, and administrative expenses and cost of sales to other expense, net to conform to the current year presentation. Of the $10 million adjustment for the nine month period ended September 30, 2017, $6 million was a non-cash charge related to a voluntary program to buy out active employees and retirees who had earned benefits in the U.S. pension plans.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash (Topic 230) to eliminate diversity in practice in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. We retrospectively adopted this standard in the first quarter of 2018 with no material impact. Prior year amounts have been reclassified to conform to current year presentation.

In October 2016, the FASB issued ASU 2016-16, Income Taxes - Intra Entity Transfers of Assets Other Than Inventory (Topic 740). The standard changed the accounting for income taxes when a company transfers certain tangible and intangible assets, such as equipment or intellectual property, between entities in different tax jurisdictions. The standard did not change the current accounting for the income taxes related to transfers of inventory. We adopted this standard on January 1, 2018 using the modified retrospective method. The cumulative effect of the adoption was recognized as an increase to accumulated deficit of $2 million.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of certain cash receipts and cash payments (Topic 230). This update addressed eight specific cash flow issues with the objective of reducing the diversity in practice. We retrospectively adopted this standard in the first quarter of 2018. We recorded $36 million and $102 million as an investing activity in the condensed consolidated statements of cash flows for the cash we received to settle the deferred purchase price of factored receivables for the three and nine month periods ended September 30, 2018, respectively. Prior to adoption, this amount would have been recorded as an operating activity. Prior period amounts of $28 million and $77 million for the three and nine month periods ended September 30, 2017, respectively, have been reclassified from operating to investing activities to conform to the current year presentation.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), an amendment on revenue recognition. The amendment in this update created Topic 606, Revenue from Contracts with Customers, and superseded 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 superseded the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and created a 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. We adopted Topic 606 on January 1, 2018, using the modified retrospective method. The cumulative effect of the adoption was recognized as a decrease to accumulated deficit of $1 million on January 1, 2018. Please refer to Note 15, Revenue for further discussion of the adoption of this standard.

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Accounting Standards Issued But Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update are effective for interim and annual periods for the Company beginning on January 1, 2020, with early adoption permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the potential impact of this new guidance on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20). The amendments in this update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the concepts statement. The amendments in this update are effective for fiscal years ending after December 15, 2020 with early adoption permitted. We are currently evaluating the potential impact of this new guidance on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this ASU while delaying adoption of the additional disclosures until their effective date.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220). The amendments in this update allow a reclassification from accumulated other comprehensive income to accumulated deficit for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments allow for an election to eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update also require certain disclosures about stranded tax effects. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently evaluating the potential impact of this new guidance on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update supersedes the lease requirements in Topic 840, Leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flow arising from a lease. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. We will adopt this amendment on January 1, 2019. We are currently undertaking a process to quantify the impact that this standard will have on our condensed consolidated financial statements, including reviewing our lease arrangements, as well as working through system implementation steps and assessing our procedural and policy requirements. At a minimum, in the period the ASU is adopted, total assets and total liabilities will increase in the condensed consolidated balance sheet as a result of recognizing right-of-use assets and liabilities for our operating lease obligations.

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

(13) Segment Information
In the first quarter of 2018, the Company revised its reportable segments to consist of the following three segments: Clean Air, Ride Performance and Aftermarket. The new reportable segments, which are also the Company's operating segments, align with how the Chief Operating Decision Maker allocates resources and assesses performance against the Company's key growth strategies. Costs related to other business activities, primarily corporate headquarter functions, are disclosed separately from the three 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. Prior period segment information has been retrospectively revised to reflect our current segmentation. These changes also resulted in changes to the Company's reporting units. The Company allocated goodwill to its new reporting units in the first quarter of 2018, using a relative fair value approach, assessed potential goodwill impairment for all reporting units immediately before and immediately after the reallocation, and determined that no impairment existed.
The following table summarizes certain of the Company's segment information:

	Segments						
	Clean Air	Ride Performance	Aftermarket	Total	Other	Reclass & Elims	Total
	(Millions)						
At September 30, 2018 and for the Three Months Ended September 30, 2018							
Revenues from external customers	$1,602	$ 461	$ 309	$2,372	$ —	$ —	$2,372
Intersegment revenues	14	16	12	42	—	(42)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	104	(5)	45	144	(40)	—	104
Total assets	3,008	1,079	885	4,972	—	56	5,028
At September 30, 2017 and for the Three Months Ended September 30, 2017							
Revenues from external customers	$1,495	$ 457	$ 322	$2,274	$ —	$ —	$2,274
Intersegment revenues	11	18	8	37	—	(37)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	100	7	50	157	(23)	—	134
Total assets	2,912	1,100	864	4,876	—	59	4,935
At September 30, 2018 and for the Nine Months Ended September 30, 2018							
Revenues from external customers	$5,052	$ 1,480	$ 951	$7,483	$ —	$ —	$7,483
Intersegment revenues	42	45	35	122	—	(122)	—
EBIT, Earnings (loss) before interest expense, income taxes, and noncontrolling interests	328	8	130	466	(132)	—	334
Total assets	3,008	1,079	885	4,972	—	56	5,028