

TENNECO INC
Form 10-Q
May 07, 2010

Table of Contents

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2010
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12387

TENNECO INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

76-0515284

(I.R.S. Employer Identification No.)

500 North Field Drive, Lake Forest, Illinois

(Address of principal executive offices)

60045

(Zip Code)

Registrant's telephone number, including area code: (847) 482-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: TENNECO INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, par value \$0.01 per share: 59,732,688 shares outstanding as of April 30, 2010.

TABLE OF CONTENTS

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	4
Tenneco Inc. and Consolidated Subsidiaries	
<u>Reports of Independent Registered Public Accounting Firms</u>	4
<u>Condensed Consolidated Statements of Income (Loss)</u>	6
<u>Condensed Consolidated Balance Sheets</u>	7
<u>Condensed Consolidated Statements of Cash Flows</u>	8
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	9
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	10
<u>Notes to Condensed Consolidated Financial Statements</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	51
<u>Item 4. Controls and Procedures</u>	52
<u>Part II Other Information</u>	
Item 1. Legal Proceedings	*
<u>Item 1A. Risk Factors</u>	53
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3. Defaults Upon Senior Securities	*
Item 4. Removed and Reserved	*
Item 5. Other Information	*
Item 6. Exhibits	55
<u>EX-12</u>	
<u>EX-15.1</u>	
<u>EX-15.2</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

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

Table of Contents

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

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled Outlook appearing in Item 2 of this report. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and similar (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, including without limitation the ongoing financial difficulties facing a number of companies in the automotive industry as a result of the difficult global economic environment, including the potential impact thereof on labor unrest, supply chain disruptions, weakness in demand and the collectability of any accounts receivable due to us from such companies;

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;

the impact of the recent global economic crisis on the credit markets, which continue to be volatile and more restricted than they were previously;

our ability to source and procure needed materials, components and other products and services as the economy recovers from the recent global economic crisis;

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the recent shift in consumer preferences from light trucks, which tend to be higher margin products for our customers and us, to other vehicles, and other factors impacting the cyclical nature of automotive production and sales of automobiles which include our products, and the potential negative impact on our revenues and margins from such products;

changes in automotive manufacturers' production rates and their actual and forecasted requirements for our products, such as the significant production cuts during 2008 and 2009 by automotive manufacturers in response to difficult economic conditions;

the overall highly competitive nature of the automotive parts industry, and our resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing for the applicable program over its life, and is subject to increases or decreases due to changes in customer requirements, customer and consumer preferences, and the number of vehicles actually produced by customers);

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;

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 (such as the 2008 strike at American Axle, which disrupted our supply of products for significant General Motors platforms);

increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, low cost country sourcing, and price recovery efforts with aftermarket and OE customers;

the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the longer product lives of automobile parts;

our continued success in cost reduction and cash management programs and our ability to execute restructuring and other cost reduction plans and to realize anticipated benefits from these plans;

Table of Contents

costs related to product warranties;

the impact of consolidation among automotive parts suppliers and customers on our ability to compete;

operating hazards associated with our business;

changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of changes in distribution channels for aftermarket products on our ability to increase or maintain aftermarket sales;

the negative impact of higher fuel prices and overall market weakness on discretionary purchases of aftermarket products by consumers;

the cost and outcome of existing and any future legal proceedings;

economic, exchange rate and political conditions in the foreign countries where we operate or sell our products;

customer acceptance of new products;

new technologies that reduce the demand for certain of our products or otherwise render them obsolete;

our ability to realize our business strategy of improving operating performance;

our ability to successfully integrate any acquisitions that we complete;

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;

potential legislation, regulatory changes and other governmental actions, including the ability to receive regulatory approvals and the timing of such approvals;

the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, environmental liabilities in excess of the amount reserved, the adoption of the current mandated timelines for worldwide emission regulation and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;

decisions by federal, state and local governments to provide (or discontinue) incentive programs related to automobile purchases;

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;

acts of war and/or terrorism, including, but not limited to, the current military action in Iraq and Afghanistan, the current situation in North Korea, and the continuing war on terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the

impact of these acts on economic, financial and social conditions in the countries where we operate; and
the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009, 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.

Table of Contents

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Shareholders of
Tenneco Inc.:**

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of March 31, 2010, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month period ended March 31, 2010, and of changes in shareholders' equity for the three-month period ended March 31, 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Chicago, Illinois
May 7, 2010

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Shareholders of
Tenneco Inc.**

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (the Company) as of March 31, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss), and changes in shareholders' equity for the three-month period ended March 31, 2009. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated 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 Tenneco Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity, and comprehensive income (loss) and financial statement schedule for the year then ended (not presented herein); and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Deloitte & Touche LLP

Chicago, Illinois
February 26, 2010

Table of Contents

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended	
	March 31,	
	2010	2009
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	\$ 1,316	\$ 967
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,073	827
Engineering, research, and development	27	21
Selling, general, and administrative	100	78
Depreciation and amortization of other intangibles	55	52
	1,255	978
Other income (expense)		
Loss on sale of receivables	(1)	(2)
Other income (loss)	(1)	
	(2)	(2)
Income (loss) before interest expense, income taxes, and noncontrolling interests		
	59	(13)
Interest expense (net of interest capitalized of \$1 million and \$2 million for the three months ended March 31, 2010 and 2009, respectively)	32	31
Income tax expense	15	3
Net income (loss)	12	(47)
Less: Net income attributable to noncontrolling interests	5	2
Net income (loss) attributable to Tenneco Inc.	\$ 7	\$ (49)
Earnings (loss) per share		
Weighted average shares of common stock outstanding		
Basic	58,948,351	46,671,289
Diluted	60,811,047	46,671,289
Basic earnings (loss) per share of common stock	\$ 0.11	\$ (1.05)
Diluted earnings (loss) per share of common stock	\$ 0.11	\$ (1.05)

Edgar Filing: TENNECO INC - Form 10-Q

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

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

	March 31, 2010	December 31, 2009
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 193	\$ 167
Receivables		
Customer notes and accounts, net	750	572
Other	29	24
Inventories		
Finished goods	188	175
Work in process	133	116
Raw materials	103	95
Materials and supplies	41	42
Deferred income taxes	35	35
Prepayments and other	171	167
Total current assets	1,643	1,393
Other assets:		
Long-term receivables, net	9	8
Goodwill	88	89
Intangibles, net	32	30
Deferred income taxes	96	100
Other	103	111
	328	338
Plant, property, and equipment, at cost	3,060	3,099
Less Accumulated depreciation and amortization	(1,997)	(1,989)
	1,063	1,110
	\$ 3,034	\$ 2,841
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 202	\$ 75
Trade payables	874	766
Accrued taxes	41	36
Accrued interest	31	22

Edgar Filing: TENNECO INC - Form 10-Q

Accrued liabilities	256	257
Other	36	45
Total current liabilities	1,440	1,201
Long-term debt	1,137	1,145
Deferred income taxes	60	66
Postretirement benefits	326	331
Deferred credits and other liabilities	85	80
Commitments and contingencies		
Total liabilities	3,048	2,823
Redeemable noncontrolling interests	9	7
Tenneco Inc. Shareholders' equity:		
Common stock	1	1
Premium on common stock and other capital surplus	2,996	3,005
Accumulated other comprehensive loss	(243)	(212)
Retained earnings (accumulated deficit)	(2,568)	(2,575)
	186	219
Less: Shares held as treasury stock, at cost	240	240
Total Tenneco Inc. shareholders' equity	(54)	(21)
Noncontrolling interests	31	32
Total equity	(23)	11
Total liabilities, redeemable noncontrolling interests and equity	\$ 3,034	\$ 2,841

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

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)**

	Three Months Ended March 31, 2010 2009 (Millions)	
Operating Activities		
Net income (loss)	\$ 12	\$ (47)
Adjustments to reconcile net income (loss) to cash used by operating activities		
Depreciation and amortization of other intangibles	55	52
Deferred income taxes	(3)	1
Stock-based compensation	3	2
Loss on sale of assets	2	2
Changes in components of working capital		
(Increase) decrease in receivables	(191)	(54)
(Increase) decrease in inventories	(44)	34
(Increase) decrease in prepayments and other current assets	(7)	(1)
Increase (decrease) in payables	120	(74)
Increase (decrease) in accrued taxes	7	(3)
Increase (decrease) in accrued interest	9	10
Increase (decrease) in other current liabilities	(6)	(3)
Change in long-term assets	(1)	2
Change in long-term liabilities	(11)	(5)
Other	(2)	3
Net cash used by operating activities	(57)	(81)
Investing Activities		
Proceeds from the sale of assets	1	2
Cash payments for plant, property, and equipment	(38)	(36)
Cash payments for software related intangible assets	(2)	(2)
Acquisition of business, net of cash acquired		1
Other	1	
Net cash used by investing activities	(38)	(35)
Financing Activities		
Issuance of long-term debt		2
Debt issuance cost of long-term debt		(8)
Retirement of long-term debt	(8)	(1)
Increase (decrease) in bank overdrafts	(1)	(13)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	2	137

Edgar Filing: TENNECO INC - Form 10-Q

Net increase (decrease) in short-term borrowings secured by accounts receivable	126	
Distributions to noncontrolling interest partners	(1)	
Net cash provided by financing activities	118	117
Effect of foreign exchange rate changes on cash and cash equivalents	3	(14)
Increase (decrease) in cash and cash equivalents	26	(13)
Cash and cash equivalents January 1	167	126
Cash and cash equivalents, March 31 (Note)	\$ 193	\$ 113
Supplemental Cash Flow Information		
Cash paid during the period for interest	\$ 22	\$ 22
Cash paid during the period for income taxes (net of refunds)	8	4
Non-cash Investing and Financing Activities		
Period ended balance of payable for plant, property, and equipment	\$ 16	\$ 17

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 condensed consolidated financial statements are an integral part of these condensed consolidated statements of cash flows.

Table of Contents**TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)**

	Three Months Ended March 31,			
	2010		2009	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	60,789,739	\$ 1	48,314,490	\$
Issued pursuant to benefit plans	149,417		294,487	
Stock options exercised	60,375			
Balance March 31	60,999,531	1	48,608,977	
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,005		2,809
Purchase of additional noncontrolling equity interest		(11)		
Premium on common stock issued pursuant to benefit plans		2		3
Balance March 31		2,996		2,812
Accumulated Other Comprehensive Loss				
Balance January 1		(212)		(318)
Other comprehensive income (loss)		(31)		(40)
Balance March 31		(243)		(358)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,575)		(2,502)
Net income (loss) attributable to Tenneco Inc.		7		(49)
Other				
Balance March 31		(2,568)		(2,551)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1 and March 31	1,294,692	240	1,294,692	240
Total Tenneco Inc. shareholders equity		\$ (54)		\$ (337)
Noncontrolling Interests:				
Balance January 1		32		24

Edgar Filing: TENNECO INC - Form 10-Q

Net income	3	1
Sale of twenty percent equity interest to Tenneco Inc.	(4)	
Balance March 31	\$ 31	\$ 25
Total equity	\$ (23)	\$ (312)

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

Table of Contents

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

Three Months Ended March 31, 2010

	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		\$ 7		\$ 5		\$ 12
Accumulated Other Comprehensive Income (Loss) Cumulative Translation Adjustment						
Balance January 1	\$ 37		\$		\$ 37	
Translation of foreign currency statements	(32)		(32)		(32)	(32)
Balance March 31	5				5	
Additional Liability for Pension Benefits						
Balance January 1	(249)				(249)	
Additional Liability for Pension and Postretirement Benefits, net of tax	1		1		1	1
Balance March 31	(248)				(248)	
Balance March 31	\$ (243)		\$		\$ (243)	
Other Comprehensive Income (Loss)			(31)			(31)
Comprehensive Income (Loss)		\$ (24)		\$ 5		\$ (19)

Three Months Ended March 31, 2009

Noncontrolling

	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated
	Other	Other	Other	Other	Other	Other
	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
	Income	Income	Income	Income	Income	Income
	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)	(Loss)
	(Millions)					
Net Income (Loss)		\$ (49)		\$ 1		\$ (48)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	\$ (42)		\$ (42)			
Translation of foreign currency statements	(40)	(40)			(40)	(40)
Balance March 31	(82)				(82)	
Additional Liability for Pension Benefits						
Balance January 1 and March 31	(276)				(276)	
Balance March 31	\$ (358)		\$ (358)		\$ (358)	
Other Comprehensive Income (Loss)		(40)				(40)
Comprehensive Income (Loss)		\$ (89)		\$ 1		\$ (88)

The accompanying notes to financial statements are in an integral part of these statements of comprehensive income (loss).

forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income (loss). The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

forward contracts, presented on a gross basis by derivative contract at March 31, 2010 and December 31, 2009, respectively, was as follows:

	Fair Value of Derivative Instruments					
	March 31, 2010			December 31, 2009		
	Asset	Liability	Total	Asset	Liability	Total
Foreign exchange forward contracts	\$ 2	\$ 1	\$ 1	\$ 3	\$ 1	\$ 2

The fair value of our recurring financial assets and liabilities at March 31, 2010 and December 31, 2009, respectively, are as follows:

	March 31, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(Millions)					
Financial Assets:						
Foreign exchange forward contracts	n/a	\$ 1	n/a	n/a	\$ 2	n/a

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

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

Level 3 Unobservable inputs based on our own assumptions.

The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of March 31, 2010:

		Notional Amount in Foreign Currency (Millions Except Settlement Rates)	Weighted Average Settlement Rates	Fair Value in
				U.S. Dollars
Australian dollars	Purchase	49	0.916	\$ 46
	Sell	(8)	0.916	(8)
British pounds	Purchase	35	1.518	53
	Sell	(32)	1.518	(49)

Edgar Filing: TENNECO INC - Form 10-Q

European euro	Purchase			
	Sell	(23)	1.352	(32)
South African rand	Purchase	313	0.137	43
	Sell	(44)	0.137	(6)
U.S. dollars	Purchase	10	1.001	10
	Sell	(63)	1.000	(63)
Other	Purchase	693	0.011	8
	Sell	(1)	0.985	(1)
				\$ 1

(3) Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of March 31, 2010, the senior credit facility consisted of a five-year, \$128 million term loan A maturing in March 2012, a five-year, \$550 million revolving credit facility maturing in March 2012, and a seven-year \$130 million tranche B-1 letter of credit/revolving loan facility maturing in

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

March 2014. Our outstanding debt also includes \$245 million of 101/4 percent senior secured notes due July 15, 2013, \$250 million of 81/8 percent senior notes due November 15, 2015, and \$500 million of 85/8 percent senior subordinated notes due November 15, 2014. At March 31, 2010, we had unused borrowing capacity of \$629 million under our \$680 million revolving credit facility with \$51 million in letters of credit outstanding and no borrowings.

The term loan A facility of \$128 million as of March 31, 2010, is payable in twelve consecutive quarterly installments, which commenced June 30, 2009, as follows: \$6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, \$15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and \$17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. Over the next twelve months we plan to repay \$60 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the \$60 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

The tranche B-1 letter of credit/revolving loan facility requires repayment by March 2014. We can borrow revolving loans and issue letters of credit under the \$130 million tranche B-1 letter of credit/revolving loan facility. The tranche B-1 letter of credit/revolving loan facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. There is no additional cost to us for issuing letters of credit under the tranche B-1 letter of credit/revolving loan facility. However, outstanding letters of credit reduce our availability to borrow revolving loans under this portion of the facility. We pay the tranche B-1 lenders interest at a rate equal to LIBOR plus a margin, which is offset by the return on the funds deposited with the administrative agent by the lenders which earn interest at an annual rate approximately equal to LIBOR less 20 basis points. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduced the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). The financial ratios required under the senior credit facility for the remainder of 2010 and beyond are set forth below. As of March 31, 2010, we were in compliance with all the financial covenants and operational restrictions of the senior credit facility.

Period Ending	Leverage Ratio	Interest Coverage Ratio
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55

Edgar Filing: TENNECO INC - Form 10-Q

September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

Beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan A and revolving credit facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0, and will be further reduced by an additional 50 basis points following each fiscal quarter for which the consolidated net leverage ratio is less than 4.0.

Also beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our tranche B-1 facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0.

The February 23, 2009, amendment to our senior credit facility also placed further restrictions on our operations including limitations on: (i) debt incurrence, (ii) incremental loan extensions, (iii) liens, (iv) restricted payments, (v) optional prepayments of junior debt, (vi) investments, (vii) acquisitions, and (viii) mandatory prepayments. The definition of EBIDTA was amended to allow for \$40 million of cash restructuring charges taken after the date of the amendment and \$4 million annually in aftermarket changeover costs. We agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately \$8 million.

(4) We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. 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.

Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

Future reversals of existing taxable temporary differences;

Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards; and

Tax-planning strategies.

In 2009, we recorded tax expense of \$13 million. Computed using the U.S. Federal statutory income tax rate of 35 percent, income tax would be a benefit of \$14 million. The difference is due primarily to valuation allowances against deferred tax assets generated by 2009 losses in the U.S. and in certain foreign countries which we cannot benefit, partially offset by adjustments to past valuation allowances for deferred tax assets including a reversal of \$20 million of U.S. valuation allowance based on the change in the fair value of a tax planning strategy. We reported income tax expense of \$15 million in the first quarter of 2010. The tax expense recorded differs from the expense that

would be recorded using a U.S. Federal statutory rate of 35 percent because of \$5 million in tax charges primarily related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. During the first three months of 2010, we recorded an additional valuation allowance of less than \$1 million primarily related to U.S. tax benefits recorded in the first three months of 2010 on U.S. losses. In evaluating the requirements to record a valuation allowance, accounting standards do not permit us to consider an economic recovery in the U.S. or new business we have won in the commercial vehicle segment. Consequently, beginning in 2008, given our historical losses, we concluded that our ability to fully utilize our NOLs was limited due to projecting the

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

continuation of the negative economic environment and the impact of the negative operating environment on our tax planning strategies. As a result of the tax planning strategy which has not yet been implemented but which we plan to implement and which does not depend upon generating future taxable income, we carry deferred tax assets in the U.S. of \$90 million relating to the expected utilization of those NOLs. The federal NOLs expire beginning in 2020 through 2029. The state NOLs expire in various years through 2029.

If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable.

We are required to record a valuation allowance against deferred tax assets generated by taxable losses in each period in the U.S. as well as in other foreign countries. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated. This will cause variability in our effective tax rate.

(5) In addition to our senior credit facility, senior secured notes, senior notes and senior subordinated notes, we also securitize some of our accounts receivable on a limited recourse basis in North America and Europe. Tenneco, as servicer under these accounts receivable securitization programs, is responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. The amount of outstanding third party investments in our securitized accounts receivable under the bank program was \$127 million and \$62 million at March 31, 2010 and December 31, 2009, respectively. In February 2010, the North American program was amended and extended to February 18, 2011, at a maximum facility size of \$100 million. As part of this renewal, the margin we pay to our banks decreased. In March 2010, the North American program was further amended to extend the revolving terms of the program to March 25, 2011, add an additional bank and increase the available financing under the facility by \$10 million to a new maximum of \$110 million. In addition, we added a second priority facility to the North American program, which provides up to an additional \$40 million of financing against accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the existing securitization facility. This new second priority facility also expires on March 25, 2011, and is subordinated to the existing securitization facility.

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

We also securitize receivables in our European operations to regional banks in Europe. The amount of outstanding third party investments in our securitized accounts receivable in Europe was \$96 million and \$75 million at March 31,

2010 and December 31, 2009, respectively. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year but some may be 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 15 days, or less, notification.

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

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

We adopted the new accounting guidance for transfers of financial assets effective January 1, 2010. Prior to the adoption of this new guidance, we accounted for activities under our North American and European accounts receivable securitization programs as sales of financial assets to our banks. The new accounting guidance changed the accounting rules for the transfer of financial assets which companies need to meet to qualify for sales accounting treatment. Based on these new accounting rules, effective January 1, 2010, we account for our North American securitization program as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new accounting rules. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million in interest expense for the three month period ended March 31, 2010 relating to our North American securitization program which effective January 1, 2010, is accounted for as a secured borrowing arrangement under the new accounting guidance for transfers of financial assets. In addition, we recognized a loss of \$1 million and \$2 million for the three month period ended March 31, 2010 and 2009, respectively, on the sale of trade accounts receivable in both the North American and European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately four percent during 2010.

The impact of the new accounting rules on our condensed consolidated financial statements is an increase of \$126 million both in accounts receivables and short-term debt on the balance sheet as of March 31, 2010 as well as an increase of \$1 million in interest expense and a corresponding decrease in loss on sale of receivables on our income statement for the three months ended March 31, 2010. In addition, the funding levels provided by our North American accounts receivable securitization program subsequent to January 1, 2010 are reflected as a \$126 million change in net increase (decrease) in short-term borrowings secured by accounts receivables and included in net cash provided by financing activities in our cash flow statement for the three month period ending March 31, 2010. Funding levels provided by our European securitization programs continue to be reflected as a change in receivables and included in net cash provided (used) by operating activities as under the previous accounting rules. Had the new accounting rules been in effect in 2009, reported receivables and short-term debt would both have been \$62 million higher as of December 31, 2009. The loss on sale of receivables would have been \$1 million lower, offset by a corresponding \$1 million increase to interest expense for the three month period ended March 31, 2009. Additionally, our cash provided (used) by operations would have decreased by \$62 million with a corresponding increase in cash provided by financing activities for the same amount for the three month period ended March 31, 2009.

(6) 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. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. In 2009, we incurred \$21 million in restructuring and related costs, of which \$16 million was recorded in cost of sales, \$1 million was recorded in selling, general, administrative and engineering

expense and \$4 million was recorded in depreciation and amortization expense. In the first quarter of 2010, we incurred \$5 million in restructuring and related costs, of which \$4 million was recorded in cost of sales and \$1 million was recorded in depreciation and amortization expense.

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

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

(Millions)	December 31,		Impact of Exchange Rates	Reserve Adjustments	March 31, 2010 Restructuring Reserve
	2009 Restructuring Reserve	2010 Cash Payments			
Severance	15	(2)		(1)	12

Under the terms of our amended and restated senior credit agreement that took effect on February 23, 2009, we are allowed to exclude \$40 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after February 23, 2009 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2010, we have excluded \$20 million in cumulative allowable charges relating to restructuring initiatives against the \$40 million available under the terms of the February 2009 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska. We expect the elimination of 500 positions at the Cozad plant and expect to record up to \$20 million in restructuring and related expenses, of which approximately \$14 million represents cash expenditures. We expect that all expenses will be recorded by the end 2010. We plan to hire at other facilities as we move the production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During 2009 we recorded \$11 million of restructuring and related expenses related to this initiative. For the first quarter of 2010, we recorded \$3 million of restructuring and related expenses related to this initiative.

(7) We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our condensed consolidated financial statements.

As of March 31, 2010, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At March 31, 2010, our estimated share of environmental remediation costs at

these sites was approximately \$17 million on a discounted basis. The undiscounted value of the estimated remediation costs was \$23 million. For those locations in which the liability was discounted, the weighted average discounted rate used was 3.6 percent. 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 towards 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.

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The \$17 million noted above includes \$5 million of estimated environmental remediation costs that result from the bankruptcy of Mark IV Industries in 2009. Prior to our 1996 acquisition of The Pullman Company, Pullman had sold certain assets to Mark IV. As partial consideration for the purchase of these assets, Mark IV agreed to assume Pullman's and its subsidiaries' historical obligations to contribute to the environmental remediation of certain sites. Mark IV has filed a petition for insolvency under Chapter 11 of the United States Bankruptcy Code and notified Pullman that it no longer intends to continue to contribute toward the remediation of those sites. We are conducting a thorough analysis and review of these matters and it is possible that our estimate may change as additional information becomes available to us.

We do not believe that any potential costs associated with our current status as a potentially responsible party in the Superfund sites, or as a liable party at the other locations referenced herein, will be material to our condensed consolidated results of operations, financial position or cash flows.

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, we have become subject to an audit in 11 states of our practices with respect to the payment of unclaimed property to those states. We have practices in place designed to ensure that we pay unclaimed property as required. We are in the initial stages of this audit, which could cover over 20 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, 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, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000's we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler 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 of each in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for

damages. As major asbestos manufacturers 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 non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. Accordingly, we presently believe

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

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

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

	Three Months Ended March 31, 2010 2009 (Millions)	
Beginning Balance January 1,	\$ 32	\$ 27
Accruals related to product warranties	4	4
Reductions for payments made	(4)	(3)
Ending Balance March 31,	\$ 32	\$ 28

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

	Three Months Ended March 31, 2010 2009 (Millions Except Share and Per Share Amounts)	
Basic earnings (loss) per share		
Net income (loss) attributable to Tenneco Inc.	\$ 7	\$ (49)
Average shares of common stock outstanding	58,948,351	46,671,289
Earnings (loss) per average share of common stock	\$ 0.11	\$ (1.05)

Edgar Filing: TENNECO INC - Form 10-Q

Diluted earnings (loss) per share		
Net income (loss) attributable to Tenneco Inc.	\$ 7	\$ (49)
Average shares of common stock outstanding	58,948,351	46,671,289
Effect of dilutive securities:		
Restricted stock	449,259	
Stock options	1,413,437	
Average shares of common stock outstanding including dilutive securities	60,811,047	46,671,289
Earnings (loss) per average share of common stock	\$ 0.11	\$ (1.05)

The calculation of diluted earnings per share for the three months ended March 31, 2010 includes the dilutive effect of 1,413,437 stock options and 449,259 shares of restricted stock. The calculation of diluted loss per share for the same three month period in 2009 does not include the dilutive effect of 38,095 stock options or any shares of restricted stock. In addition, options to purchase 2,271,948 and 3,795,881 shares of common stock and 124,303 and

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

665,238 shares of restricted stock were antidilutive at March 31, 2010 and 2009, respectively, and therefore, not included in the calculation of diluted earnings per share.

(9) *Equity Plans* Tenneco has granted a variety of awards, including common stock, restricted stock, restricted stock units, performance units, stock appreciation rights (SARs), and stock options to our directors, officers, and employees.

Accounting Methods The impact of recognizing compensation expense related to nonqualified stock options is contained in the table below.

	Three Months Ended March 31, 2010 2009 (Millions)	
Selling, general and administrative	\$ 1	\$ 1
Loss before interest expense, income taxes and noncontrolling interests	(1)	(1)
Income tax benefit		
Net loss	\$ (1)	\$ (1)
Decrease in basic earnings per share	\$ (0.01)	\$ (0.02)
Decrease in diluted earnings per share	\$ (0.01)	\$ (0.02)

We immediately expense stock options awarded to employees who are eligible to retire. When employees become eligible to retire during the vesting period, we recognize the remaining expense associated with their stock options.

As of March 31, 2010, there was approximately \$5 million of unrecognized compensation costs related to these stock-based awards that we expect to recognize over a weighted average period of 1.1 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs, was \$4 million and \$1 million for the three months ended March 31, 2010 and 2009, respectively, and was recorded in selling, general, and administrative expense on the statement of income (loss).

Cash received from stock option exercises during the three months ended March 31, 2010 was less than \$1 million and stock options exercised during the first three months of 2010 would have generated an excess tax benefit of less than \$1 million. No stock options were exercised during the three months ended March 31, 2009 and as a result there was no cash received from option exercises or any associated excess tax benefit for the period. We did not record the excess tax benefit as we have federal and state net operating losses which are not currently being utilized.

Assumptions We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and

market behavior. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

	Three Months Ended March 31, 2010 2009	
Stock Options Granted		
Weighted average grant date fair value, per share	\$ 11.76	\$ 1.26
Weighted average assumptions used:		
Expected volatility	75.37%	82.6%
Expected lives	4.6	4.5
Risk-free interest rates	2.2%	1.5%
Dividend yields	0.0%	0.0%

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

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

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

	Three Months Ended March 31, 2010			
		Weighted Avg.		
	Shares Under Option	Weighted Avg. Exercise Prices (Millions)	Remaining Life in Years	Aggregate Intrinsic Value
Outstanding Stock Options				
Outstanding, January 1, 2010	3,425,457	\$ 13.21	4.6	\$ 20
Granted	346,774	19.48		
Canceled	(15,000)	10.66		
Forfeited	(16,471)	19.72		
Exercised	(55,375)	6.06		1
Outstanding, March 31, 2010	3,685,385	\$ 13.89	4.7	\$ 30

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

	Three Months Ended March 31, 2010	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2010	644,052	\$ 9.85
Granted	240,555	19.48
Vested	(307,981)	13.82
Forfeited	(3,064)	4.10
Nonvested balance at March 31, 2010	573,562	\$ 11.50

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

The fair value of restricted stock grants is equal to the average of the high and low market price of our stock at the date of grant. As of March 31, 2010, approximately \$5 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.5 years.

Long-Term Performance Units, Restricted Stock Units and SARs Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of March 31, 2010, \$13 million of unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 2.7 years.

(10) Net periodic pension costs (income) and postretirement benefit costs (income) consist of the following components:

	Three Months Ended March 31,					
	Pension				Postretirement	
	2010		2009		2010	2009
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost benefits earned during the period	\$	\$ 1	\$	\$ 1	\$	\$
Interest cost	5	5	5	4	2	2
Expected return on plan assets	(5)	(5)	(5)	(4)		
Settlement loss			1			
Net amortization:						
Actuarial loss	1	1	1	1	1	1
Prior service cost					(1)	(1)
Net pension and postretirement costs	\$ 1	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2

For the three months ended March 31, 2010, we made pension contributions of less than \$1 million for our domestic pension plans and \$3 million for our foreign pension plans. Based on current actuarial estimates, we believe we will be required to make approximately \$50 million in contributions for the remainder of 2010.

We made postretirement contributions of approximately \$2 million during the first three months of 2010. Based on current actuarial estimates, we believe we will be required to make approximately \$8 million in contributions for the remainder of 2010.

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 recent accounting guidance on fair value measurement.

(11) In January 2010, we purchased an additional 20 percent equity interest in our Dalian Walker Gillet Automobile Muffler Co. Ltd. joint venture investment in China for \$15 million in cash. As a result of this purchase, our equity ownership percentage of this joint venture investment increased to 80 percent from 60 percent.

On September 1, 2008, we acquired the suspension business of Gruppo Marzocchi, an Italian based worldwide leader in supplying suspension technology in the two wheeler market. The consideration paid for the Marzocchi acquisition included cash of approximately \$1 million, plus the assumption of Marzocchi's net debt (debt less cash acquired) of about \$5 million. In February 2009, we recorded an opening balance sheet adjustment of \$1 million to cash, as a result of an expected post-closing purchase price settlement with Marzocchi, which resulted in a corresponding decrease to goodwill. We finalized the purchase price allocation during the third quarter of 2009. Adjustments to the opening balance sheet decreased goodwill to zero and included the capitalization of intangible assets, including \$4 million for trademarks and \$2 million for patents, the capitalization of \$2 million of fixed assets,

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

and the release of \$1 million in a restructuring accrual. The calculated fair value of these intangible and tangible purchased assets included Level 2 observable inputs and Level 3 unobservable inputs that utilized our own assumptions. The fair value of fixed assets purchased was calculated based on a current cost to replace valuation methodology adjusted for various factors including physical deterioration and functional and economic obsolescence. The fair value of the intangible assets purchased was calculated using a market-based model to calculate the discounted after-tax royalty savings based on the Company's weighted average cost of capital. This market-based model utilized inputs such as similar market transactions in the marketplace and the Company's historic and projected revenue growth trends. The acquisition of the Gruppo Marzocchi suspension business includes a manufacturing facility in Bologna, Italy, associated engineering and intellectual property, the Marzocchi brand name, sales, marketing and customer service operations in the United States and Canada, and purchasing and sales operations in Taiwan.

On May 30, 2008, we acquired from Delphi Automotive Systems LLC certain ride control assets and inventory at Delphi's Kettering, Ohio facility for a cash payment of \$19 million. We are utilizing a portion of the purchased assets in other locations to grow our OE ride control business globally. We finalized the purchase price allocation during the second quarter of 2009. Adjustments recorded to the opening balance sheet were not significant. The calculated fair value of the purchased assets included Level 2 observable inputs and Level 3 unobservable inputs that utilized our own assumptions. The fair value of the inventory items was calculated at current replacement cost while the fair value of the machinery and equipment purchased was based on values existing in the used-asset market. In conjunction with the purchase agreement, we entered into an agreement to lease a portion of the Kettering facility from Delphi and we have entered into a long-term supply agreement with General Motors Corporation to continue supplying passenger car shocks and struts to General Motors from the Kettering facility. The agreement has been assumed by the new General Motors Company.

(12) In June 2009, the FASB issued new accounting guidance which changes the accounting for transfers of financial assets, by eliminating the concept of a qualifying special purpose entity (QSPE), clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale, amending and clarifying the unit of account eligible for sale accounting and requiring that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of a financial asset or group of financial assets accounted for as a sale. Additionally, all existing QSPEs must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. The new accounting guidance requires additional disclosures about a transferor's continuing involvement with transfers of financial assets accounted for as a sale, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor's assets that continue to be reported in the statement of financial position. The new accounting guidance is effective for a reporting entity's first annual reporting period that begins after November 15, 2009, and for interim and annual reporting periods thereafter. We have adopted this new accounting guidance on January 1, 2010. Prior to the adoption of this new accounting guidance, our securitized accounts receivable programs qualified for sales accounting treatment. The discount fees charged by the factor banks were recorded as a loss on sale of receivables in our condensed consolidated statements of income (loss). Based on the new accounting rules, effective January 1, 2010, we account for our North American securitization programs as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new accounting rules. We have disclosed the impact of this accounting rule change on our condensed consolidated financial statements and added additional disclosures as required under this new accounting guidance in footnote 5 of our notes to condensed consolidated financial statements.

In June 2009, the FASB issued new accounting guidance which changes the criterion relating to the consolidation of variable interest entities (VIE) and amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE by requiring a qualitative rather than quantitative analysis. The new accounting guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE and enhanced disclosures about an entity's involvement with a VIE. The new accounting guidance is effective

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

for a reporting entity's first annual reporting period that begins after November 15, 2009, and for interim and annual reporting periods thereafter. The adoption of this new accounting guidance on January 1, 2010 did not have any impact on our condensed consolidated financial statements as we did not hold an interest in a VIE for the three month period ended March 31, 2010.

(13) We have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility, our senior secured notes, our senior notes and our senior subordinated notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. The \$245 million senior secured notes is also secured by second-priority liens on substantially all our domestic assets, excluding some of the stock of our domestic subsidiaries. No assets or capital stock of our direct or indirect foreign subsidiaries secure these notes. You should also read Note 15 of the condensed consolidated financial statements of Tenneco Inc., where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of March 31, 2010, we have guaranteed \$51 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.

Negotiable Financial Instruments One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$5 million at both March 31, 2010 and December 31, 2009, respectively. No negotiable financial instruments were held by our European subsidiary as of March 31, 2010 or December 31, 2009, respectively.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$17 million and \$15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$22 million and \$15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as other current assets. Some of our Chinese subsidiaries that issue their own negotiable financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at those Chinese subsidiaries at March 31, 2010 and December 31, 2009, respectively.

The negotiable financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are checks drawn by our OE customers and guaranteed by their banks that are payable at a future date. The use of these instruments for payment follows local commercial practice. Because negotiable financial instruments are financial obligations of our customers and 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.

(14) We are a global manufacturer with three geographic reportable segments: (1) North America, (2) Europe, South America and India (Europe), and (3) Asia Pacific. Each segment manufactures and distributes ride control and emission control products primarily for the automotive industry. We have not aggregated individual operating segments within these reportable segments. We evaluate segment performance based primarily on income before

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

interest expense, income taxes, and noncontrolling interests. Products are transferred between segments and geographic areas on a basis intended to reflect as nearly as possible the market value of the products.

The following table summarizes certain Tenneco Inc. segment information:

	North America	Europe	Segment Asia Pacific	Reclass & Elims	Consolidated
	(Millions)				
At March 31, 2010 and for the Three Months Then Ended					
Revenues from external customers	\$ 605	\$ 561	\$ 150	\$	\$ 1,316
Intersegment revenues	3	29	5	(37)	
Income before interest expense, income taxes, and noncontrolling interests	36	12	11		59
Total assets	1,242	1,365	415	12	3,034
At March 31, 2009 and for the Three Months Then Ended					
Revenues from external customers	\$ 469	\$ 406	\$ 92	\$	\$ 967
Intersegment revenues	1	38	2	(41)	
Income before interest expense, income taxes, and noncontrolling interests	4	(17)			(13)
Total assets	890	1,512	318	22	2,742

(15) Supplemental guarantor condensed consolidating financial statements are presented below:

Basis of Presentation

Subject to limited exceptions, all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior subordinated notes due in 2014, our senior notes due in 2015 and our senior secured notes due 2013 on a joint and several basis. The Guarantor Subsidiaries are combined in the presentation below.

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

Distributions

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

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF INCOME (LOSS)

For the Three Months Ended March 31, 2010

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated	
Revenues						
Net sales and operating revenues						
External	\$ 543	\$ 773	\$	\$	\$	1,316
Affiliated companies	31	109		(140)		
	574	882		(140)		1,316
Costs and expenses						
Cost of sales (exclusive of depreciation and amortization shown below)	519	694		(140)		1,073
Engineering, research, and development	9	18				27
Selling, general, and administrative	37	63				100
Depreciation and amortization of other intangibles	22	33				55
	587	808		(140)		1,255
Other income (expense)						
Loss on sale of receivables		(1)				(1)
Other income (loss)		(1)				(1)
		(2)				(2)
Income (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies						
	(13)	72				59
Interest expense						
External (net of interest capitalized)		1	31			32
Affiliated companies (net of interest income)	37	(5)	(32)			
Income tax expense (benefit)	1	14				15

Edgar Filing: TENNECO INC - Form 10-Q

Equity in net income (loss) from affiliated companies	55		6	(61)	
Net Income (loss)	4	62	7	(61)	12
Less: Net income (loss) attributable to noncontrolling interests		5			5
Net income (loss) attributable to Tenneco Inc.	\$ 4	\$ 57	\$ 7	\$ (61)	\$ 7

Table of Contents

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF INCOME (LOSS)

For the Three Months Ended March 31, 2009

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
Revenues					
Net sales and operating revenues					
External	\$ 423	\$ 544	\$	\$	\$ 967
Affiliated companies	22	88		(110)	
	445	632		(110)	967
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	361	576		(110)	827
Engineering, research, and development	6	15			21
Selling, general, and administrative	24	53	1		78
Depreciation and amortization of other intangibles	22	30			52
	413	674	1	(110)	978
Other income (expense)					
Loss on sale of receivables		(2)			(2)
Other income (loss)	(15)	15			
	(15)	13			(2)
Income (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies					
	17	(29)	(1)		(13)
Interest expense					
External (net of interest capitalized)			31		31
Affiliated companies (net of interest income)	32	(2)	(30)		
Income tax expense (benefit)	1	2			3

Edgar Filing: TENNECO INC - Form 10-Q

Equity in net income (loss) from affiliated companies	(32)		(47)	79	
Net Income (loss)	(48)	(29)	(49)	79	(47)
Less: Net income (loss) attributable to noncontrolling interests		2			2
Net income (loss) attributable to Tenneco Inc.	\$ (48)	\$ (31)	\$ (49)	\$ 79	\$ (49)

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**BALANCE SHEET**

	March 31, 2010				
	Tenneco				
	Inc.				
	Guarantor	Nonguarantor	(Parent	Reclass	Consolidated
	Subsidiaries	Subsidiaries	Company)	& Elims	
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$ 193	\$	\$	\$ 193
Receivables, net	394	1,164	40	(819)	779
Inventories	185	280			465
Deferred income taxes	99			(64)	35
Prepayments and other	18	153	1	(1)	171
Total current assets	696	1,790	41	(884)	1,643
Other assets:					
Investment in affiliated companies	630		607	(1,237)	
Notes and advances receivable from affiliates	3,818	387	5,750	(9,955)	
Long-term receivables, net	3	6			9
Goodwill	22	66			88
Intangibles, net	15	17			32
Deferred income taxes	73	23	39	(39)	96
Other	27	53	23		103
	4,588	552	6,419	(11,231)	328
Plant, property, and equipment, at cost	1,009	2051			3,060
Less Accumulated depreciation and amortization	(709)	(1,288)			(1,997)
	300	763			1,063
Total assets	\$ 5,584	\$ 3,105	\$ 6,460	\$ (12,115)	\$ 3,034

**LIABILITIES AND SHAREHOLDERS
EQUITY**

Current liabilities:

Edgar Filing: TENNECO INC - Form 10-Q

Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$	\$ 201	\$ 1	\$	\$ 202
Short-term debt affiliated	350	327	10	(687)	
Trade payables	327	665	1	(119)	874
Accrued taxes	4	38		(1)	41
Other	152	183	65	(77)	323
Total current liabilities	833	1,414	77	(884)	1,440
Long-term debt non-affiliated		7	1,130		1,137
Long-term debt affiliated	4,434	214	5,307	(9,955)	
Deferred income taxes	38	61		(39)	60
Postretirement benefits and other liabilities	332	75		4	411
Commitments and contingencies					
Total liabilities	5,637	1,771	6,514	(10,874)	3,048
Redeemable noncontrolling interests		9			9
Tenneco Inc. Shareholders equity	(53)	1,294	(54)	(1,241)	(54)
Noncontrolling interests		31			31
Total equity	(53)	1,325	(54)	(1,241)	(23)
Total liabilities, redeemable noncontrolling interests and equity	\$ 5,584	\$ 3,105	\$ 6,460	\$ (12,115)	\$ 3,034

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**BALANCE SHEET**

	December 31, 2009				
	Guarantor	Nonguarantor	Tenneco	Reclass	Consolidated
	Subsidiaries	Subsidiaries	Inc.	& Elims	
			(Parent		
			Company)		
			(Millions)		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 20	\$ 147	\$	\$	\$ 167
Receivables, net	289	936	39	(668)	596
Inventories	161	267			428
Deferred income taxes		69		(34)	35
Prepayments and other	43	124			167
Total current assets	513	1,543	39	(702)	1,393
Other assets:					
Investment in affiliated companies	591		632	(1,223)	
Notes and advances receivable from affiliates	3,872	308	5,818	(9,998)	
Long-term receivables, net	3	5			8
Goodwill	22	67			89
Intangibles, net	16	14			30
Deferred income taxes	75	25	15	(15)	100
Other	28	58	25		111
	4,607	477	6,490	(11,236)	338
Plant, property, and equipment, at cost	1,005	2,094			3,099
Less Accumulated depreciation and amortization	(696)	(1,293)			(1,989)
	309	801			1,110
Total assets	\$ 5,429	\$ 2,821	\$ 6,529	\$ (11,938)	\$ 2,841

**LIABILITIES AND
SHAREHOLDERS EQUITY**

Current liabilities:

Edgar Filing: TENNECO INC - Form 10-Q

Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$	\$	74	\$	1
Short-term debt affiliated			302		(541)
Trade payables			270		(113)
Accrued taxes			6		36
Other			167		(48)
					324
Total current liabilities			745		(702)
			1,108		1,201
Long-term debt non-affiliated					8
Long-term debt affiliated			4,374		1,137
Deferred income taxes			15		5,363
Postretirement benefits and other liabilities			326		(9,998)
Commitments and contingencies					(15)
					4
Total liabilities			5,460		(10,711)
			1,524		2,823
Redeemable noncontrolling interests					7
Tenneco Inc. Shareholders equity			(31)		(21)
Noncontrolling interests					(1,227)
Total equity			(31)		(1,227)
			1,290		11
Total liabilities, redeemable noncontrolling interests and equity	\$	\$	5,429	\$	(11,938)
			2,821		2,841
					6,529

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**STATEMENT OF CASH FLOWS**

Three Months Ended March 31, 2010

	Guarantor	Nonguarantor	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
	Subsidiaries	Subsidiaries			
Operating Activities					
Net cash provided (used) by operating activities	\$ 28	\$ (36)	\$ (49)	\$	\$ (57)
Investing Activities					
Proceeds from sale of assets		1			1
Cash payments for plant, property, and equipment	(15)	(23)			(38)
Acquisition of business (net of cash acquired)					
Cash payments for software related intangible assets	(1)	(1)			(2)
Investments and other		1			1
Net cash used by investing activities	(16)	(22)			(38)
Financing Activities					
Issuance of common shares					
Issuance of long-term debt					
Retirement of long-term debt		(1)	(7)		(8)
Debt issuance cost on long-term debt					
Increase (decrease) in bank overdrafts		(1)			(1)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables		2			2
Net increase (decrease) in short-term borrowings secured by accounts receivables		126			126
Intercompany dividends and net increase (decrease) in intercompany obligations	(32)	(24)	56		
Distribution to noncontrolling interests partners		(1)			(1)
	(32)	101	49		118

Net cash provided (used) by financing activities

Effect of foreign exchange rate changes on cash and cash equivalents

3

3

Increase (decrease) in cash and cash equivalents

(20)

46

26

Cash and cash equivalents, January 1

20

147

167

Cash and cash equivalents, March 31 (Note)

\$

\$

193

\$

\$

\$

193

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

Table of Contents**TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**STATEMENT OF CASH FLOW**

Three Months Ended March 31, 2009

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
Operating Activities					
Net cash provided (used) by operating activities	\$ (63)	\$44	\$ (62)	\$	\$(81)
Investing Activities					
Proceeds from the sale of assets		2			2
Cash payment for plant, property, and equipment	(16)	(20)			(36)
Cash payment for software related intangible assets	(1)	(1)			(2)
Acquisition of business (net of cash acquired)		1			1
Net cash used by investing activities	(17)	(18)			(35)
Financing Activities					
Issuance of long-term debt			2		2
Retirement of long-term debt		(1)			(1)
Increase (decrease) in bank overdrafts		(13)			(13)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		14	123		137
Intercompany dividends and net increase (decrease) in intercompany obligations	72	(17)	(55)		
Distribution to noncontrolling interest partners					
Debt issuance cost of long-term debt			(8)		(8)
Net cash provided (used) by financing activities	72	(17)	62		117
Effect of foreign exchange rate changes on cash and cash equivalents		(14)			(14)

Edgar Filing: TENNECO INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	(8)	(5)	(13)
Cash and cash equivalents, January 1	16	110	126
Cash and cash equivalents, March 31 (Note)	\$ 8	\$105	\$ \$ 113

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

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As you read the following review of our financial condition and results of operations, you should also read our condensed consolidated financial statements and related notes beginning on page 4.

Executive Summary

We are one of the world's leading manufacturers of automotive emission control and ride control products and systems. We serve both original equipment (OE) vehicle designers and manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe®, Rancho®, Clevite® Elastomers and Fric Rot™ ride control products and Walker®, Fonos™, and Gillet™ emission control products. Worldwide we serve more than 65 different original equipment manufacturers, and our products or systems are included on six of the top 10 passenger models produced in Europe and eight of the top 10 light truck models produced in North America for 2009. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. As of December 31, 2009, we operated 84 manufacturing facilities worldwide and employed approximately 21,000 people to service our customers' demands.

Factors that continue to be critical to our success include winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, changing aftermarket distribution channels, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to economic challenges such as increases in the cost of raw materials and our ability to successfully reduce the impact of any such cost increases through material substitutions, cost reduction initiatives and other methods.

The deterioration in the global economy and global credit markets beginning in 2008 negatively impacted global business activity in general, and specifically the automotive industry in which we operate. The market turmoil and tightening of credit, as well as the dramatic decline in the housing market in the United States and Western Europe, led to a lack of consumer confidence evidenced by a rapid decline in light vehicle purchases in 2008 and the first six months of 2009. OE production started to stabilize and overall the production environment strengthened during the second half of 2009 compared to the first half of 2009 as production began to track more closely to vehicle sales after inventory corrections in the first half of 2009. Light vehicle production in the first quarter of 2010 has continued to strengthen. North American light vehicle production was up 67 percent year-over-year, while in Europe, light vehicle production in the first quarter 2010 was up 35 percent year-over-year. Current light vehicle production projections for the remainder of 2010 are that production levels will be up year-over-year when compared to 2009. Declines in production would have an adverse effect on the financial condition of our OE customers, and on our future results of operations.

We have a substantial amount of indebtedness. As such, our ability to generate cash both to fund operations and service our debt is also a significant area of focus for our company. See **Liquidity and Capital Resources** below for further discussion of cash flows and **Risk Factors** included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Total revenues for the first quarter of 2010 were \$1,316 million, compared to \$967 million in the first quarter of 2009. Excluding the impact of currency and substrate sales, revenue was up \$234 million or 31 percent due to higher

year-over-year OE vehicle production levels in every geographic region with increased revenue in both of our product lines. New platform launches and increased aftermarket sales in North America and South America also drove the improvement.

Gross margin in the first quarter of 2010 was 18.5 percent, up from 14.5 percent in 2009. Stronger OE production volumes and the related manufacturing efficiency improvements drove the improvement. Gross margin also benefited from material cost management and an increase in higher-margin aftermarket sales, which increased

Table of Contents

globally by 15 percent. Gross margin for the first quarter of 2010 included \$4 million of restructuring and related expenses, compared to \$2 million of restructuring and related expenses in the first quarter of 2009.

Selling, general and administrative expense was up \$22 million in the first quarter of 2010, at \$100 million, compared to \$78 million in the first quarter of 2009. Restoration of the company's 401(k) match in North America as of January 1, 2010 along with the furloughing of salaried employees during the first quarter of 2009, which didn't occur in the first quarter of 2010, contributed to the increase in expense. In addition, higher year-over-year expense related to performance-based compensation plans for employees at all levels contributed to the increase. Engineering expense was \$27 million and \$21 million in the first quarter of 2010 and 2009, respectively. Engineering spending was \$6 million higher than a year ago, reflecting timing on engineering cost recoveries as well as planned expenses for upcoming new business launches. Also driving the increase in engineering costs was the employee furloughs in the first quarter of 2009, which did not occur in the first quarter of 2010, and the timing of customer recoveries during the first quarter of 2009. Selling, general, administrative and engineering expenses decreased to 9.7 percent of revenues from 10.2 percent of revenues in 2009 due to higher year-over-year revenues.

Earnings before interest expense, taxes and noncontrolling interests (EBIT) was \$59 million for the first quarter of 2010 compared to a loss of \$13 million in the first quarter of 2009. Higher OE production volumes globally and the related manufacturing efficiencies, material cost management, and increased aftermarket sales drove the improvement to EBIT. In addition, currency benefited EBIT by \$12 million year-over-year. Partially offsetting the increase was higher selling, general, administrative and engineering spending, and increased restructuring and related costs.

Results from Operations***Net Sales and Operating Revenues for the Three Months Ended March 31, 2010 and 2009***

The following tables reflect our revenues for the first quarter of 2010 and 2009. We present these reconciliations of revenues in order to reflect the trend in our sales in various product lines and geographic regions separately from the effects of doing business in currencies other than the U.S. dollar. We have not reflected any currency impact in the 2009 table since this is the base period for measuring the effects of currency during 2010 on our operations. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

Additionally, we show the component of our revenue represented by substrate sales in the following table. While we generally have primary design, engineering and manufacturing responsibility for OE emission control systems, we do not manufacture substrates. Substrates are porous ceramic filters coated with a catalyst—precious metals such as platinum, palladium and rhodium. These are supplied to us by Tier 2 suppliers and directed by our OE customers. We generally earn a small margin on these components of the system. As the need for more sophisticated emission control solutions increases to meet more stringent environmental regulations, and as we capture more diesel aftertreatment business, these substrate components have been increasing as a percentage of our revenue. While these substrates dilute our gross margin percentage, they are a necessary component of an emission control system. We view the growth of substrates as a key indicator that our value-add content in an emission control system is moving toward the higher technology hot-end gas and diesel business.

Our value-add content in an emission control system includes designing the system to meet environmental regulations through integration of the substrates into the system, maximizing use of thermal energy to heat up the catalyst quickly, efficiently managing airflow to reduce back pressure as the exhaust stream moves past the catalyst, managing the expansion and contraction of the emission control system components due to temperature extremes experienced by an emission control system, using advanced acoustic engineering tools to design the desired exhaust sound, minimizing the opportunity for the fragile components of the substrate to be damaged when we integrate it into the emission control system and reducing unwanted noise, vibration and harshness transmitted through the emission control system.

We present these substrate sales separately in the following table because we believe investors utilize this information to understand the impact of this portion of our revenues on our overall business and because it removes the impact of potentially volatile precious metals pricing from our revenues. While our original equipment

Table of Contents

customers generally assume the risk of precious metals pricing volatility, it impacts our reported revenues. Excluding substrate catalytic converter and diesel particulate filter sales removes this impact.

	Three Months Ended March 31, 2010				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency Impact	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 128	\$ 4	\$ 124	\$	\$ 124
Emission Control	326	2	324	135	189
Total North America Original Equipment	454	6	448	135	313
North America Aftermarket					
Ride Control	113	2	111		111
Emission Control	38	1	37		37
Total North America Aftermarket	151	3	148		148
Total North America	605	9	596	135	461
Europe Original Equipment					
Ride Control	116	5	111		111
Emission Control	269	17	252	82	170
Total Europe Original Equipment	385	22	363	82	281
Europe Aftermarket					
Ride Control	39	3	36		36
Emission Control	27	2	25		25
Total Europe Aftermarket	66	5	61		61
South America & India	110	15	95	13	82
Total Europe, South America & India	561	42	519	95	424
Asia	111	1	110	25	85
Australia	39	9	30	1	29
Total Asia Pacific	150	10	140	26	114
Total Tenneco	\$ 1,316	\$ 61	\$ 1,255	\$ 256	\$ 999

Table of Contents**Three Months Ended March 31, 2009**

	Revenues	Currency Impact	Revenues Excluding Currency Impact (Millions)	Substrate Sales Excluding Currency Impact	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 86	\$	\$ 86	\$	\$ 86
Emission Control	247		247	114	133
Total North America Original Equipment	333		333	114	219
North America Aftermarket					
Ride Control	99		99		99
Emission Control	37		37		37
Total North America Aftermarket	136		136		136
Total North America	469		469	114	355
Europe Original Equipment					
Ride Control	91		91		91
Emission Control	187		187	58	129
Total Europe Original Equipment	278		278	58	220
Europe Aftermarket					
Ride Control	31		31		31
Emission Control	29		29		29
Total Europe Aftermarket	60		60		60
South America & India	68		68	9	59
Total Europe, South America & India	406		406	67	339
Asia	67		67	19	48
Australia	25		25	2	23
Total Asia Pacific	92		92	21	71
Total Tenneco	\$ 967	\$	\$ 967	\$ 202	\$ 765

Revenues from our North American operations increased \$136 million in the first quarter of 2010 compared to the same period last year. The increase was due to higher sales from both North American OE product lines as well as aftermarket sales. North American OE emission control revenues were up \$79 million in the first quarter of 2010; excluding favorable currency and substrate sales, revenues were up \$56 million compared to last year. North American OE ride control revenues for the first quarter of 2010 were up \$38 million from the prior year, excluding \$4 million of favorable currency. The increase for emission control and ride control was driven by higher production volumes on OE platforms including the Ford Expedition/Navigator, the GMT 900 half-ton pick-up trucks and GM crossover vehicles, partially offset by some key light truck platforms in launch. Our total North American OE

revenues, excluding substrate sales and currency, increased 42 percent in the first quarter of 2010 compared to first quarter of 2009. North American light vehicle production increased 67 percent. Industry Class 8 commercial vehicle production was up 25 percent and industry Class 5-7 commercial vehicle production was up 15 percent in first quarter of 2010 as compared to the previous year comparable period. Aftermarket revenues for North America were \$151 million in the first quarter of 2010, an increase of \$15 million compared to the prior year. Excluding \$3 million in favorable currency, aftermarket revenues were up \$12 million driven by higher sales in the ride control product line due to strong demand. Net of favorable currency, aftermarket ride control revenues increased 13 percent in the first quarter of 2010 while aftermarket emission control revenues were about even with the first quarter of 2009.

Table of Contents

Our European, South American and Indian segment's revenues increased \$155 million, or 38 percent, in the first quarter of 2010 compared to last year. The first quarter total European light vehicle industry production was up 35 percent when compared to the first quarter of 2009. Europe OE emission control revenues of \$269 million in the first quarter of 2010 were up 44 percent as compared to the first quarter of last year. Excluding \$17 million of favorable currency and an increase in substrate sales, Europe OE emission control revenues increased 32 percent from 2009. Europe OE ride control revenues of \$116 million in the first quarter of 2010 were up 27 percent year-over-year. Excluding favorable currency, revenues increased by 21 percent in the 2010 first quarter. The increase for emission control and ride control was due to the higher production volumes on platforms including the Ford Focus, Opel Astra, VW Golf and BMW 1 and 3 Series. New ride control platform launches such as the Renault Scenic also contributed to the revenue gain. These revenue improvements were partially offset by the continuing decline in the two-wheeler market. European aftermarket revenues increased 10 percent or \$6 million in the first quarter of 2010 compared to last year. When adjusted for currency, aftermarket revenues were up two percent. Excluding the positive \$3 million impact of currency, ride control aftermarket revenues were up 17 percent while emission control aftermarket revenues were down 14 percent, excluding \$2 million in favorable currency. South American and Indian revenues were \$110 million during the first quarter of 2010, compared to \$68 million in the prior year. When favorable currency and substrates were excluded, revenue was up \$23 million in the first quarter of 2010 when compared to the first quarter of last year. The increase to revenue in our South American and Indian operations was primarily the result of higher OE and aftermarket sales in South America.

Revenues from our Asia Pacific segment, which includes Australia and Asia, increased \$58 million to \$150 million in the first quarter of 2010 compared to the same period last year. Excluding the impact of substrate sales and currency, revenues increased to \$114 million from \$71 million in the prior year. Asian revenues for the first quarter of 2010 were \$111 million, up 65 percent from last year. This increase was largely driven by OE production increases in China on key Tenneco-supplied General Motors and Volkswagen platforms and new platform launches. Excluding higher substrate sales and \$1 million of favorable currency, Asian revenue increased \$37 million when compared with last year. First quarter revenues for Australia increased 59 percent to \$39 million. Excluding lower substrate sales and \$9 million of favorable currency, Australian revenue increased 26 percent due to industry light vehicle production increases.

EBIT for the three months ended March 31, 2010 and 2009

	Three Months Ended March 31,		
	2010	2009	Change
	(Millions)		
North America	\$ 36	\$ 4	\$ 32
Europe, South America & India	12	(17)	29
Asia Pacific	11		11
	\$ 59	\$ (13)	\$ 72

The EBIT results shown in the preceding table include the following items, discussed below under Restructuring and Other Charges, which have an effect on the comparability of EBIT results between periods:

	Three Months Ended March 31, 2010 2009 (Millions)	
North America		
Restructuring and related expenses	\$ 4	\$ 2
Europe, South America & India		
Restructuring and related expenses	1	1

EBIT for North American operations was \$36 million in the first quarter of 2010, compared to \$4 million one year ago. The benefit to EBIT from the increase in higher-margin aftermarket sales and higher OE production

Table of Contents

volumes and the related manufacturing efficiencies drove the improvement. Increased selling, general, administrative and engineering costs partially offset the EBIT improvement. Currency had a \$12 million favorable impact on North American EBIT. Restructuring and related expenses of \$4 million were included in first quarter of 2010 up from \$2 million in the first quarter of 2009.

Our European, South American and Indian segment's EBIT was \$12 million for the first quarter of 2010 compared to a loss of \$17 million during the same period last year. European, South American and Indian segment's EBIT benefited from stronger OE production volumes in all regions and the related manufacturing efficiency improvements, favorable platform mix in Europe and material cost management actions. Currency had a \$1 million favorable impact on European, South American and Indian segment's EBIT. Partially offsetting these improvements were higher selling, general, administrative and engineering costs. Included in first quarter 2010 and 2009 European, South American and Indian segment's EBIT was \$1 million in restructuring and related expenses.

EBIT for our Asia Pacific segment in the first quarter of 2010 was \$11 million compared to breakeven in the first quarter of 2009. Stronger production volumes, mainly in China, and the related manufacturing efficiencies were the primary drivers of the EBIT improvement year-over-year. EBIT was negatively impacted by \$1 million of currency in the first quarter of 2010 when compared to last year which slightly offset the improvement.

Currency had a \$12 million favorable impact on overall company EBIT for the three months ended March 31, 2010, as compared to the prior year.

EBIT as a Percentage of Revenue

	Three Months Ended March 31,	
	2010	2009
North America	6%	1%
Europe, South America & India	2%	(4)%
Asia Pacific	7%	%
Total Tenneco	4%	(1)%

In North America, EBIT as a percentage of revenue for the first quarter of 2010 increased five percentage points over last year. The increase in EBIT from higher OE production volumes and the related manufacturing efficiencies, favorable currency, and the increase in higher-margin aftermarket sales more than offset as a percentage of revenue the higher restructuring and related expenses and increased selling, general, administrative and engineering spending. In Europe, South America and India, EBIT margin for the first quarter of 2010 was six percentage points higher than prior year due to significantly higher OE production volumes and related manufacturing efficiency improvements, favorable platform mix, material cost management actions and currency gains, partially offset by increased selling, general, administrative and engineering spending. Restructuring and related expenses were even with prior year. EBIT as a percentage of revenue for our Asia Pacific segment increased seven percentage points in the first quarter of 2010 versus the prior year as stronger production volumes mainly in China and the related manufacturing efficiency improvements more than offset unfavorable currency.

Interest Expense, Net of Interest Capitalized

We reported interest expense in the first quarter of 2010 of \$32 million net of interest capitalized of \$1 million (\$31 million in our U.S. operations and \$1 million in our foreign operations), up from \$31 million net of interest capitalized of \$2 million (\$30 million in our U.S. operations and \$1 million in our foreign operations), from the first quarter of 2009. Interest expense increased slightly in the first quarter of 2010 compared to the prior year as a result of an increase to the average spread we pay over LIBOR on our senior credit facility which was partially offset by lower year-over-year average borrowings. Interest expense in the first quarter of 2010 included \$1 million of interest expense related to the accounting change impacting our factored receivables. See Liquidity and Capital Resources below for further discussion of the accounting change.

On March 31, 2010, we had \$1.009 billion in long-term debt obligations that have fixed interest rates. Of that amount, \$245 million is fixed through July 2013, \$500 million is fixed through November 2014, \$250 million is

Table of Contents

fixed through November 2015, and the remainder is fixed from 2010 through 2025. We also have \$133 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to *Liquidity and Capital Resources Capitalization* later in this *Management s Discussion and Analysis*.

Income Taxes

We reported income tax expense of \$15 million in the first quarter of 2010. The tax expense recorded differs from the expense that would have been recorded using a statutory rate of 35 percent because of \$5 million in non-cash tax charges related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. We reported income tax expense of \$3 million in the first quarter of 2009 which included \$18 million of non-cash tax charges primarily related to the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions.

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. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. In 2009, we incurred \$21 million in restructuring and related costs, of which \$16 million was recorded in cost of sales, \$1 million was recorded in selling, general, administrative and engineering expense and \$4 million was recorded in depreciation and amortization expense. In the first quarter of 2010, we incurred \$5 million in restructuring and related costs, of which \$4 million was recorded in cost of sales and \$1 million was recorded in depreciation and amortization expense.

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

(Millions)	December 31,		Impact of Exchange Rates	Reserve Adjustments	March 31, 2010 Restructuring Reserve
	2009 Restructuring Reserve	2010 Cash Payments			
Severance	15	(2)		(1)	12

Under the terms of our amended and restated senior credit agreement that took effect on February 23, 2009, we are allowed to exclude \$40 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after February 23, 2009 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2010, we have excluded \$20 million in cumulative allowable charges relating to restructuring initiatives against the \$40 million available under the terms of the February 2009 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska. We estimate this closing will generate \$8 million in annualized cost savings once completed, incremental to the \$58 million of savings related to our October 2008 restructuring announcement. We expect the elimination of 500

positions at the Cozad plant and expect to record up to \$20 million in restructuring and related expenses, of which approximately \$14 million represents cash expenditures. We expect that all expenses will be recorded by the end 2010. We plan to hire at other facilities as we move the production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During 2009 we recorded \$11 million of restructuring and related expenses related to this initiative. For the first quarter of 2010, we recorded \$3 million of restructuring and related expenses related to this initiative.

Earnings (Loss) Per Share

We reported net income attributable to Tenneco Inc. of \$7 million or \$0.11 per diluted common share for the first quarter of 2010, as compared to net loss attributable to Tenneco Inc. of \$49 million or \$1.05 per diluted common share for the first quarter of 2009. Included in the results for the first quarter of 2010 were negative impacts

Table of Contents

from expenses related to our restructuring activities and tax adjustments. The net impact of these items decreased earnings per diluted share by \$0.14. Included in the results for the first quarter of 2009 were negative impacts from expenses related to our restructuring activities and tax adjustments. The net impact of these items decreased earnings per diluted share by \$0.44. Please read the notes to the condensed consolidated financial statements for more detailed information on earnings per share.

Cash Flows for the Three Months Ended March 31, 2010 and 2009

	Three Months Ended March 31, 2010 2009 (Millions)	
Cash provided (used) by:		
Operating activities	\$ (57)	\$ (81)
Investing activities	(38)	(35)
Financing activities	118	117

Operating Activities

For the three months ended March 31, 2010, operating activities used \$57 million in cash compared to \$81 million in cash used during the same period last year. Cash used for working capital was \$112 million during the first quarter of 2010, a decrease in cash flow of \$21 million when compared to the first quarter of 2009. Receivables were a use of cash of \$191 million compared to a cash use of \$54 million in the prior year. This increase in cash use was impacted by a change in accounting in the first quarter of 2010. This accounting change requires that North America accounts receivable securitization programs be accounted for as secured borrowings rather than as a sale of accounts receivables. As a result, funding from the North America accounts receivable securitization program is included in net cash provided by financing activities on the statement of cash flows and was previously reflected in net cash used by operating activities. See *Liquidity and Capital Resources* below for further discussion of the accounting change. Had the accounting change been in effect in 2009, our cash used by operations would have decreased by \$62 million with a corresponding increase in cash provided by financing activities for the three month period ended March 31, 2009. Inventory represented a cash outflow of \$44 million during the three months ended March 31, 2010, a decrease in cash flow of \$78 million compared to prior year. This year-over-year change in cash from inventory was primarily a result of low inventory levels in the first quarter of 2009 due to lower production levels. Accounts payable provided cash of \$120 million, an increase from last year's cash outflow of \$74 million. This increase was primarily driven by the increase in global production levels. Cash taxes were \$8 million for the three months ended March 31, 2010, compared to \$4 million in the prior year.

One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$5 million at both March 31, 2010 and December 31, 2009. No negotiable financial instruments were held by our European subsidiary as of March 31, 2010 or December 31, 2009.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$17 million and \$15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$22 million and \$15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as other current assets. One of our Chinese subsidiaries that issues its own negotiable financial instruments to pay its vendors is required to maintain a cash balance if they exceed certain credit limits with

Table of Contents

the financial institution that guarantees those financial instruments. A restricted cash balance was not required at that Chinese subsidiary at March 31, 2010 and December 31, 2009, respectively.

The negotiable financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are checks drawn by our OE customers and guaranteed by their banks that are payable at a future date. The use of these instruments for payment follows local commercial practice. Because negotiable financial instruments are financial obligations of our customers and 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.

Investing Activities

Cash used for investing activities was \$3 million higher in the first quarter of 2010 compared to the same period a year ago. Cash payments for plant, property and equipment were \$38 million in the first quarter of 2010 versus payments of \$36 million in the first quarter of 2009. Cash payments for software-related intangible assets were \$2 million in the first three months of 2010 and 2009.

Financing Activities

Cash flow from financing activities was a \$118 million inflow in the first quarter of 2010 compared to an inflow of \$117 million in the same period of 2009. As mentioned above in the Operating Activities section of this cash flow discussion, cash flow from financing activities was impacted by the accounting change for the way we account for our North American accounts receivable securitization programs.

Outlook

According to Global Insight, global light vehicle production is expected to be up for the full year 2010 as compared to 2009, with most of the geographic regions throughout the world contributing to this increase. North America OE production levels are strengthening as Global Insight projects that 10.9 million units will now be produced in 2010, an increase of 28 percent from 2009. Projections from Global Insight remain stable for Europe with 17.6 million units produced for this year an increase of five percent over last year. Global Insight projects full year production to increase in South America and India by nine percent and 21 percent, respectively. China OE production will continue to grow with 15.6 million units being produced in 2010, an increase of 21 percent year-over-year, while Australia is projected to increase by six percent in 2010 as compared to 2009. In addition we expect our global aftermarket to be a stable contributor.

We will continue to focus on cash generation and operational excellence. We will maintain a high level of operational excellence as we execute major launches scheduled for this year, including 3/4 ton diesel launches in North America and commercial vehicle launches to meet the 2010 and 2011 diesel emissions regulations.

We will also continue to execute on our emission control growth opportunities globally. Projections for China are that its growth will continue to expand at a rapid rate in both the light and commercial vehicle markets. This year we have partnered with FAW-Sihuan to open our seventh Chinese joint venture in Changchun to manufacture emission control components and systems for both the commercial vehicle and light vehicle markets.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing our condensed consolidated financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required.

Table of Contents

Revenue Recognition

We recognize revenue for sales to our original equipment and aftermarket customers when title and risk of loss passes to the customers under the terms of our arrangements with those customers, which is usually at the time of shipment from our plants or distribution centers. In connection with the sale of exhaust systems to certain original equipment manufacturers, we purchase catalytic converters and diesel particulate filters or components thereof including precious metals (substrates) on behalf of our customers which are used in the assembled system. These substrates are included in our inventory and passed through to the customer at our cost, plus a small margin, since we take title to the inventory and are responsible for both the delivery and quality of the finished product. Revenues recognized for substrate sales were \$261 million, and \$201 million for the first three months of 2010 and 2009, respectively. For our aftermarket customers, we provide for promotional incentives and returns at the time of sale. Estimates are based upon the terms of the incentives and historical experience with returns. Certain taxes assessed by governmental authorities on revenue producing transactions, such as value added taxes, are excluded from revenue and recorded on a net basis. Shipping and handling costs billed to customers are included in revenues and the related costs are included in cost of sales in our Statements of Income (Loss).

Warranty Reserves

Where we have offered product warranty, we also provide for warranty costs. Those estimates are based upon historical experience and upon specific warranty issues as they arise. While we have not experienced any material differences between these estimates and our actual costs, it is reasonably possible that future warranty issues could arise that could have a significant impact on our condensed consolidated financial statements.

Pre-production Design and Development and Tooling Assets

We expense pre-production design and development costs as incurred unless we have a contractual guarantee for reimbursement from the original equipment customer. Unbilled pre-production design and development costs recorded in prepayments and other and long-term receivables totaled \$15 and \$14 million at both March 31, 2010 and December 31, 2009, respectively. In addition, plant, property and equipment included \$44 million and \$49 million at March 31, 2010 and December 31, 2009, respectively, for original equipment tools and dies that we own, and prepayments and other included \$52 million and \$50 million at March 31, 2010 and December 31, 2009, respectively, for in-process tools and dies that we are building for our original equipment customers.

Income Taxes

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. 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.

Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

Future reversals of existing taxable temporary differences;

Edgar Filing: TENNECO INC - Form 10-Q

Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards; and

Tax-planning strategies.

In 2009, we recorded tax expense of \$13 million. Computed using the U.S. Federal statutory income tax rate of 35 percent, income tax would be a benefit of \$14 million. The difference is due primarily to valuation allowances against deferred tax assets generated by 2009 losses in the U.S. and in certain foreign countries which we cannot

Table of Contents

benefit, partially offset by adjustments to past valuation allowances for deferred tax assets including a reversal of \$20 million of U.S. valuation allowance based on the change in the fair value of a tax planning strategy. We reported income tax expense of \$15 million in the first quarter of 2010. The tax expense recorded differs from the expense that would be recorded using a U.S. Federal statutory rate of 35 percent because of \$5 million in tax charges primarily related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. During the first three months of 2010, we recorded an additional valuation allowance of less than \$1 million primarily related to U.S. tax benefits recorded in the first three months of 2010 on U.S. losses. In evaluating the requirements to record a valuation allowance, accounting standards do not permit us to consider an economic recovery in the U.S. or new business we have won in the commercial vehicle segment. Consequently, beginning in 2008, given our historical losses, we concluded that our ability to fully utilize our NOLs was limited due to projecting the continuation of the negative economic environment and the impact of the negative operating environment on our tax planning strategies. As a result of the tax planning strategy which has not yet been implemented but which we plan to implement and which does not depend upon generating future taxable income, we carry deferred tax assets in the U.S. of \$90 million relating to the expected utilization of those NOLs. The federal NOLs expire beginning in 2020 through 2029. The state NOLs expire in various years through 2029.

If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable.

We are required to record a valuation allowance against deferred tax assets generated by taxable losses in each period in the U.S. as well as in other foreign countries. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated. This will cause variability in our effective tax rate.

Goodwill

We evaluate goodwill for impairment in the fourth quarter of each year, or more frequently if events indicate it is warranted. We compare the estimated fair value of our reporting units with goodwill to the carrying value of the unit's assets and liabilities to determine if impairment exists within the recorded balance of goodwill. We estimate the fair value of each reporting unit using the income approach which is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of market trends, forecasted revenues and expenses, capital expenditures, weighted average cost of capital and other variables. These estimates are based on assumptions that we believe to be reasonable, but which are inherently uncertain.

Pension and Other Postretirement Benefits

We have various defined benefit pension plans that cover some of our employees. We also have postretirement health care and life insurance plans that cover some of our domestic employees. Our pension and postretirement health care and life insurance expenses and valuations are dependent on assumptions used by our actuaries in calculating those amounts. These assumptions include discount rates, health care cost trend rates, long-term return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend rate assumptions are developed based on historical cost data and an assessment of likely long-term trends. Retirement rates are based primarily on actual plan experience while mortality rates are based upon the general population experience which is not expected to differ materially from our experience.

Our approach to establishing the discount rate assumption for both our domestic and foreign plans starts with high-quality investment-grade bonds adjusted for an incremental yield based on actual historical performance. This incremental yield adjustment is the result of selecting securities whose yields are higher than the normal bonds that comprise the index. Based on this approach, for 2010 we lowered the weighted average discount rate for all our pension plans to 6.0 percent from 6.2 percent. The discount rate for postretirement benefits was also lowered from 6.2 percent to 6.1 percent for 2010.

Table of Contents

Our approach to determining expected return on plan asset assumptions evaluates both historical returns as well as estimates of future returns, and is adjusted for any expected changes in the long-term outlook for the equity and fixed income markets. As a result, our estimate of the weighted average long-term rate of return on plan assets for all of our pension plans was lowered from 7.9 percent to 7.6 percent for 2010.

Except in the U.K., our pension plans generally do not require employee contributions. Our policy is to fund our pension plans in accordance with applicable U.S. and foreign government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At March 31, 2010, all legal funding requirements had been met. Other postretirement benefit obligations, such as retiree medical, and certain foreign pension plans are funded as the obligations become due.

Changes in Accounting Pronouncements

Footnote 12 in our Notes to Condensed Consolidated Financial Statements located in Part I Item 1 of this Form 10-Q is incorporated herein by reference.

Liquidity and Capital Resources**Capitalization**

	March 31, 2010	December 31, 2009 (Millions)	% Change
Short-term debt and maturities classified as current	\$ 202	\$ 75	169%
Long-term debt	1,137	1,145	(1)
Total debt	1,339	1,220	10
Total redeemable noncontrolling interests	9	7	29
Total noncontrolling interests	31	32	(3)
Tenneco Inc. Shareholders' equity	(54)	(21)	(157)
Total equity	(23)	11	n/m
Total capitalization	\$ 1,325	\$ 1,238	7

General. Short-term debt, which includes maturities classified as current and borrowings by foreign subsidiaries, was \$202 million and \$75 million as of March 31, 2010 and December 31, 2009, respectively. We adopted the new accounting guidance for transfers of financial assets on January 1, 2010, which resulted in an increase of \$126 million in short-term debt as of March 31, 2010. We had no borrowings under our revolving credit facilities at either March 31, 2010 or December 31, 2009.

The 2010 year-to-date decrease in total equity primarily resulted from a \$32 million decrease of translation of foreign balances into U.S. dollars, \$11 million decrease in premium on common stock and other capital surplus relating to the

purchase of an additional 20 percent of equity interest from a Chinese noncontrolling joint venture partner, offset by net income attributable to Tenneco Inc. of \$7 million. While our shareholders' equity balance was negative at March 31, 2010, it had no effect on our business operations. We have no debt covenants that are based upon our book equity, and there are no other agreements that are adversely impacted by our negative book equity.

Overview. Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of March 31, 2010, the senior credit facility consisted of a five-year, \$128 million term loan A maturing in March 2012, a five-year, \$550 million revolving credit facility maturing in March 2012, and a seven-year \$130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. Our outstanding debt also includes \$245 million of 10¹/₄ percent senior secured notes due July 15, 2013, \$250 million of 8¹/₈ percent senior notes due November 15, 2015, and \$500 million of 8⁵/₈ percent senior

Table of Contents

subordinated notes due November 15, 2014. At March 31, 2010, we had unused borrowing capacity of \$629 million under our \$680 million revolving credit facility with \$51 million in letters of credit outstanding and no borrowings.

The term loan A facility of \$128 million as of March 31, 2010, is payable in twelve consecutive quarterly installments, which commenced June 30, 2009 as follows: \$6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, \$15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and \$17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. Over the next twelve months we plan to repay \$60 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the \$60 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

The tranche B-1 letter of credit/revolving loan facility requires repayment by March 2014. We can borrow revolving loans and issue letters of credit under the \$130 million tranche B-1 letter of credit/revolving loan facility. The tranche B-1 letter of credit/revolving loan facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. There is no additional cost to us for issuing letters of credit under the tranche B-1 letter of credit/revolving loan facility. However outstanding letters of credit reduce our availability to borrow revolving loans under this portion of the facility. We pay the tranche B-1 lenders interest equal to LIBOR plus a margin, which is offset by the return on the funds deposited with the administrative agent by the lenders which earn interest at an annual rate approximately equal to LIBOR less 20 basis points. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduced the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). These changes are detailed in Liquidity and Capital Resources Senior Credit Facility Other Terms and Conditions.

Beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan A and revolving credit facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0, and will be further reduced by an additional 50 basis points following each fiscal quarter for which the consolidated net leverage ratio is less than 4.0.

Also beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our tranche B-1 facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0.

The February 23, 2009, amendment to our senior credit facility also placed further restrictions on our operations including limitations on: (i) debt incurrence, (ii) incremental loan extensions, (iii) liens, (iv) restricted payments, (v) optional prepayments of junior debt, (vi) investments, (vii) acquisitions, and (viii) mandatory prepayments. The

definition of EBIDTA was amended to allow for \$40 million of cash restructuring charges taken after the date of the amendment and \$4 million annually in aftermarket changeover costs. We agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately \$8 million.

Senior Credit Facility Interest Rates and Fees. Borrowings and letters of credit issued under the senior credit facility bear interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus

Table of Contents

a margin as set forth in the table below; or (ii) a rate consisting of the greater of the JPMorgan Chase prime rate or the Federal Funds rate, plus a margin as set forth in the table below:

	12/24/2008 thru 2/22/2009	2/23/2009 thru 3/1/2009	3/2/2009 thru 5/14/2009	5/15/2009 thru 8/13/2009	8/14/2009 thru 2/28/2010	Beginning 3/1/2010
Applicable Margin over LIBOR for Revolving Loans	3.00%	5.50%	4.50%	5.00%	5.50%	4.50%
Applicable Margin over LIBOR for Term Loan A Loans	3.00%	5.50%	4.50%	5.00%	5.50%	4.50%
Applicable Margin over LIBOR for Tranche B-1 Loans	3.00%	5.50%	5.00%	5.00%	5.50%	5.00%
Applicable Margin for Prime-based Loans	2.00%	4.50%	3.50%	4.00%	4.50%	3.50%
Applicable Margin for Federal Funds-based Loans	2.50%	5.00%	4.00%	4.50%	5.00%	4.00%
Commitment Fee	0.50%	0.75%	0.50%	0.50%	0.75%	0.50%

Senior Credit Facility Other Terms and Conditions. As described above, we are highly leveraged. Our senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA, as defined in the senior credit facility agreement), and consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined under the senior credit facility agreement) at the end of each period indicated. Failure to maintain these ratios will result in a default under our senior credit facility. The financial ratios required under the amended and restated senior credit facility and, the actual ratios we achieved for the first quarter of 2010, are as follows:

	Quarter Ended March 31, 2010	
	Req.	Act.
Leverage Ratio (maximum)	5.50	2.77
Interest Coverage Ratio (minimum)	2.00	3.04

The financial ratios required under the senior credit facility for the remainder of 2010 and beyond are set forth below:

Period Ending	Leverage Ratio	Interest Coverage Ratio
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55

Edgar Filing: TENNECO INC - Form 10-Q

December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

The senior credit facility agreement provides the ability to refinance our senior subordinated notes and/or our senior secured notes (i) in exchange for permitted financing indebtedness (as defined in the senior credit facility agreement); (ii) in exchange for shares of common stock; or (iii) in an amount equal to the sum of (A) the net cash proceeds of equity issued after March 16, 2007, plus (B) the portion of annual excess cash flow (as defined in the senior credit facility agreement) that is not required to be applied to the payment of the credit facilities and which is not used for other purposes, provided that the amount of the subordinated notes and the aggregate amount of the

Table of Contents

senior secured notes and the subordinated notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Pro forma Consolidated Leverage Ratio (Millions)	Senior Subordinated Notes Aggregate Maximum Amount	Senior Subordinated Notes and Senior Secured Notes Aggregate Maximum Amount
Greater than or equal to 3.0x	\$	\$ 10
Greater than or equal to 2.5x	\$ 100	\$ 300
Less than 2.5x	\$ 125	\$ 375

In addition, the senior secured notes may be refinanced with (i) the net cash proceeds of incremental facilities and permitted refinancing indebtedness (as defined in the senior credit facility agreement), (ii) shares of common stock, (iii) the net cash proceeds of any new senior or subordinated unsecured indebtedness, (iv) proceeds of revolving credit loans (as defined in the senior credit facility agreement), (v) up to 200 million of unsecured indebtedness of the company's foreign subsidiaries and (vi) cash generated by the company's operations provided that the amount of the senior secured notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Pro forma Consolidated Leverage Ratio (Millions)	Aggregate Senior and Subordinate Note Maximum Amount
Greater than or equal to 3.0x	\$ 10
Greater than or equal to 2.5x	\$ 300
Less than 2.5x	\$ 375

The senior credit facility agreement also contains restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions as described in the amended and restated agreement); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees; (v) investments and acquisitions; (vi) dividends and share repurchases; (vii) mergers and consolidations; and (viii) refinancing of subordinated and 101/4 percent senior secured notes. Compliance with these requirements and restrictions is a condition for any incremental borrowings under the senior credit facility agreement and failure to meet these requirements enables the lenders to require repayment of any outstanding loans. As of March 31, 2010, we were in compliance with all the financial covenants and operational restrictions of the facility. Our senior credit facility does not contain any terms that could accelerate payment of the facility or affect pricing under the facility as a result of a credit rating agency downgrade.

Senior Secured, Senior and Subordinated Notes. As of March 31, 2010, our outstanding debt also includes \$245 million of 101/4 percent senior secured notes due July 15, 2013, \$250 million of 81/8 percent senior notes due November 15, 2015, and \$500 million of 85/8 percent senior subordinated notes due November 15, 2014. We can

redeem some or all of the notes at any time after July 15, 2008 in the case of the senior secured notes, November 15, 2009 in the case of the senior subordinated notes and November 15, 2011 in the case of the senior notes. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes. We are permitted to redeem up to 35 percent of the senior notes with the proceeds of certain equity offerings completed before November 15, 2010.

Our senior secured, senior and senior subordinated notes require that, as a condition precedent to incurring certain types of indebtedness not otherwise permitted, our consolidated fixed charge coverage ratio, as calculated on a pro forma basis, be greater than 2.00. We have not incurred any of the types of indebtedness not otherwise permitted by the indentures. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (ii) dividends; (iii) distributions and stock repurchases; (iv) investments; (v) asset sales and (vi) mergers and consolidations. Subject to limited exceptions, all of our existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee these notes on a joint and several basis. In addition, the senior secured notes and related guarantees are secured by second priority liens, subject to specified exceptions, on all of our and our subsidiary guarantors' assets that secure obligations under our

Table of Contents

senior credit facility, except that only a portion of the capital stock of our subsidiary guarantors' domestic subsidiaries is provided as collateral and no assets or capital stock of our direct or indirect foreign subsidiaries secure the notes or guarantees. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. The senior subordinated notes rank junior in right of payment to our senior credit facility and any future senior debt incurred. As of March 31, 2010, we were in compliance with the covenants and restrictions of these indentures.

Accounts Receivable Securitization. In addition to our senior credit facility, senior secured notes, senior notes and senior subordinated notes, we also securitize some of our accounts receivable on a limited recourse basis in North America and Europe. Tenneco, as servicer under these accounts receivable securitization programs, is responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. The amount of outstanding third party investments in our securitized accounts receivable under the bank program was \$127 million and \$62 million at March 31, 2010 and December 31, 2009, respectively. In February 2010, the North American program was amended and extended to February 18, 2011, at a maximum facility size of \$100 million. As part of this renewal, the margin we pay to our banks decreased. In March 2010, the North American program was further amended to extend the revolving terms of the program to March 25, 2011, add an additional bank and increase the available financing under the facility by \$10 million to a new maximum of \$110 million. In addition, we added a second priority facility to the North American program, which provides up to an additional \$40 million of financing against accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the existing securitization facility. This new second priority facility also expires on March 25, 2011, and is subordinated to the existing securitization facility.

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

We also securitize receivables in our European operations to regional banks in Europe. The amount of outstanding third party investments in our securitized accounts receivable in Europe was \$96 million and \$75 million at March 31, 2010 and December 31, 2009, respectively. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year but some may be 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 15 days, or less, notification.

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

We adopted the new accounting guidance for transfers of financial assets effective January 1, 2010. Prior to the adoption of this new guidance, we accounted for activities under our North American and European accounts receivable securitization programs as sales of financial assets to our banks. The new accounting guidance changed the

accounting rules for the transfer of financial assets which companies need to meet to qualify for sales accounting treatment. Based on these new accounting rules, effective January 1, 2010, we account for our North American securitization program as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new

Table of Contents

accounting rules. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million in interest expense for the three month period ended March 31, 2010 relating to our North American securitization program which effective January 1, 2010, is accounted for as a secured borrowing arrangement under the new accounting guidance for transfers of financial assets. In addition, we recognized a loss of \$1 million and \$2 million for the three month period ended March 31, 2010 and 2009, respectively, on the sale of trade accounts receivable in both the North American and European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately four percent during 2010.

The impact of the new accounting rules on our condensed consolidated financial statements is an increase of \$126 million both in accounts receivables and short-term debt on the balance sheet as of March 31, 2010 as well as an increase of \$1 million in interest expense and a corresponding decrease in loss on sale of receivables on our income statement for the three months ended March 31, 2010. In addition, the funding levels provided by our North American accounts receivable securitization program subsequent to January 1, 2010 are reflected as a \$126 million change in net increase (decrease) in short-term borrowings secured by accounts receivables and included in net cash provided by financing activities in our cash flow statement for the three month period ending March 31, 2010. Funding levels provided by our European securitization programs continue to be reflected as a change in receivables and included in net cash provided (used) by operating activities as under the previous accounting rules. Had the new accounting rules been in effect in 2009, reported receivables and short-term debt would both have been \$62 million higher as of December 31, 2009. The loss on sale of receivables would have been \$1 million lower, offset by a corresponding \$1 million increase to interest expense for the three month period ended March 31, 2009. Additionally, our cash provided (used) by operations would have decreased by \$62 million with a corresponding increase in cash provided by financing activities for the same amount for the three month period ended March 31, 2009.

Capital Requirements. We believe that cash flows from operations, combined with available borrowing capacity described above, assuming that we maintain compliance with the financial covenants and other requirements of our loan agreement, will be sufficient to meet our future capital requirements, including debt amortization, capital expenditures, pension contributions, and other operational requirements, for the following year. Our ability to meet the financial covenants depends upon a number of operational and economic factors, many of which are beyond our control. Factors that could impact our ability to comply with the financial covenants include the rate at which consumers continue to buy new vehicles and the rate at which they continue to repair vehicles already in service, as well as our ability to successfully implement our restructuring plans and operate at historically low production rates. Further deterioration in North American vehicle production levels, weakening in the global aftermarket, or a further reduction in vehicle production levels in Europe, beyond our expectations, could impact our ability to meet our financial covenant ratios. In the event that we are unable to meet these financial covenants, we would consider several options to meet our cash flow needs. Such actions include additional restructuring initiatives and other cost reductions, sales of assets, reductions to working capital and capital spending, issuance of equity and other alternatives to enhance our financial and operating position. Should we be required to implement any of these actions to meet our cash flow needs, we believe we can do so in a reasonable time frame.

Derivative Financial Instruments***Foreign Currency Exchange Rate Risk***

We use derivative financial instruments, principally foreign currency forward purchase and sale 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.

Table of Contents

In managing our foreign currency exposures, we identify and aggregate existing offsetting positions and then hedge residual exposures through third-party derivative contracts. The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of March 31, 2010. 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. All contracts in the following table mature in 2010.

		Notional Amount in Foreign Currency	March 31, 2010 Weighted Average Settlement Rates (Millions Except Settlement Rates)	Fair Value in U.S. Dollars
Australian dollars	Purchase	49	0.916	46
	Sell	(8)	0.916	(8)
British pounds	Purchase	35	1.518	53
	Sell	(32)	1.518	(49)
European euro	Purchase			
	Sell	(23)	1.352	(32)
South African rand	Purchase	313	0.137	43
	Sell	(44)	0.137	(6)
U.S. dollars	Purchase	10	1.001	10
	Sell	(63)	1.000	(63)
Other	Purchase	693	0.011	8
	Sell	(1)	0.985	(1)
				\$ 1

Interest Rate Risk

Our financial instruments that are sensitive to market risk for changes in interest rates are primarily our debt securities. We use our revolving credit facilities to finance our short-term and long-term capital requirements. We pay a current market rate of interest on these borrowings. Our long-term capital requirements have been financed with long-term debt with original maturity dates ranging from five to ten years. On March 31, 2010, we had \$1.009 billion in long-term debt obligations that have fixed interest rates. Of that amount, \$245 million is fixed through July 2013, \$500 million is fixed through November 2014, \$250 million is fixed through November 2015, and the remainder is fixed from 2010 through 2025. We also have \$133 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to Liquidity and Capital Resources Capitalization earlier in this Management's Discussion and Analysis.

We estimate that the fair value of our long-term debt at March 31, 2010 was about 102 percent of its book value. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by about \$3 million.

Environmental and Other Matters

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These

Table of Contents

estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our condensed consolidated financial statements.

As of March 31, 2010, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At March 31, 2010, our estimated share of environmental remediation costs at these sites was approximately \$17 million on a discounted basis. The undiscounted value of the estimated remediation costs was \$23 million. For those locations in which the liability was discounted, the weighted average discounted rate used was 3.6 percent. 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 towards 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.

The \$17 million noted above includes \$5 million of estimated environmental remediation costs that result from the bankruptcy of Mark IV Industries in 2009. Prior to our 1996 acquisition of The Pullman Company, Pullman had sold certain assets to Mark IV. As partial consideration for the purchase of these assets, Mark IV agreed to assume Pullman's and its subsidiaries' historical obligations to contribute to the environmental remediation of certain sites. Mark IV has filed a petition for insolvency under Chapter 11 of the United States Bankruptcy Code and notified Pullman that it no longer intends to continue to contribute toward the remediation of those sites. We are conducting a thorough analysis and review of these matters and it is possible that our estimate may change as additional information becomes available to us.

We do not believe that any potential costs associated with our current status as a potentially responsible party in the Superfund sites, or as a liable party at the other locations referenced herein, will be material to our condensed consolidated results of operations, financial position or cash flows.

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, we have become subject to an audit in 11 states of our practices with respect to the payment of unclaimed property to those states. We have practices in place designed to ensure that we pay unclaimed property as required. We are in the initial stages of this audit, which could cover over 20 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, 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, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our

Table of Contents

subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler 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 of each in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers 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 non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

Employee Stock Ownership Plans

We have established Employee Stock Ownership Plans for the benefit of our domestic employees. Under the plans, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75 percent of their salary through contributions to the plan, which are invested in selected mutual funds or used to buy our common stock. We match in cash 50 percent of each employee's contribution up to eight percent of the employee's salary. In 2009, we temporarily discontinued these matching contributions as a result of the recent global economic downturn. We restored the matching contributions to salaried and non-union hourly U.S. employees beginning on January 1, 2010. In connection with freezing the defined benefit pension plans for nearly all U.S. based salaried and non-union hourly employees effective December 31, 2006, and the related replacement of those defined benefit plans with defined contribution plans, we are making additional contributions to the Employee Stock Ownership Plans. We recorded expense for these contributions of approximately \$3 million and \$2 million for the three months ended March 31, 2010 and 2009, respectively. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee's third anniversary of employment.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to interest rate risk and foreign currency exchange rate risk, see the caption entitled "Derivative Financial Instruments" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the quarter covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by our company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II****ITEM 1A. RISK FACTORS**

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) Not applicable.

(c) *Purchase of equity securities by the issuer and affiliated purchasers.* The following table provides information relating to our purchase of shares of our common stock in the first quarter of 2010. All of these purchases reflect shares withheld upon vesting of restricted stock, to satisfy statutory minimum tax withholding obligations.

Period	Total Number of Shares Purchased	Average Price Paid
January 2010	87,233	\$ 18.98
February 2010		
March 2010	6,864	\$ 23.21
Total	94,097	\$ 19.29

We presently have no publicly announced repurchase plan or program, but intend to continue to satisfy statutory minimum tax withholding obligations in connection with the vesting of outstanding restricted stock through the withholding of shares.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Tenneco Inc. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TENNECO INC.

By: /s/ Kenneth R. Trammell
Kenneth R. Trammell
*Executive Vice President and Chief
Financial Officer*

Dated: May 7, 2010

Table of Contents

**INDEX TO EXHIBITS
TO
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 2010**

Exhibit Number	Description
10.1	Third Amended and Restated Receivables Purchase Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, as Seller, Tenneco Automotive Operating Company Inc., as Servicer, Falcon Asset Securitization Company LLC and Liberty Street Funding LLC, as Conduits, the Committed Purchasers from time to time party thereto, JPMorgan Chase Bank, N.A., The Bank of Nova Scotia and Wells Fargo Bank, N.A., as Co-Agents and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference from Exhibit 10.1 of the registrant's Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.2	Intercreditor Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, Tenneco Automotive Operating Company Inc., JPMorgan Chase Bank, N.A. and Wells Fargo Bank, N.A. (incorporated herein by reference from Exhibit 10.2 of the registrant's Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.3	Omnibus Amendment No. 4, dated as of March 26, 2010, to Receivables Sale Agreements, as amended (incorporated herein by reference from Exhibit 10.3 of the registrant's Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.4	SLOT Receivables Purchase Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, as Seller, Tenneco Automotive Operating Company Inc., as Servicer, and Wells Fargo Bank, N.A., individually and as SLOT Agent (incorporated herein by reference from Exhibit 10.4 of the registrant's Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.5	Fourth Amended and Restated Performance Undertaking, dated as of March 26, 2010, by the registrant in favor of Tenneco Automotive RSA Company (incorporated herein by reference from Exhibit 10.5 of the registrant's Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.6	Form of Tenneco Inc. Three Year Long-Term Performance Unit Award Agreement (incorporated herein by reference from Exhibit 10.1 of the registrant's Current Report on Form 8-K dated as of March 15, 2010, File No. 1-12387).
*12	Computation of Ratio of Earnings to Fixed Charges.
*15.1	Letter of PricewaterhouseCoopers regarding interim financial information.
*15.2	Letter of Deloitte and Touche LLP regarding interim financial information.
*31.1	Certification of Gregg M. Sherrill under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Gregg M. Sherrill and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.