

TENNECO INC  
Form 10-Q  
November 10, 2008

**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 September 30, 2008  
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 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).

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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: 46,760,333 shares outstanding as of October 31, 2008.

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## TABLE OF CONTENTS

	<b>Page</b>
<b><u>Part I Financial Information</u></b>	
<u>Item 1. Financial Statements (Unaudited)</u>	4
Tenneco Inc. and Consolidated Subsidiaries	
<u>Report of Independent Registered Public Accounting Firm</u>	4
<u>Condensed Consolidated Statements of Income (Loss)</u>	5
<u>Condensed Consolidated Balance Sheets</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	8
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	9
<u>Notes to Condensed Consolidated Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	62
<u>Item 4. Controls and Procedures</u>	63
<b><u>Part II Other Information</u></b>	
Item 1. Legal Proceedings	*
<u>Item 1A. Risk Factors</u>	65
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
Item 3. Defaults Upon Senior Securities	*
Item 4. Submission of Matters to a Vote of Security Holders	*
Item 5. Other Information	*
Item 6. Exhibits	67
<u>EX-12</u>	
<u>EX-15</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.

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

This Quarterly Report on Form 10-Q 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 Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Part I, Item 2. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and similar expressions (and variations thereof), identify the 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:

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the recent significant shift in consumer preferences from light trucks and SUVs to other vehicles in light of higher fuel cost and general economic conditions (because the percentage of our North American OE revenues related to light trucks and SUVs is greater than the percentage of the total North American light vehicle build rate represented by light trucks and SUVs, our North American OE business is sensitive to this change in consumer preferences), and other factors impacting the cyclical nature of automotive production and

**Table of Contents**

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 product, such as the recent and significant production cuts 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;

general economic, business and market conditions, including without limitation the financial difficulties facing a number of companies in the automotive industry and the potential impact thereof on labor unrest, supply chain disruptions, weakness in demand and the collectibility of any accounts receivable due to us from such companies;

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 recent 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;

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 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 access the capital or credit markets and the costs of capital, including the recent global financial and liquidity crisis, changes in interest rates, market perceptions of the industries in which we operate or ratings of securities;

**Table of Contents**

the recent volatility in the credit markets, the losses which may be sustained by our lenders due to their lending and other financial relationships and the general instability of financial institutions due to a weakening economy;

our inability 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;

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 and the adoption of the current mandated timelines for worldwide emission regulation;

acts of war and/or terrorism, including, but not limited to, the events taking place in the Middle East, 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, 2007, 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 (the Company) as of September 30, 2008, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2008 and 2007, and changes in shareholders' equity for the nine-month periods ended September 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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, 2007, and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity, and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated February 29, 2008, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's adoption of the measurement date provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, as of January 1, 2007. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**DELOITTE & TOUCHE LLP**

Chicago, Illinois  
November 6, 2008



**Table of Contents****TENNECO INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(Unaudited)**

	<b>Three Months Ended September 30, 2008</b>	<b>Three Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2007</b>
<b>(Millions Except Share and Per Share Amounts)</b>				
<b>Revenues</b>				
Net sales and operating revenues	\$ 1,497	\$ 1,556	\$ 4,708	\$ 4,619
<b>Costs and expenses</b>				
Cost of sales (exclusive of depreciation and amortization shown below)	1,298	1,313	4,007	3,869
Engineering, research, and development	29	30	99	86
Selling, general, and administrative	87	101	294	300
Depreciation and amortization of other intangibles	56	52	168	150
	1,470	1,496	4,568	4,405
<b>Other income (expense)</b>				
Loss on sale of receivables	(3)	(3)	(7)	(8)
Other income	4	9	3	3
	1	(3)	2	(5)
<b>Income before interest expense, income taxes, and minority interest</b>				
	28	57	142	209
Interest expense (net of interest capitalized of \$2 million and \$2 million for the three months ended September 30, 2008 and 2007, respectively, and \$5 million and \$4 million for the nine months ended September 30, 2008 and 2007, respectively)	30	32	88	112
Income tax expense	131	163	22	22
Minority interest	3	4	8	8
<b>Net income (loss)</b>	<b>\$ (136)</b>	<b>\$ 21</b>	<b>\$ (117)</b>	<b>\$ 67</b>
<b>Earnings (loss) per share</b>				
Weighted average shares of common stock outstanding				

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Basic	46,441,954	45,973,687	46,359,051	45,725,202
Diluted	46,441,954	47,899,357	46,359,051	47,521,738
Basic earnings (loss) per share of common stock	\$ (2.92)	\$ 0.47	\$ (2.53)	\$ 1.48
Diluted earnings (loss) per share of common stock	\$ (2.92)	\$ 0.45	\$ (2.53)	\$ 1.42

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

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

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Millions)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 127	\$ 188
Receivables		
Customer notes and accounts, net	795	732
Other	51	25
Inventories		
Finished goods	231	212
Work in process	188	175
Raw materials	134	111
Materials and supplies	46	41
Deferred income taxes	35	36
Prepayments and other	158	121
	1,765	1,641
Other assets:		
Long-term receivables, net	14	19
Goodwill	213	208
Intangibles, net	26	26
Deferred income taxes	231	370
Other	129	141
	613	764
Plant, property, and equipment, at cost	3,053	2,978
Less Accumulated depreciation and amortization	(1,869)	(1,793)
	1,184	1,185
	\$ 3,562	\$ 3,590
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 54	\$ 46
Trade payables	1,012	987
Accrued taxes	38	41
Accrued interest	30	22

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Accrued liabilities	223	213
Other	36	49
	1,393	1,358
Long-term debt	1,470	1,328
Deferred income taxes	55	114
Postretirement benefits	279	288
Deferred credits and other liabilities	108	71
Commitments and contingencies		
Minority interest	35	31
Shareholders' equity:		
Common stock		
Premium on common stock and other capital surplus	2,807	2,800
Accumulated other comprehensive loss	(141)	(73)
Retained earnings (accumulated deficit)	(2,204)	(2,087)
	462	640
Less: Shares held as treasury stock, at cost	240	240
	222	400
	\$ 3,562	\$ 3,590

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

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

	<b>Three Months Ended September 30, 2008</b>	<b>Three Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2007</b>
	(Millions)			
<b>Operating Activities</b>				
Net income (loss)	\$ (136)	\$ 21	\$ (117)	\$ 67
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities				
Depreciation and amortization of other intangibles	56	52	168	150
Deferred income taxes	102	(10)	84	(23)
Stock-based compensation	2	3	7	7
Loss on sale of assets	2	3	7	8
Changes in components of working capital				
(Increase) decrease in receivables	34	30	(114)	(282)
(Increase) decrease in inventories	(4)	(42)	(51)	(113)
(Increase) decrease in prepayments and other current assets	(3)	(11)	(42)	(35)
Increase (decrease) in payables	(9)	(47)	41	171
Increase (decrease) in accrued taxes	(17)	(6)	8	(10)
Increase (decrease) in accrued interest	9	(1)	8	(4)
Increase (decrease) in other current liabilities	(12)	5	4	25
Change in long-term assets		3	4	10
Change in long-term liabilities	19	(5)	25	(14)
Other	(3)	1	2	2
Net cash provided (used) by operating activities	40	(4)	34	(41)
<b>Investing Activities</b>				
Proceeds from the sale of assets		1	2	2
Cash payments for plant, property, and equipment	(65)	(41)	(192)	(116)
Acquisition of business, net of cash acquired	3		(16)	
Cash payment for net assets purchased		(16)		(16)
Cash payments for software related intangible assets	(1)	(3)	(9)	(14)
Investments and other		(2)		
Net cash used by investing activities	(63)	(61)	(215)	(144)
<b>Financing Activities</b>				
Issuance of common shares		2	1	6
Issuance of long-term debt				150

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Debt issuance cost of long-term debt				(6)
Retirement of long-term debt	(1)	(2)	(4)	(361)
Increase (decrease) in bank overdrafts	(18)	(5)	(18)	6
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	27	87	148	360
Distributions to minority interest partners		(2)	(4)	(3)
Other		2		2
Net cash provided by financing activities	8	82	123	154
Effect of foreign exchange rate changes on cash and cash equivalents	(22)	18	(3)	32
Increase (decrease) in cash and cash equivalents	(37)	35	(61)	1
Cash and cash equivalents, July 1 and January 1, respectively	164	168	188	202
Cash and cash equivalents, September 30 (Note)	\$ 127	\$ 203	\$ 127	\$ 203
<b>Supplemental Cash Flow Information</b>				
Cash paid during the period for interest	\$ 22	\$ 34	\$ 83	\$ 111
Cash paid during the period for income taxes (net of refunds)	\$ 26	\$ 17	\$ 50	\$ 45
<b>Non-cash Investing and Financing Activities</b>				
Period ended balance of payable for plant, property, and equipment	\$ 24	\$ 24	\$ 24	\$ 24
Assumption of debt from business acquisition	\$ 10		\$ 10	

**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 financial statements are an integral part of these statements of cash flows.



Table of Contents

## TENNECO INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Unaudited)

	<b>Nine Months Ended September 30,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
	<b>(Millions Except Share Amounts)</b>			
<b>Common Stock</b>				
Balance January 1	47,892,532	\$	47,085,274	\$
Issued pursuant to benefit plans	182,322		238,071	
Stock options exercised	180,176		491,970	
Balance September 30	48,255,030		47,815,315	
<b>Premium on Common Stock and Other Capital Surplus</b>				
Balance January 1		2,800		2,790
Premium on common stock issued pursuant to benefit plans		7		8
Balance September 30		2,807		2,798
<b>Accumulated Other Comprehensive Loss</b>				
Balance January 1		(73)		(252)
Measurement date implementation of SFAS No. 158, net of tax of \$7 million				14
Other comprehensive income		(68)		104
Balance September 30		(141)		(134)
<b>Retained Earnings (Accumulated Deficit)</b>				
Balance January 1		(2,087)		(2,072)
Net income (loss)		(117)		67
Measurement date implementation of SFAS No. 158, net of tax				(5)
Other				(1)
Balance September 30		(2,204)		(2,011)
<b>Less Common Stock Held as Treasury Stock, at Cost</b>				
Balance January 1 and September 30	1,294,692	240	1,294,692	240
Total		\$ 222		\$ 413

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

Table of Contents

## TENNECO INC.

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

	<b>Three Months Ended September 30,</b>			
	<b>2008</b>	<b>2007</b>		
	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
	<b>(Millions)</b>			
<b>Net Income (Loss)</b>	\$	(136)	\$	21
<b>Accumulated Other Comprehensive Income (Loss)</b>				
<b>Cumulative Translation Adjustment</b>				
Balance July 1	\$	151	\$	(12)
Translation of foreign currency statements		(133)		63
Balance September 30		18		51
<b>Additional Liability for Pension Benefits</b>				
Balance July 1		(158)		(185)
Additional liability for pension benefits, net of tax of \$4 million		(1)		(1)
Balance September 30		(159)		(185)
Balance September 30	\$	(141)	\$	(134)
<b>Other Comprehensive Income (Loss)</b>		(134)		63
<b>Comprehensive Income (Loss)</b>	\$	(270)	\$	84

	<b>Nine Months Ended September 30,</b>			
	<b>2008</b>	<b>2007</b>		
	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
	<b>(Millions)</b>			
<b>Net Income (Loss)</b>	\$	(117)	\$	67

**Accumulated Other Comprehensive Income (Loss)****Cumulative Translation Adjustment**

Balance January 1	\$	85		\$	(53)	
Translation of foreign currency statements		(67)	(67)		104	104

Balance September 30		18			51	
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**Additional Liability for Pension Benefits**

Balance January 1		(158)			(199)	
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Additional liability for pension benefits, net of tax of \$4 million		(1)	(1)			
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Measurement date implementation of SFAS No. 158, net of tax of \$7 million					14	
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Balance September 30		(159)			(185)	
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Balance September 30	\$	(141)		\$	(134)	
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<b>Other Comprehensive Income (Loss)</b>			(68)			104
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<b>Comprehensive Income (Loss)</b>	\$		(185)	\$		171
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The accompanying notes to financial statements are an integral part of these statements of comprehensive income.

**Table of Contents**

**TENNECO INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(1) As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2007.

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

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies as an equity method investment, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated intercompany transactions.

Certain reclassifications have been made to the prior period cash flow statement to conform to the current year presentation. We have reclassified amounts from the line item other operating activities into two new line items, change in long-term assets and change in long-term liabilities to provide additional details on our cash flow statement. We have also reclassified \$17 million and \$6 million, respectively, from the line item other operating activities for the nine month period and three month period ended September 30, 2007 to classify currency movement with the related line items. The \$17 million reclassification from other operating activities decreased the line item increase (decrease) in payables by \$(18) million and increased the line item increase (decrease) in other current liabilities by \$1 million for the nine month period ended September 30, 2007. The \$6 million reclassification from other operating activities decreased the line item increase (decrease) in payables by \$(6) million for the three month period ended September 30, 2007. We have also reclassified several amounts within the operating section of the cash flow statement, none of which were significant, to conform to the current year presentation. Additionally, we have reclassified \$(6) million and \$5 million for the nine month period and three month period ended September 30, 2007 from the line item increase (decrease) in payables in the operating section of the cash flow to a new line item increase (decrease) in bank overdrafts in the financing section.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158 Employers' Accounting for Defined Benefit and Other Postretirement Plans. Effective January 1, 2007, Tenneco elected to early-adopt the measurement date provisions of SFAS No. 158. We previously presented the transition adjustment as part of other comprehensive income in our statement of comprehensive income and statement of changes in shareholders' equity for the nine month period ended September 30, 2007. The transition adjustment should have been reported as a direct adjustment to the balance of accumulated other comprehensive income (loss) as of September 30, 2007. Other comprehensive income for the nine month period ended September 30, 2007 was previously reported as \$118 million. The amount of other comprehensive income for the nine month period should have been reported as \$104 million. The previously reported amount of comprehensive income for the nine month period ended September 30, 2007 was \$185 million and the amount that should have been reported is \$171 million. We have revised the presentation of comprehensive income and other comprehensive income for 2007 in the accompanying financial statements in this Form 10-Q. The statement of income, balance sheet and statement of cash flows were not affected.

(2) In September 2006, the FASB issued SFAS No. 157 Fair Value Measurement which is effective for financial statements issued for fiscal years beginning after November 15, 2007. We adopted SFAS No. 157 on January 1, 2008, with the exception of the application of this statement to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on our fair value measurements. SFAS No. 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal most advantageous market for the asset or liability in an orderly transaction between market

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

participants. SFAS No. 157 establishes a fair value hierarchy, which 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.

In October 2008, the FASB issued FASB Staff Position 157-3 (FSP FAS 157-3), Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. We reviewed the illustrative example provided in FSP FAS 157-3 along with the inputs used in our market approach valuation model for our interest rate swaps and have concluded that an active market exists for these financial assets as of September 30, 2008 and the direct and indirect inputs into our model are observable.

The fair value of our recurring financial assets and liabilities at September 30, 2008 are as follows:

	<b>Level 1</b>	<b>Level 2 (Millions)</b>	<b>Level 3</b>
<b>Financial Assets:</b>			
Interest rate swaps	n/a	\$ 1	n/a
<b>Financial Liabilities:</b>			
Foreign exchange forward contracts	n/a	\$	n/a

*Interest rate swaps* In April 2004, we entered into fixed-to-floating interest rate swaps covering \$150 million of our fixed interest rate debt. The fair value of our interest rate swap agreements are based on a model which incorporates observable inputs including LIBOR yield curves, the credit standing of the counterparties, nonperformance risk for similar cancelable forward option contracts, and discounted future expected cash flows utilizing market interest rates based on instruments with similar credit quality and maturities. The change in fair value of these swaps is recorded as part of interest expense and other long-term assets or liabilities.

*Foreign exchange forward contracts* We use foreign exchange forward purchase and sale contracts with terms of less than one year to hedge our exposure to changes in foreign currency exchange rates. The fair value of our foreign exchange forward contracts is based on a 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. The change in fair value of these foreign exchange forward contracts is recorded as part of currency gains (losses) and other current liabilities.

(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 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries.

On November 20, 2007, we issued \$250 million of 81/8 percent Senior Notes due November 15, 2015 through a private placement offering. The offering and related transactions were designed to (1) reduce our interest expense and extend the maturity of a portion of our debt (by using the proceeds of the offering to tender for \$230 million of our outstanding \$475 million 101/4 percent senior secured notes due 2013), (2) facilitate the realignment of the ownership structure of some of our foreign subsidiaries and (3) otherwise amend certain of the covenants in the indenture for our 101/4 percent senior secured notes to be consistent with those contained in our 85/8 percent senior subordinated notes, including conforming the limitation on incurrence of indebtedness and the absence of a limitation on issuances or transfers of restricted subsidiary stock, and make other minor modifications.



**Table of Contents**

**TENNECO INC.**

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

In July 2008, we exchanged \$250 million principal amount of 81/8 percent Senior Notes due on 2015 which have been registered under the Securities Act of 1933, for and in replacement of all outstanding 81/8 percent Senior Notes due 2015 which we issued on November 20, 2007 in a private placement. The terms of the new notes are substantially identical to the terms of the notes for which they were exchanged, except that the transfer restrictions and registration rights applicable to the original notes generally do not apply to the new notes.

The ownership structure realignment was designed to allow us to more rapidly use our U.S. net operating losses and reduce our cash tax payments. The realignment involved the creation of a new European holding company which now owns some of our foreign entities. We may further alter the components of the realignment from time to time. If market conditions permit, we may offer debt issued by the new European holding company. This realignment utilized part of our U.S. net operating tax losses. Consequently, we recorded a non-cash charge of \$66 million in the fourth quarter of 2007.

In March 2007, we refinanced our \$831 million senior credit facility. This transaction reduced the interest rates we pay on all portions of the facility. While the total amount of the new senior credit facility is \$830 million, approximately the same as the previous facility, we changed the components of the facility to enhance our financial flexibility. We increased the amount of commitments under our revolving loan facility from \$320 million to \$550 million, reduced the amount of commitments under our tranche B-1 letter of credit/revolving loan facility from \$155 million to \$130 million and replaced the \$356 million term loan B with a \$150 million term loan A. As of September 30, 2008, the senior credit facility consisted of a five-year, \$150 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.

The refinancing of the prior facility allowed us to: (i) amend the consolidated net debt to EBITDA ratio, (ii) eliminate the fixed charge coverage ratio, (iii) eliminate the restriction on capital expenditures, (iv) increase the amount of acquisitions permitted, (v) improve the flexibility to repurchase and retire higher cost junior debt, (vi) increase our ability to enter into capital leases, (vii) increase the ability of our foreign subsidiaries to incur debt, (viii) increase our ability to pay dividends and repurchase common stock, (ix) increase our ability to invest in joint ventures, (x) allow for the increase in the existing tranche B-1 facility and/or the term loan A or the addition of a new term loan of up to \$275 million in order to reduce our 101/4 percent senior secured notes, and (xi) make other modifications.

Following the refinancing, the term loan A facility is payable in twelve consecutive quarterly installments, commencing 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. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and reborrowed 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 that it be repaid 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.

We have three fixed-to-floating interest rate swaps that effectively convert \$150 million of our 101/4 percent fixed interest rate senior secured notes into floating interest rate debt at an annual rate of LIBOR plus 5.68 percent. Based upon the current LIBOR rate of 3.12 percent (which is in effect until January 15, 2009) these swaps are expected to decrease our interest expense by \$1 million in 2008 excluding any impact from marking the swaps to market. Since entering into these swaps, we have realized a net cumulative benefit of \$3 million through September 30, 2008, in reduced interest payments. The change in the market value of these swaps is recorded

**Table of Contents**

**TENNECO INC.**

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

as part of interest expense with an offset to other long-term assets or liabilities. As of September 30, 2008, the fair value of the interest rate swaps was an asset of \$1 million and has been recorded in other long-term assets.

(4) In accordance with SFAS No. 109 Accounting for Income Taxes (SFAS No. 109), we evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. SFAS No. 109 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 the third quarter of 2008, we recorded tax expense of \$131 million primarily related to establishing a valuation allowance against our net deferred tax assets in the U.S. In the U.S. we utilize the results from 2007 and a projection of our results for 2008 as a measure of the cumulative losses in recent years. While our long-term financial outlook in the U.S. remains positive based on a likely economic recovery in the U.S. and on recent new business we have won particularly in the commercial vehicle segment, accounting standards do not permit us to give any consideration to those factors in evaluating the requirement to record a valuation allowance. Consequently, we concluded that our ability to fully utilize our NOLs was limited due to projecting the current negative economic environment into the future. As a result of tax planning strategies which have not yet been implemented but which we plan to implement and which do not depend upon generating future taxable income, we continue to carry deferred tax assets in the U.S. of \$179 million relating to the expected utilization of those NOLs. The federal NOL expires beginning in 2020 through 2027. The state NOL expires in various years through 2027.

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

Going forward, we will be required to record a valuation allowance against deferred tax assets generated by taxable losses in each period in the U.S. as well as other foreign countries. The Company's 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) We have an agreement to sell an interest in some of our U.S. trade accounts receivable to a third party. Receivables become eligible for the program on a daily basis, at which time the receivables are sold to the third party without recourse, net of a discount, through a wholly-owned subsidiary. Under this agreement, as well as individual agreements with third parties in Europe, we have sold accounts receivable of \$226 million and \$149 million at September 30, 2008 and 2007, respectively. We recognized a loss of \$3 million for both three months periods ended September 30, 2008 and 2007, and \$7 million and \$8 million for the nine months ended

**Table of Contents**

**TENNECO INC.**

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

September 30, 2008 and 2007, respectively, on these sales of trade accounts, representing the discount from book values at which these receivables were sold to the third party. The discount rate varies based on funding cost incurred by the third party, which has averaged approximately four percent during 2008. We retain ownership of the remaining interest in the pool of receivables not sold to the third party. The retained interest represents a credit enhancement for the program. We record the retained interest based upon the amount we expect to collect from our customers, which approximates book value.

(6) Over the past several years we have adopted plans to restructure portions of our operations. These plans were approved by the Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. Prior to the change in accounting required for exit or disposal activities, we recorded charges to income related to these plans for costs that did not benefit future activities in the period in which the plans were finalized and approved, while actions necessary to affect these restructuring plans occurred over future periods in accordance with established plans.

Our recent restructuring activities began in the fourth quarter of 2001, when our Board of Directors approved a restructuring plan, a project 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. We incurred \$25 million in restructuring and restructuring-related costs during 2007, of which \$22 million was recorded in cost of sales and \$3 million was recorded in selling, general and administrative expense. In the third quarter of 2008, we incurred \$6 million in restructuring and restructuring-related costs, of which \$3 million was recorded in cost of sales and \$3 million was recorded in selling, general and administrative expense. For the first nine months of 2008, we incurred \$16 million in restructuring and restructuring-related costs of which \$9 million was recorded in cost of sales and \$7 million in selling, general and administrative expense. Since Project Genesis was initiated, we have incurred costs of \$171 million through September 30, 2008.

Under the terms of our amended and restated senior credit agreement that took effect on March 16, 2007, we are allowed to exclude \$80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 16, 2007 from the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2008, we have excluded \$39 million in allowable charges relating to restructuring initiatives against the \$80 million available under the terms of the March 2007 amended and restated senior credit facility.

On October 29, 2008, we announced a global operations restructuring initiative to reduce structural costs and capacity in response to the current industry downturn, marked by falling vehicle sales and OE production volumes worldwide. This initiative includes eliminating 1,100 positions, closing four facilities worldwide and restructuring another and implementing other cost reduction actions. We estimate that we will record up to \$60 million in charges, of which approximately \$44 million represents cash expenditures. We expect to record about \$40 million of this charge in the fourth quarter of 2008 and the remainder through 2009. These planned activities will utilize the remainder of the allowable charges relating to restructuring initiatives referred to above. We may seek the approval of our lenders to exclude additional restructuring charges from the calculation of our financial covenant ratios or we may include those charges in the calculation of our ratios.

In addition to the announced actions, we will continue to evaluate additional opportunities and expect that we will initiate actions that will reduce our costs through implementing the most appropriate and efficient logistics, distribution and manufacturing footprint for the future. We expect to continue to undertake additional restructuring actions as deemed necessary, however, there can be no assurances we will undertake such actions. Actions that we take, if any, will require the approval of our Board of Directors, or its authorized committee. We plan to conduct any workforce reductions that result in compliance with all legal and contractual requirements including obligations to consult with workers' councils, union representatives and others.

**Table of Contents**

**TENNECO INC.**

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

(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 September 30, 2008, we are designated as a potentially responsible party in one Superfund site. Including the Superfund site, we may have the obligation to remediate current or former facilities, and we estimate our share of environmental remediation costs at these facilities to be approximately \$12 million. For the Superfund site and the current and former facilities, we have established reserves that we believe are adequate for these costs. Although we believe our estimates of remediation costs are reasonable and are based on the latest available information, the cleanup costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute to the remediation costs. In addition, at the Superfund site, the Comprehensive Environmental Response, Compensation and Liability Act provides 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 the Superfund site, and of other liable parties at our current and former facilities, has been considered, where appropriate, in our determination of our estimated liability. We believe that any potential costs associated with our current status as a potentially responsible party in the Superfund site, or as a liable party at our current or former facilities, will not be material to our 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 warnings issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. 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. A small percentage 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. Nearly all of the claims are 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



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

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 200 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. During the first nine months of 2008, we were dismissed from nearly 700 of such cases. 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.

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:

	<b>Nine Months Ended September 30, 2008                  2007 (Millions)</b>	
Beginning Balance January 1,	\$ 25	\$ 25
Accruals related to product warranties	13	11
Reductions for payments made	(10)	(8)
Ending Balance September 30,	\$ 28	\$ 28

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

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

	<b>Three Months Ended September 30, 2008</b>	<b>Three Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2007</b>
	(Millions Except Share and Per Share Amounts)			
Basic earnings (loss) per share				
Net Income (loss)	\$ (136)	\$ 21	\$ (117)	\$ 67
Average shares of common stock outstanding	46,441,954	45,973,687	46,359,051	45,725,202
Earnings per average share of common stock	\$ (2.92)	\$ 0.47	\$ (2.53)	\$ 1.48
Diluted earnings (loss) per share				
Net Income (loss)	\$ (136)	\$ 21	\$ (117)	\$ 67
Average shares of common stock outstanding	46,441,954	45,973,687	46,359,051	45,725,202
Effect of dilutive securities:				
Restricted stock		206,495		208,175
Stock options		1,719,175		1,588,361
Average shares of common stock outstanding including dilutive securities	46,441,954	47,899,357	46,359,051	47,521,738
Earnings (loss) per average share of common stock	\$ (2.92)	\$ 0.45	\$ (2.53)	\$ 1.42

As a result of the net loss for the three months ended September 30, 2008, the calculation of diluted loss per share does not include the dilutive effect of 879,990 stock options. The calculation of dilutive loss per share for the nine month period ended September 30, 2008 does not include the dilutive effect of 39,992 shares of restricted stock and 1,131,327 stock options. In addition, options to purchase 1,413,960 and 351,429 shares of common stock were outstanding at September 30, 2008 and 2007, respectively, but were not included in the computation of diluted earnings (loss) per share because the options were anti-dilutive as of September 30, 2008 and 2007, respectively.

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

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

	<b>Nine Months Ended September 30, 2008      2007 (Millions)</b>	
Selling, general and administrative	\$ 3	\$ 3
Loss before interest expense, income taxes and minority interest	(3)	(3)
Income tax benefit		1
Net loss	\$ (3)	\$ (2)
Decrease in basic earnings per share	\$ (0.07)	\$ (0.05)
Decrease in diluted earnings per share	\$ (0.07)	\$ (0.05)

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

For stock options awarded to retirement eligible employees we immediately accelerate the recognition of any outstanding compensation cost when employees become retiree eligible before the end of the explicit vesting period.

As of September 30, 2008, there was approximately \$6 million of total 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, long-term performance units and SARs, was approximately \$4 million and \$6 million, for the nine months ended September 30, 2008 and 2007, respectively, and was recorded in selling, general, and administrative expense on the statement of income.

Cash received from option exercises for the nine months ended September 30, 2008, was \$1 million. Stock option exercises during the first nine months of 2008 would have generated an excess tax benefit of approximately \$1 million. Pursuant to footnote 82 of SFAS No. 123(R), this benefit was not recorded as we have federal and state net operating losses which are not currently being utilized. As a result, the excess tax benefit had no impact on our financial position or statement of cash flows.

*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.

	<b>Nine Months Ended September 30, 2008      2007</b>	
Stock Options		
Weighted average grant date fair value, per share	\$ 8.03	\$ 9.93
Weighted average assumptions used:		
Expected volatility	37.7%	38.4%
Expected lives	4.1	4.1
Risk-free interest rates	2.79%	4.71%

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.

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

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

	<b>Nine Months Ended September 30, 2008</b>			
			<b>Weighted Avg.</b>	
	<b>Shares Under Option</b>	<b>Weighted Avg. Exercise Prices</b>	<b>Remaining Life in Years</b>	<b>Aggregate Intrinsic Value (Millions)</b>
Outstanding Stock Options				
Outstanding, January 1, 2008	2,820,889	\$ 13.10	4.6	\$ 46
Granted	580,750	23.75		
Canceled				
Forfeited	(3,740)	22.50		
Exercised	(43,824)	4.64		\$ 1
Outstanding, March 31, 2008	3,354,075	\$ 15.05	5.0	\$ 37
Granted	3,306	25.26		
Canceled				
Forfeited	(14,528)	23.98		
Exercised	(40,585)	11.35		\$ 1
Outstanding, June 30, 2008	3,302,268	\$ 15.06	4.5	\$ 31
Granted	9,130	12.77		
Canceled				
Forfeited	(17,732)	23.84		
Exercised	(95,767)	8.42		\$ 1
Outstanding, September 30, 2008	3,197,899	\$ 15.06	4.3	\$ 13

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

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

	<b>Nine Months Ended September 30, 2008</b>	
	<b>Shares</b>	<b>Weighted Avg. Grant Date Fair Value</b>
Nonvested Restricted Shares		
Nonvested balance at January 1, 2008	469,394	\$ 24.91
Granted	227,830	23.75
Vested	(235,145)	24.10
Forfeited		
Nonvested balance at March 31, 2008	462,079	\$ 24.75
Granted	1,653	25.26
Vested	(11,442)	23.80
Forfeited	(2,975)	24.48
Nonvested balance at June 30, 2008	449,315	\$ 24.77
Granted	6,040	12.76
Vested	(4,487)	25.69
Forfeited	(1,466)	24.24
Nonvested balance at September 30, 2008	449,402	\$ 24.61

The fair value of restricted stock grants is equal to the average market price of our stock at the date of grant. As of September 30, 2008, approximately \$8 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.7 years.

*Long-Term Performance Units and SARs* Long-term performance units and SARs are paid in cash and recognized as a liability based upon their fair value. As of September 30, 2008, approximately \$1 million of total unrecognized compensation costs is expected to be recognized over the weighted-average period of approximately 2.0 years.

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

<b>Three Months Ended September 30,</b>					
<b>Pension</b>				<b>Postretirement</b>	
<b>2008</b>		<b>2007</b>		<b>2008</b>	<b>2007</b>
US	Foreign	US	Foreign	US	US

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(Millions)

Service cost benefits earned during the period	\$	\$	\$	\$	\$	\$
		2	1	3		1
Interest cost	5	5	4	4	2	2
Expected return on plan assets	(6)	(5)	(5)	(5)		
Net amortization:						
Actuarial loss	1	1	2	1	1	1
Prior service cost					(1)	(1)
Net pension and postretirement costs	\$	\$	\$	\$	\$	\$
		3	2	3	2	3

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

	<b>Nine Months Ended September 30,</b>					
	<b>Pension</b>				<b>Postretirement</b>	
	<b>2008</b>		<b>2007</b>		<b>2008</b>	<b>2007</b>
	<b>US</b>	<b>Foreign</b>	<b>US</b>	<b>Foreign</b>	<b>US</b>	<b>US</b>
	<b>(Millions)</b>					
Service cost benefits earned during the period	\$ 1	\$ 6	\$ 2	\$ 7	\$ 1	\$ 2
Interest cost	15	13	14	13	7	7
Expected return on plan assets	(17)	(16)	(16)	(15)		
Net amortization:						
Actuarial loss	2	3	3	4	4	4
Prior service cost		1			(4)	(4)
Net pension and postretirement costs	\$ 1	\$ 7	\$ 3	\$ 9	\$ 8	\$ 9

Effective January 1, 2007, we froze our defined benefit plans and replaced them with additional contributions under defined contribution plans for nearly all U.S.-based salaried and non-union hourly employees.

For the nine months ended September 30, 2008, we made pension contributions of approximately \$7 million for our domestic pension plans and \$11 million for our foreign pension plans. Based on current actuarial estimates, we believe we will be required to make approximately \$11 million in contributions for the remainder of 2008.

We made postretirement contributions of approximately \$4 million during the first nine months of 2008. Based on current actuarial estimates, we believe we will be required to make approximately \$6 million in contributions for the remainder of 2008.

(11) On September 1, 2008, we acquired the suspension business of Gruppo Marzocchi, an Italy 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 \$6 million. The Marzocchi acquisition is accounted for as a purchase business combination with assets acquired and liabilities assumed recorded in our condensed consolidated balance sheet as of September 1, 2008. 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. The final allocation of the purchase price will be completed within one year of acquisition.

On May 30, 2008, we acquired from Delphi Automotive Systems LLC certain ride control assets and inventory at Delphi's Kettering, Ohio facility which we are using to grow our OE ride control business globally. We paid approximately \$10 million for existing ride control components inventory and approximately \$9 million for certain machinery and equipment. In conjunction with the purchase agreement we have signed 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 final allocation of the purchase price for the assets will be completed within one year of acquisition.

In September 2007, we acquired Combustion Components Associates' ELIM-NO<sub>x</sub> technology for \$16 million. The acquisition included a complete reactant dosing system design and associated intellectual property including granted patents and patent applications yet to be granted for selective catalytic reduction emission control systems that reduce emissions of oxides of nitrogen from diesel powered vehicles. The technology can be used for both urea and hydrocarbon injection. We have recorded the acquisition as part of intangible assets on our condensed consolidated balance sheet.

**Table of Contents**

**TENNECO INC.**

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

(12) In October 2008, the FASB issued FASB Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP 157-3 provides clarification to FASB Statement No. 157, *Fair Value Measurements* and key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. We reviewed the illustrative example provided in FSP FAS 157-3 along with the inputs used in our market approach valuation model for our interest rate swaps and have concluded that an active market exists as of September 30, 2008, for the direct and indirect observable inputs into our model.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. FSP EITF 03-6-1 requires that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We are evaluating FSP EITF 03-6-1 to determine the effect on our condensed consolidated financial statements and related disclosures.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation and presentation of financial statements in accordance with generally accepted accounting principles. This statement will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not anticipate the adoption of SFAS No. 162 will have a material effect on our condensed consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of Useful Life of Intangible Assets*. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and requires additional disclosure relating to an entity's renewal or extension of recognized intangible assets. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We do not expect the adoption of FSP 142-3 to have a material impact on our condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities including how and why an entity uses derivative instruments, how an entity accounts for derivatives and hedges and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating SFAS No. 161 to determine the effect on our condensed consolidated financial statement disclosures.

In February 2008, the FASB issued FSP 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. FSP 140-3 provides guidance on accounting for a transfer of a financial asset and a repurchase financing which is a repurchase agreement that relates to a previously transferred financial asset between

the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer. FSP 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are evaluating FSP 140-3 to determine the effect on our condensed consolidated financial statements and related disclosures.

In February 2008, the FASB issued FSP 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease

**Table of Contents**

**TENNECO INC.**

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

Classification or Measurement Under Statement 13. FSP 157-1 provides a scope exception to SFAS No. 157 which does not apply under Statement 13 and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. FSP 157-1 is effective upon the initial adoption of SFAS No. 157. FSP 157-1 did not have a material impact to our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, contractual contingencies and any noncontrolling interest in the acquiree at the acquisition date at their fair values as of that date. SFAS No. 141(R) provides guidance on the accounting for acquisition-related costs, restructuring costs related to the acquisition and the measurement of goodwill and a bargain purchase. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. We do not expect the adoption of this statement to have a material impact to our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarified that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation and provides for expanded disclosure in the consolidated financial statements relating to the interests of the parent's owners and the interests of the noncontrolling owners of the subsidiary. SFAS No. 160 applies prospectively (except for the presentation and disclosure requirements) for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The presentation and disclosure requirements will be applied retrospectively for all periods presented. We are evaluating this statement to determine the effect on our condensed consolidated financial statements and related disclosures.

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 amends and replaces Question 6 of Section D.2 Topic 14, Share-Based Payment. Question 6 of Topic 14:D.2 (as amended) expresses the views of the staff regarding the use of a simplified method in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). SAB 110 is effective January 1, 2008. The adoption of SAB 110 had no impact to our condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement. This statement defines fair value, establishes a fair value hierarchy for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. FSP 157-2 issued in February 2008 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We have adopted the measurement and disclosure impact of SFAS No. 157 relating to our financial assets and financial liabilities which are measured on a recurring basis (at least annually) effective January 1, 2008. See Note 2 to the condensed consolidated financial statements of Tenneco Inc. and Consolidated Subsidiaries. We do not expect the adoption of the nonfinancial assets and nonfinancial liabilities portion of SFAS No. 157 to have a material impact to our condensed consolidated financial statements.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 provides the final consensus on the application of paragraphs 62 and 63 of SFAS No. 123(R) on the accounting for income tax benefits relating to the payment of dividends on equity-classified employee share-based payment awards that are charged to retained earnings. EITF 06-11 affirms that the realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in-capital. Additionally, EITF 06-11 provides

**Table of Contents**

**TENNECO INC.**

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

guidance on the amount of tax benefits from dividends that are reclassified from additional paid-in-capital to the income statement when an entity's estimate of forfeitures changes. EITF 06-11 is effective prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The adoption of EITF 06-11, on January 1, 2008, did not have a material impact on our condensed consolidated financial statements.

In June 2007, the EITF issued EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities. EITF 07-3 requires the deferral and capitalization of nonrefundable advance payments for goods or services that an entity will use in research and development activities pursuant to an executory contractual agreement. Expenditures which are capitalized under EITF 07-3 should be expensed as the goods are delivered or the related services are performed. EITF 07-3 is effective prospectively for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. EITF 07-3 is applicable to new contracts entered into after the effective date of this Issue. The adoption of EITF 07-3 on January 1, 2008, did not have a material impact on our condensed consolidated financial statements.

In April 2007, the FASB issued Interpretation No. 39-1, Amendment of FASB Interpretation No. 39 (FIN 39-1). This amendment allows a reporting entity to offset fair value amounts recognized for derivative instruments with fair value amounts recognized for the right to reclaim or realize cash collateral. Additionally, this amendment requires disclosure of the accounting policy on the reporting entity's election to offset or not offset amounts for derivative instruments. FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The adoption of FIN 39-1 did not have a material impact on our condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning on or after November 15, 2007. As we did not elect the fair value option, the adoption of SFAS 159 did not have a material effect on our condensed consolidated financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Part of this Statement was effective as of December 31, 2006, and requires companies that have defined benefit pension plans and other postretirement benefit plans to recognize the funded status of those plans on the balance sheet on a prospective basis from the effective date. The funded status of these plans is determined as of the plans' measurement dates and represents the difference between the amount of the obligations owed to participants under each plan (including the effects of future salary increases for defined benefit plans) and the fair value of each plan's assets dedicated to paying those obligations. To record the funded status of those plans, unrecognized prior service costs and net actuarial losses experienced by the plans will be recorded in the Accumulated Other Comprehensive Loss section of shareholders' equity on the balance sheet. The initial adoption as of December 31, 2006 resulted in a reduction of Accumulated Other Comprehensive Loss in shareholders' equity of \$59 million.

In addition, SFAS No. 158 requires that companies using a measurement date for their defined benefit pension plans and other postretirement benefit plans other than their fiscal year end, change the measurement date effective for fiscal

years ending after December 15, 2008. Effective January 1, 2007, we elected to early adopt the measurement date provision of SFAS No. 158. Adoption of this part of the statement was not material to our financial position and results of operations.

(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

**Table of Contents**

**TENNECO INC.**

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

facility is also secured by first-priority liens on substantially all our domestic assets and pledges of 66 percent of the stock of certain first-tier foreign subsidiaries. The arrangement for 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 14 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 September 30, 2008, we have guaranteed \$45 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 \$13 million as of September 30, 2008, compared with \$16 million at the same date in 2007. No negotiable financial instruments were held by our European subsidiary as of September 30, 2008 or September 30, 2007.

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 \$13 million and \$12 million at September 30, 2008 and 2007, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$9 million and \$7 million at September 30, 2008 and 2007, 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 at a financial institution that guarantees those financial instruments. No financial instruments were outstanding at that Chinese subsidiary as of September 30, 2008 and 2007.

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





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

The following table summarizes certain Tenneco Inc. segment information:

	North America	Europe	Segment Asia Pacific (Millions)	Reclass & Elims	Consolidated
<b>For the Three Months Ended September 30, 2008</b>					
Revenues from external customers	\$ 662	\$ 707	\$ 128	\$	\$ 1,497
Intersegment revenues	4	73	3	(80)	
Income (loss) before interest expense, income taxes, and minority interest	(2)	24	6		28
<b>For the Three Months Ended September 30, 2007</b>					
Revenues from external customers	\$ 734	\$ 672	\$ 150	\$	\$ 1,556
Intersegment revenues	3	118	4	(125)	
Income before interest expense, income taxes, and minority interest	24	22	11		57
<b>At September 30, 2008 and for the Nine Months Then Ended</b>					
Revenues from external customers	\$ 2,019	\$ 2,258	\$ 431	\$	\$ 4,708
Intersegment revenues	9	178	12	(199)	
Income before interest expense, income taxes, and minority interest	24	97	21		142
Total assets	1,585	1,573	367	37	3,562
<b>At September 30, 2007 and for the Nine Months Then Ended</b>					
Revenues from external customers	\$ 2,187	\$ 2,034	\$ 398	\$	\$ 4,619
Intersegment revenues	7	310	11	(328)	
Income before interest expense, income taxes, and minority interest	104	80	25		209
Total assets	1,627	1,740	369	86	3,822

(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. We have not

presented separate financial statements and other disclosures concerning each of the Guarantor Subsidiaries because management has determined that such information is not material to the holders of the notes. Therefore, 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 September 30, 2008

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 602	\$ 895	\$	\$	\$ 1,497
Affiliated companies	26	140		(166)	
	628	1,035		(166)	1,497
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation shown below)	533	931		(166)	1,298
Engineering, research, and development	12	17			29
Selling, general, and administrative	29	57	1		87
Depreciation and amortization of other intangibles	21	35			56
	595	1,040	1	(166)	1,470
<b>Other income (expense)</b>					
Loss on sale of receivables		(3)			(3)
Other income (loss)	50	(6)	1	(41)	4
	50	(9)	1	(41)	1
<b>Income (loss) before interest expense, income taxes, minority interest, and equity in net income from affiliated companies</b>					
	83	(14)		(41)	28
<b>Interest expense</b>					
External (net of interest capitalized)		2	28		30
	33	(4)	(29)		

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Affiliated companies (net of interest income)					
Income tax expense (benefit)	39	6	86		131
Minority interest		3			3
	11	(21)	(85)	(41)	(136)
Equity in net income (loss) from affiliated companies	(23)		(51)	74	
<b>Net income (loss)</b>	\$ (12)	\$ (21)	\$ (136)	\$ 33	\$ (136)

Table of Contents

## TENNECO INC.

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

## STATEMENT OF INCOME (LOSS)

For the Three Months Ended September 30, 2007

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 725	\$ 831	\$	\$	\$ 1,556
Affiliated companies	19	249		(268)	
	744	1,080		(268)	1,556
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation shown below)	694	887		(268)	1,313
Engineering, research, and development	14	16			30
Selling, general, and administrative	43	57	1		101
Depreciation and amortization of other intangibles	21	31			52
	772	991	1	(268)	1,496
<b>Other income (expense)</b>					
Loss on sale of receivables		(3)			(3)
Other income (loss)	7	(3)	(4)		
	7	(6)	(4)		(3)
<b>Income (loss) before interest expense, income taxes, minority interest, and equity in net income from affiliated companies</b>					
	(21)	83	(5)		57
<b>Interest expense</b>					
External (net of interest capitalized)	(1)		33		32
	48	(4)	(44)		

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Affiliated companies (net of interest income)					
Income tax expense (benefit)	(24)	26	6	(8)	
Minority interest		4			4
	(44)	57		8	21
Equity in net income (loss) from affiliated companies	51		21	(72)	
<b>Net income (loss)</b>	\$ 7	\$ 57	\$ 21	\$ (64)	\$ 21

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

For the Nine Months Ended September 30, 2008

	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Tenneco Inc. (Parent Company) (Millions)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 1,835	\$ 2,873	\$	\$	\$ 4,708
Affiliated companies	68	373		(441)	
	1,903	3,246		(441)	4,708
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation shown below)	1,635	2,813		(441)	4,007
Engineering, research, and development	40	59			99
Selling, general, and administrative	101	190	3		294
Depreciation and amortization of other intangibles	62	106			168
	1,838	3,168	3	(441)	4,568
<b>Other income (expense)</b>					
Loss on sale of receivables		(7)			(7)
Other income (loss)	60	(5)	(1)	(45)	9
	60	(12)	(1)	(45)	2
<b>Income (loss) before interest expense, income taxes, minority interest, and equity in net income from affiliated companies</b>					
	125	66	(4)	(45)	142
<b>Interest expense</b>					
External (net of interest capitalized)	(2)	2	88		88
	98	(6)	(92)		



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Affiliated companies (net of interest income)					
Income tax expense (benefit)	35	37	91		163
Minority interest		8			8
	(6)	25	(91)	(45)	(117)
Equity in net income (loss) from affiliated companies	11		(26)	15	
<b>Net income (loss)</b>	5	\$ 25	\$ (117)	\$ (30)	\$ (117)

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

For the Nine Months Ended September 30, 2007

	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Tenneco Inc. (Parent Company) (Millions)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 2,123	\$ 2,496	\$	\$	\$ 4,619
Affiliated companies	77	678		(755)	
	2,200	3,174		(755)	4,619
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation shown below)	1,973	2,651		(755)	3,869
Engineering, research, and development	40	46			86
Selling, general, and administrative	119	178	3		300
Depreciation and amortization of other intangibles	58	92			150
	2,190	2,967	3	(755)	4,405
<b>Other income (expense)</b>					
Loss on sale of receivables		(8)			(8)
Other income (loss)	10	(2)	(1)	(4)	3
	10	(10)	(1)	(4)	(5)
<b>Income (loss) before interest expense, income taxes, minority interest, and equity in net income from affiliated companies</b>					
	20	197	(4)	(4)	209
<b>Interest expense</b>					
External (net of interest capitalized)	(2)	3	111		112
	140	(12)	(128)		

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Affiliated companies (net of interest income)							
Income tax expense (benefit)	(48)	60	7	3		22	
Minority interest		8				8	
	(70)	138	6	(7)		67	
Equity in net income (loss) from affiliated companies	132		61	(193)			
<b>Net income (loss)</b>	\$ 62	\$ 138	\$ 67	\$ (200)	\$	67	

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

	September 30, 2008				
	Guarantor	Nonguarantor	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
	Subsidiaries	Subsidiaries			
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 10	\$ 117	\$	\$	\$ 127
Receivables, net	499	1,013	121	(787)	846
Inventories	233	366			599
Deferred income taxes	23	11	1		35
Prepayments and other	29	129			158
	794	1,636	122	(787)	1,765
Other assets:					
Investment in affiliated companies	498		892	(1,390)	
Notes and advances receivable from affiliates	3,694	211	5,428	(9,333)	
Long-term notes receivable, net		13	1		14
Goodwill	136	77			213
Intangibles, net	17	9			26
Deferred income taxes	56	36	139		231
Other	37	70	22		129
	4,438	416	6,482	(10,723)	613
Plant, property, and equipment, at cost	1,048	2,005			3,053
Less Accumulated depreciation and amortization	(691)	(1,178)			(1,869)
	357	827			1,184
	\$ 5,589	\$ 2,879	\$ 6,604	\$ (11,510)	\$ 3,562

**LIABILITIES AND  
SHAREHOLDERS EQUITY**

## Current liabilities:

Short-term debt (including current maturities of long-term debt)

Short-term debt non-affiliated	\$		\$	54	\$		\$	54
Short-term debt affiliated		159		385		11		(555)
Trade payables		370		856				(214)
Accrued taxes		8		30				
Other		121		157		29		(18)
		658		1,482		40		(787)
								1,393
Long-term debt non-affiliated				12		1,458		
Long-term debt affiliated		4,330		119		4,884		(9,333)
Deferred income taxes		0		55				
Postretirement benefits and other liabilities		302		81				4
Commitments and contingencies								
Minority interest				35				
Shareholders equity		299		1,095		222		(1,394)
	\$	5,589	\$	2,879	\$	6,604	\$	(11,510)
							\$	3,562

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

	<b>December 31, 2007</b>				
	<b>Guarantor</b>	<b>Nonguarantor</b>	<b>Tenneco</b>	<b>Reclass &amp;</b>	<b>Consolidated</b>
	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Inc.</b>	<b>Elims</b>	
			<b>(Parent</b>		
			<b>Company)</b>		
			<b>(Millions)</b>		
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 6	\$ 182	\$	\$	\$ 188
Receivables, net	385	1,090	148	(866)	757
Inventories	198	341			539
Deferred income taxes	53		3	(20)	36
Prepayments and other	18	103			121
	660	1,716	151	(886)	1,641
Other assets:					
Investment in affiliated companies	628		1,083	(1,711)	
Notes and advances receivable from affiliates	3,607	232	5,383	(9,222)	
Long-term notes receivable, net		19			19
Goodwill	136	72			208
Intangibles, net	17	9			26
Deferred income taxes	310	60	180	(180)	370
Other	40	76	25		141
	4,738	468	6,671	(11,113)	764
Plant, property, and equipment, at cost	994	1,984			2,978
Less Accumulated depreciation and amortization	(658)	(1,135)			(1,793)
	336	849			1,185
	\$ 5,734	\$ 3,033	\$ 6,822	\$ (11,999)	\$ 3,590

**LIABILITIES AND  
SHAREHOLDERS EQUITY**

## Current liabilities:

Short-term debt (including current maturities of long-term debt)

Short-term debt non-affiliated	\$	\$	44	\$	2	\$	\$	46
Short-term debt affiliated			274		439			10 (723)
Trade payables			350		774			(137) 987
Accrued taxes			27		16			(2) 41
Other			118		169			21 (24) 284
			769		1,442			33 (886) 1,358
Long-term debt non-affiliated					7			1,321 1,328
Long-term debt affiliated			4,100		54			5,068 (9,222)
Deferred income taxes			213		81			(180) 114
Postretirement benefits and other liabilities			264		89			6 359
Commitments and contingencies								
Minority interest					31			31
Shareholders equity			388		1,329			400 (1,717) 400
	\$	\$	5,734	\$	3,033	\$	\$	6,822 (11,999) 3,590

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

Three Months Ended September 30, 2008

			<b>Tenneco Inc.</b>			
	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>(Parent Company)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>	
			<b>(Millions)</b>			
<b>Operating Activities</b>						
Net cash provided (used) by operating activities	\$ 46	\$ 44	\$ (50)	\$	\$	40
<b>Investing Activities</b>						
Proceeds from the sale of assets						
Cash payment for plant, property, and equipment	(23)	(42)				(65)
Acquisition of business		3				3
Cash payment for software related intangible assets		(1)				(1)
Investments and other						
Net cash used by investing activities	(23)	(40)				(63)
<b>Financing Activities</b>						
Issuance of common stock						
Retirement of long-term debt		(1)				(1)
Increase (decrease) in bank overdrafts		(18)				(18)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		8	19			27
Intercompany dividends and net increase (decrease) in intercompany obligations	(19)	(12)	31			
Distribution to minority interest partners						
Other						
Net cash provided (used) by financing activities	(19)	(23)	50			8
Effect of foreign exchange rate changes on cash and cash equivalents		(22)				(22)



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Increase (decrease) in cash and cash equivalents	4	(41)	(37)
Cash and cash equivalents, July 1	6	158	164
Cash and cash equivalents, September 30 (Note)	\$ 10	\$ 117	\$ 127

**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 FLOWS**

Three Months Ended September 30, 2007

			<b>Tenneco Inc.</b>			
	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>(Parent Company)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>	
	<b>(Millions)</b>					
<b>Operating Activities</b>						
Net cash provided (used) by operating activities	\$ 63	\$ 14	\$ (81)	\$	\$	(4)
<b>Investing Activities</b>						
Net proceeds from the sale of assets	1					1
Cash payments for plant, property, and equipment	(14)	(27)				(41)
Cash payment for net assets purchased	(16)					(16)
Cash payments for software related intangible assets	(3)					(3)
Investments and other		(2)				(2)
Net cash provided (used) by investing activities	(32)	(29)				(61)
<b>Financing Activities</b>						
Issuance of common stock			2			2
Retirement of long-term debt			(2)			(2)
Increase (decrease) in bank overdrafts		(5)				(5)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		1	86			87
Intercompany dividends and net increase (decrease) in intercompany obligations	(35)	40	(5)			
Distributions to minority interest partners		(2)				(2)
Other		2				2
Net cash provided (used) by financing activities	(35)	36	81			82
		18				18

Effect of foreign exchange rate changes on cash and cash equivalents

Increase (decrease) in cash and cash equivalents	(4)	39	35
Cash and cash equivalents, July 1	9	159	168
Cash and cash equivalents, September 30 (Note)	\$ 5	\$ 198	\$ 203

**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 FLOWS**

Nine Months Ended September 30, 2008

	<b>Tenneco Inc.</b>				
	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>(Parent Company) (Millions)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 31	\$ 86	\$ (83)	\$	\$ 34
<b>Investing Activities</b>					
Proceeds from the sale of assets		2			2
Cash payment for plant, property, and equipment	(76)	(116)			(192)
Acquisition of business	(19)	3			(16)
Cash payment for software related intangible assets	(5)	(4)			(9)
Investments and other					
Net cash used by investing activities	(100)	(115)			(215)
<b>Financing Activities</b>					
Issuance of common stock			1		1
Retirement of long-term debt		(2)	(2)		(4)
Increase (decrease) in bank overdrafts		(18)			(18)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		10	138		148
Intercompany dividends and net increase (decrease) in intercompany obligations	73	(19)	(54)		
Distribution to minority interest partners		(4)			(4)
Other					
Net cash provided (used) by financing activities	73	(33)	83		123
Effect of foreign exchange rate changes on cash and cash equivalents		(3)			(3)

Increase (decrease) in cash and cash equivalents	4	(65)	(61)
Cash and cash equivalents, January 1	6	182	188
Cash and cash equivalents, September 30 (Note)	\$ 10	\$ 117	\$ 127

**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 FLOWS**

Nine Months Ended September 30, 2007

	<b>Tenneco Inc.</b>				
	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>(Parent Company) (Millions)</b>	<b>Reclass &amp; Elims</b>	<b>Consolidated</b>
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 181	\$ 18	\$ (240)	\$	\$ (41)
<b>Investing Activities</b>					
Net proceeds from the sale of assets	2				2
Cash payment for plant, property, and equipment	(41)	(75)			(116)
Cash payment for net assets purchased	(16)				(16)
Cash payment for software related intangible assets	(9)	(5)			(14)
Acquisition of businesses Investments and other					
Net cash used by investing activities	(64)	(80)			(144)
<b>Financing Activities</b>					
Issuance of common stock			6		6
Issuance of long-term debt			150		150
Debt issuance cost of long-term debt			(6)		(6)
Retirement of long-term debt		(2)	(359)		(361)
Increase (decrease) in bank overdrafts		6			6
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		3	357		360
Intercompany dividends and net increase (decrease) in intercompany obligations	(168)	76	92		
Distribution to minority interest partners		(3)			(3)
Other		2			2
Net cash provided (used) by financing activities	(168)	82	240		154

Effect of foreign exchange rate changes on cash and cash equivalents		32				32
Increase (decrease) in cash and cash equivalents	(51)	52				1
Cash and cash equivalents, January 1	56	146				202
Cash and cash equivalents, September 30 (Note)	\$ 5	\$ 198	\$	\$	\$	203

**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<sup>®</sup>, Rancho<sup>®</sup>, Clevite<sup>®</sup> Elastomers and Fric Rot<sup>™</sup> ride control products and Walker<sup>®</sup>, Fonos<sup>™</sup>, and Gillet<sup>™</sup> emission control products. Worldwide we serve more than 39 different original equipment manufacturers, and our products or systems are included on eight of the top 10 passenger car models produced for sale in Europe and nine of the top 10 light truck and SUV models produced for sale in North America for 2007. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers.

Factors that are 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, reducing overall costs and expanding our products into adjacent markets. In addition, our ability to adapt to key industry trends, such as the significant shift in consumer preferences from light trucks and SUVs 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 industry and 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.

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 Results from Operations Cash Flows for the Three Months Ended September 30, 2008 and 2007, Results from Operations Cash Flows for the Nine Months Ended September 30, 2008 and 2007 and Liquidity and Capital Resources below for further discussion of cash flows.

Total revenues for the third quarter of 2008 were \$1,497 million, compared to \$1,556 million in the third quarter of 2007. Excluding the impact of currency and substrate sales, revenue was down \$22 million or two percent, from \$1,126 million to \$1,104 million, driven by lower OE production volumes, most significantly in North America, compounded by the vehicle mix shift away from SUVs and light trucks in North America and lower volumes with key China customers. Increased sales in the North American aftermarket, Australia, and South America and India helped partially offset the overall North American industry production decline.

Gross margin in the third quarter of 2008 was 13.3 percent, down 2.3 percentage points from 15.6 percent in 2007. Lower production levels globally and a mix shift away from higher margin light trucks and SUVs negatively impacted overall gross margin. Our gross margin in third quarter 2008 was also negatively impacted by the timing of steel cost recovery from a major OE customer.

Selling, general and administrative was down \$14 million in the current quarter, at \$87 million, including \$3 million in restructuring and restructuring-related expense, compared to \$101 million in the third quarter of 2007 which included \$5 million in aftermarket changeover costs. Lower administrative costs and intense efforts to cut discretionary spending drove the improvement. Engineering expense was \$29 million and \$30 million in the third



quarter of 2008 and 2007, respectively, as we continue to make strategic investments in preparation for new platform launches and in the technology necessary for capturing future growth opportunities. In total, we reported selling, general, administrative and engineering expenses in the third quarter of 2008 at 7.7 percent of revenues, as compared to 8.4 percent of revenues for the third quarter of 2007.

## **Table of Contents**

Earnings before interest expense, taxes and minority interest ( EBIT ) was \$28 million for the third quarter of 2008, down \$29 million from \$57 million in the third quarter of 2007. Improved earnings in our Europe segment partially offset higher restructuring charges and reduced profitability in North America due to a significant industry OE production decline and in Asia Pacific due to volume declines at significant customers.

Total revenues for the first nine months of 2008 were \$4,708 million, compared to \$4,619 million for the first nine months of 2007. Excluding the impact of currency and substrate sales, revenue was down \$77 million, from \$3,386 million to \$3,309 million, driven by a \$108 million decline in North American OE revenues due to reduced light vehicle OE production volumes in North America in light of economic conditions, which were further impacted by several strikes in the first half of the year. In addition, North American commercial vehicle (truck) production declined. Increased sales in South America and Australia and, during the first six months, Asia helped partially offset the reduced North American OE production.

Gross margin in the first nine months of 2008 was 14.9 percent, down 1.3 percentage points from 16.2 percent in 2007. Lower North American OE production due in part to labor strikes, the mix shift away from the more profitable light trucks and SUVs and higher restructuring charges negatively impacted overall gross margin. This was partially offset by new OE business.

We reported selling, general, and administrative expenses of \$294 million in the first nine months of 2008, compared to \$300 million for the first nine months of 2007. The decrease was mainly due to lower administrative costs and intense efforts to cut discretionary spending. Engineering expenses were \$99 million in the first nine months of 2008 compared to \$86 million for the first nine months of 2007 as we continued our investment in engineering and technology development to prepare to meet customer needs for more stringent environmental regulations.

EBIT was \$142 million for the first three quarters of 2008, down \$67 million from \$209 million in 2007. Reduced North American OE production volumes, higher restructuring, depreciation, and aftermarket customer changeover costs, and increased spending on engineering more than accounted for the decline, partially offset by lower administrative costs.

## **Results from Operations**

### ***Net Sales and Operating Revenues for the Three Months Ended September 30, 2008 and 2007***

The following tables reflect our revenues for the third quarter of 2008 and 2007. 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 2007 table since this is the base period for measuring the effects of currency during 2008 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.

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

**Table of Contents**

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

	<b>Three Months Ended September 30, 2008</b>				
	<b>Revenues</b>	<b>Currency Impact</b>	<b>Revenues Excluding Currency (Millions)</b>	<b>Substrate Sales Excluding Currency Impact</b>	<b>Revenues Excluding Currency and Substrate Sales</b>
North America Original Equipment					
Ride Control	\$ 139	\$	\$ 139	\$	\$ 139
Emission Control	381		381	188	193
<b>Total North America Original Equipment</b>	<b>520</b>		<b>520</b>	<b>188</b>	<b>332</b>
North America Aftermarket					
Ride Control	99		99		99
Emission Control	43	(1)	44		44
<b>Total North America Aftermarket</b>	<b>142</b>	<b>(1)</b>	<b>143</b>		<b>143</b>
<b>Total North America</b>	<b>662</b>	<b>(1)</b>	<b>663</b>	<b>188</b>	<b>475</b>
Europe Original Equipment					
Ride Control	111	6	105		105
Emission Control	370	10	360	126	234
<b>Total Europe Original Equipment</b>	<b>481</b>	<b>16</b>	<b>465</b>	<b>126</b>	<b>339</b>
Europe Aftermarket					
Ride Control	59	2	57		57
Emission Control	52	2	50		50
<b>Total Europe Aftermarket</b>	<b>111</b>	<b>4</b>	<b>107</b>		<b>107</b>
South America & India	115	11	104	16	88
<b>Total Europe, South America &amp; India</b>	<b>707</b>	<b>31</b>	<b>676</b>	<b>142</b>	<b>534</b>
Asia	77	6	71	22	49
Australia	51	1	50	4	46
<b>Total Asia Pacific</b>	<b>128</b>	<b>7</b>	<b>121</b>	<b>26</b>	<b>95</b>
<b>Total Tenneco</b>	<b>\$ 1,497</b>	<b>\$ 37</b>	<b>\$ 1,460</b>	<b>\$ 356</b>	<b>\$ 1,104</b>



**Table of Contents**

	<b>Three Months Ended September 30, 2007</b>				
	<b>Revenues</b>	<b>Currency Impact</b>	<b>Revenues Excluding Currency (Millions)</b>	<b>Substrate Sales Excluding Currency Impact</b>	<b>Revenues Excluding Currency and Substrate Sales</b>
North America Original Equipment					
Ride Control	\$ 126	\$	\$ 126	\$	\$ 126
Emission Control	476		476	245	231
<b>Total North America Original Equipment</b>	<b>602</b>		<b>602</b>	<b>245</b>	<b>357</b>
North America Aftermarket					
Ride Control	92		92		92
Emission Control	40		40		40
<b>Total North America Aftermarket</b>	<b>132</b>		<b>132</b>		<b>132</b>
<b>Total North America</b>	<b>734</b>		<b>734</b>	<b>245</b>	<b>489</b>
Europe Original Equipment					
Ride Control	97		97		97
Emission Control	381		381	134	247
<b>Total Europe Original Equipment</b>	<b>478</b>		<b>478</b>	<b>134</b>	<b>344</b>
Europe Aftermarket					
Ride Control	52		52		52
Emission Control	56		56		56
<b>Total Europe Aftermarket</b>	<b>108</b>		<b>108</b>		<b>108</b>
South America & India	86		86	10	76
<b>Total Europe, South America &amp; India</b>	<b>672</b>		<b>672</b>	<b>144</b>	<b>528</b>
Asia	99		99	33	66
Australia	51		51	8	43
<b>Total Asia Pacific</b>	<b>150</b>		<b>150</b>	<b>41</b>	<b>109</b>
<b>Total Tenneco</b>	<b>\$ 1,556</b>	<b>\$</b>	<b>\$ 1,556</b>	<b>\$ 430</b>	<b>\$ 1,126</b>

Revenues from our North American operations decreased \$72 million in the third quarter of 2008 compared to the same period last year. Higher OE ride control and aftermarket sales were more than offset by lower North American OE emission control revenues. North American OE emission control revenues were down \$95 million in the third quarter of 2008. Excluding substrate sales, revenues were down \$38 million compared to last year. This decrease was primarily due to a 16% year-over-year decline in industry production volumes, including a temporary stop of production on the Toyota Tundra, as well as significant reduction in customer light truck production which included the Ford Super Duty and F150, GMT 900 and the Dodge Ram. North American OE ride control revenues for the third quarter of 2008 were up \$13 million from the prior year. Revenues of \$40 million from our recently acquired

Kettering, Ohio ride-control operations helped offset the significantly lower light truck and SUV production. Our total North American OE revenues, excluding substrate sales, decreased seven percent in the third quarter of 2008 compared to third quarter of 2007. The third quarter North American light truck and SUV production rate decreased 32 percent while production rates for passenger cars increased five percent. Aftermarket revenues for North America were \$142 million in the third quarter of 2008, an increase of \$10 million compared to the prior year, driven by higher volumes in both product lines as well as higher pricing to offset material cost increases. Aftermarket ride control revenues increased eight percent in the third quarter of 2008 while aftermarket emission control revenues excluding currency increased nine percent in the third quarter of 2008.

Our geographic diversification benefited us in the quarter as our European, South American and Indian segment s revenues increased \$35 million, or five percent, in the third quarter of 2008 compared to last year. The

**Table of Contents**

third quarter total European light vehicle industry production was relatively flat to the third quarter of 2007. Europe OE emission control revenues of \$370 million in the third quarter of 2008 were down three percent as compared to the third quarter of last year. Excluding substrate sales and a favorable impact of \$10 million due to currency, Europe OE emission control revenues decreased five percent over 2007, primarily due to lower volumes on the Opel Astra and Vectra, the BMW 3 Series and Volvo. Improved volumes on the BMW 1 series, VW Golf, the new Jaguar XF, and the Ford Mondeo and C-Max helped partially offset the emission control decrease. Europe OE ride control revenues of \$111 million in the third quarter of 2008 were up 13 percent year-over-year. Excluding currency, revenues increased by seven percent in the 2008 third quarter due to favorable volumes on the Suzuki Splash, VW Passat and Transporter, Ford Focus, the new Mazda 2 and Mercedes C-class. European aftermarket revenues increased \$3 million in the third quarter of 2008 compared to last year. When adjusted for currency, aftermarket revenues were down \$1 million year-over-year. Excluding the \$2 million favorable impact of currency, ride control aftermarket revenues were \$5 million better when compared to prior year. Emission control aftermarket revenues were down \$6 million, excluding \$2 million in currency benefit, due to overall market declines. South American and Indian revenues were \$115 million during the third quarter of 2008, compared to \$86 million in the prior year. Stronger OE and aftermarket sales and currency appreciation drove this increase.

Revenues from our Asia Pacific segment decreased \$22 million to \$128 million in the third quarter of 2008 compared to \$150 million in the third quarter of 2007. Excluding the impact of substrate sales and currency, revenues decreased to \$95 million from \$109 million in the prior year. Asian revenues for the third quarter of 2008 were \$77 million, down 22 percent from last year. Although overall China production was up slightly, GM, Volkswagen, Ford and Brilliance, our largest customers in this region, all took unplanned downtime in the summer, resulting in a year-over-year 14% production decline for these leading OEMs. Third quarter revenues for Australia were flat year-over-year. Excluding substrate sales and favorable currency of \$1 million, Australian revenue was up \$3 million.



**Table of Contents****Net Sales and Operating Revenues for the Nine Months Ended September 30, 2008 and 2007**

	Nine Months Ended September 30, 2008				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency Impact	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 372	\$	\$ 372	\$	\$ 372
Emission Control	1,214	2	1,212	597	615
Total North America Original Equipment	1,586	2	1,584	597	987
North America Aftermarket					
Ride Control	311	2	309		309
Emission Control	122	1	121		121
Total North America Aftermarket	433	3	430		430
Total North America	2,019	5	2,014	597	1,417
Europe Original Equipment					
Ride Control	371	39	332		332
Emission Control	1,243	119	1,124	398	726
Total Europe Original Equipment	1,614	158	1,456	398	1,058
Europe Aftermarket					
Ride Control	175	16	159		159
Emission Control	152	14	138		138
Total Europe Aftermarket	327	30	297		297
South America & India	317	33	284	44	240
Total Europe, South America & India	2,258	221	2,037	442	1,595
Asia					