TENNECO INC
Form 10-Q
August 06, 2009

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12387

TENNECO INC.
(Exact name of registrant as specified in its charter)

Delaware	**76-0515284**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
500 North Field Drive, Lake Forest, Illinois	**60045**
(Address of principal executive offices)	*(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Common Stock, par value $0.01 per share: 47,282,669 shares outstanding as of July 31, 2009.

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

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

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

general economic, business and market conditions, including without limitation the severe financial difficulties facing a number of companies in the automotive industry as a result of the current global economic crisis, including 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;

our ability to access the capital or credit markets and the cost of capital, including the recent global financial and liquidity crisis, changes in interest rates, market perceptions of the sector in which we operate or ratings of our securities;

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 weakened economy;

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

changes in automotive manufacturers production rates and their actual and forecasted requirements for our products, such as the 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;

labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers other suppliers (such as the 2008 strike at American Axle, which disrupted our supply of products for significant General Motors platforms);

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

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

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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 and overall market weakness on discretionary purchases of aftermarket products by consumers;

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

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

customer acceptance of new products;

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

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

our 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;

changes in accounting estimates and assumptions, including changes based on additional information;

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

the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, environmental liabilities in excess of the amount reserved and the adoption of the current mandated timelines for worldwide emission regulation;

the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;

potential volatility in our effective tax rate;

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, and the current situation in North Korea, 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, 2008, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Tenneco Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (the Company) as of June 30, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month and six-month periods ended June 30, 2009 and 2008, and of changes in shareholders equity for the six-month periods ended June 30, 2009 and 2008. 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, 2008, and the related consolidated statements of income (loss), cash flows, changes in shareholders equity, and comprehensive income (loss) and financial statement schedule for the year then ended prior to retrospective adjustment for the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, (not presented herein); and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule. We also audited the adjustments described in Note 1 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of the Company (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

DELOITTE & TOUCHE LLP

Chicago, Illinois
August 6, 2009

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	$ 1,106	$ 1,651	$ 2,073	$ 3,211
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	913	1,383	1,740	2,709
Engineering, research, and development	24	34	45	70
Selling, general, and administrative	88	102	166	207
Depreciation and amortization of other intangibles	55	57	107	112
	1,080	1,576	2,058	3,098
Other income (expense)				
Loss on sale of receivables	(2)	(2)	(4)	(4)
Other income (expense)	(7)	2	(7)	5
	(9)		(11)	1
Income before interest expense, income taxes, and noncontrolling interests	17	75	4	114
Interest expense (net of interest capitalized of $1 million for each of the three months ended June 30, 2009 and 2008, and $2 million and $3 million for the six months ended June 30, 2009 and 2008, respectively)	35	33	66	58
Income tax expense	11	27	14	32
Net income (loss)	(29)	15	(76)	24
Less: Net income attributable to noncontrolling interests	4	2	6	5
Net income (loss) attributable to Tenneco Inc.	$ (33)	$ 13	$ (82)	$ 19

Earnings (loss) per share				
Weighted average shares of common stock outstanding				
Basic	46,660,573	46,404,077	46,668,343	46,320,774
Diluted	46,660,573	47,729,214	46,668,343	47,719,218
Basic earnings (loss) per share of common stock	$ (0.72)	$ 0.26	$ (1.76)	$ 0.40
Diluted earnings (loss) per share of common stock	$ (0.72)	$ 0.26	$ (1.76)	$ 0.39

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

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TENNECO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2009	December 31, 2008
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 111	$ 126
Receivables		
Customer notes and accounts, net	581	529
Other	56	45
Inventories		
Finished goods	189	211
Work in process	124	143
Raw materials	96	114
Materials and supplies	43	45
Deferred income taxes	24	18
Prepayments and other	114	107
Total current assets	1,338	1,338
Other assets:		
Long-term receivables, net	9	11
Goodwill	95	95
Intangibles, net	25	26
Deferred income taxes	61	88
Other	122	125
	312	345
Plant, property, and equipment, at cost	3,040	2,960
Less Accumulated depreciation and amortization	(1,923)	(1,815)
	1,117	1,145
Total assets	$ 2,767	$ 2,828
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 65	$ 49
Trade payables	701	790
Accrued taxes	47	30
Accrued interest	23	22

Accrued liabilities	221	201
Other	41	65
Total current liabilities	1,098	1,157
Long-term debt	1,455	1,402
Deferred income taxes	33	51
Postretirement benefits	373	377
Deferred credits and other liabilities	71	61
Commitments and contingencies		
Total liabilities	3,030	3,048
Redeemable noncontrolling interests	4	7
Tenneco Inc. Shareholders equity:		
Common stock		
Premium on common stock and other capital surplus	2,813	2,809
Accumulated other comprehensive loss	(279)	(318)
Retained earnings (accumulated deficit)	(2,584)	(2,502)
	(50)	(11)
Less Shares held as treasury stock, at cost	240	240
Total Tenneco Inc. shareholders equity	(290)	(251)
Noncontrolling interests	23	24
Total equity	(267)	(227)
Total liabilities, redeemable noncontrolling interests and equity	$ 2,767	$ 2,828

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

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
		(Millions)		
Operating Activities				
Net income (loss)	$ (29)	$ 15	$ (76)	$ 24
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities				
Depreciation and amortization of other intangibles	55	57	107	112
Deferred income taxes	(4)	(13)	(3)	(18)
Stock-based compensation	2	2	4	5
Loss on sale of assets	2	3	4	5
Changes in components of working capital				
(Increase) decrease in receivables	(3)	(61)	(57)	(148)
(Increase) decrease in inventories	33	(4)	67	(47)
(Increase) decrease in prepayments and other current assets	(4)	(22)	(5)	(39)
Increase (decrease) in payables	38	27	(36)	50
Increase (decrease) in accrued taxes	22	26	19	25
Increase (decrease) in accrued interest	(9)	(10)	1	(1)
Increase (decrease) in other current liabilities	(2)	27	(5)	16
Changes in long-term assets	4	14	6	9
Changes in long-term liabilities	6	2	1	5
Other	1	(5)	4	(4)
Net cash provided (used) by operating activities	112	58	31	(6)
Investing Activities				
Proceeds from the sale of assets		1	2	2
Cash payments for plant, property, and equipment	(30)	(64)	(66)	(127)
Cash payments for software related intangible assets	(2)	(3)	(4)	(8)
Acquisition of business, net of cash acquired		(19)	1	(19)
Net cash used by investing activities	(32)	(85)	(67)	(152)
Financing Activities				
Issuance of common shares				1
Issuance of long-term debt			2	
Debt issuance cost of long-term debt			(8)	
Retirement of long-term debt	(7)		(8)	(3)

Increase (decrease) in bank overdrafts	(11)	3	(24)	
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	(62)	30	75	121
Distributions to noncontrolling interest partners	(10)	(2)	(10)	(4)
Net cash provided (used) by financing activities	(90)	31	27	115
Effect of foreign exchange rate changes on cash and cash equivalents	8	(1)	(6)	19
Increase (decrease) in cash and cash equivalents	(2)	3	(15)	(24)
Cash and cash equivalents, April 1 and January 1, respectively	113	161	126	188
Cash and cash equivalents, June 30 (Note)	$ 111	$ 164	$ 111	$ 164
Supplemental Cash Flow Information				
Cash paid during the period for interest	$ 43	$ 39	$ 65	$ 61
Cash paid during the period for income taxes (net of refunds)	8	12	12	24
Non-cash Investing and Financing Activities				
Period ended balance of payable for plant, property, and equipment	$ 11	$ 22	$ 11	$ 22

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

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

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

	Six Months Ended June 30,			
	2009		2008	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	48,314,490	$	47,892,532	$
Issued pursuant to benefit plans	289,189		233,315	
Stock options exercised	41,460		84,409	
Balance June 30	48,645,139		48,210,256	
Premium on Common Stock and Other Capital Surplus				
Balance January 1		2,809		2,800
Premium on common stock issued pursuant to benefit plans		4		5
Balance June 30		2,813		2,805
Accumulated Other Comprehensive Loss				
Balance January 1		(318)		(73)
Other comprehensive income (loss)		39		66
Balance June 30		(279)		(7)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,502)		(2,087)
Net income (loss) attributable to Tenneco Inc.		(82)		19
Balance June 30		(2,584)		(2,068)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1 and June 30	1,294,692	240	1,294,692	240
Total Tenneco Inc. shareholders equity		$ (290)		$ 490
Noncontrolling Interests:				
Balance January 1		$ 24		$ 25
Net income attributable to noncontrolling interests		4		4
Dividend declared		(5)		(3)

Balance June 30	$	23	$	26
Total equity	$	(267)	$	516

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

TENNECO INC.

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

	Three Months Ended June 30, 2009					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (33)		$ 4		$ (29)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	$ (82)		$		$ (82)	
Translation of foreign currency statements	79	79			79	79
Balance June 30	(3)				(3)	
Additional Liability for Pension Benefits						
Balance April 1 and June 30	(276)				(276)	
Balance June 30	$ (279)		$		$ (279)	
Other Comprehensive Income (Loss)		79				79
Comprehensive Income (Loss)		$ 46		$ 4		$ 50

	Three Months Ended June 30, 2008					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive	Comprehensive	Accumulated Other Comprehensive	Comprehensive	Accumulated Other Comprehensive	Comprehensive

	Income (Loss)	Income (Loss)	Income (Loss)	Income (Loss)	Income (Loss)	Income (Loss)
			(Millions)			
Net Income (Loss)		$ 13		$ 2		$ 15
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance April 1	$ 139		$		$ 139	
Translation of foreign currency statements	12	12			12	12
Balance June 30	151				151	
Additional Liability for Pension Benefits						
Balance April 1 and June 30	(158)				(158)	
Balance June 30	$ (7)		$		$ (7)	
Other Comprehensive Income (Loss)		12				12
Comprehensive Income (Loss)		$ 25		$ 2		$ 27

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	Six Months Ended June 30, 2009					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (82)		$ 6		$ (76)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ (42)		$		$ (42)	
Translation of foreign currency statements	39	39			39	39
Balance June 30	(3)				(3)	
Additional Liability for Pension Benefits						
Balance January 1 and June 30	(276)				(276)	
Balance June 30	$ (279)		$		$ (279)	
Other Comprehensive Income (Loss)		39				39
Comprehensive Income (Loss)		$ (43)		$ 6		$ (37)

	Six Months Ended June 30, 2008					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					

Net Income (Loss)		$ 19		$ 5		$ 24
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ 85		$		$85	
Translation of foreign currency statements	66	66			66	66
Balance June 30	151				151	
Additional Liability for Pension Benefits						
Balance January 1 and June 30	(158)				(158)	
Balance June 30	$ (7)		$		$(7)	
Other Comprehensive Income (Loss)		66				66
Comprehensive Income (Loss)		$ 85		$ 5		$ 90

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

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, 2008.

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 all intercompany transactions. We have evaluated all subsequent events through August 6, 2009, the date the financial statements were issued.

Certain reclassifications have been made to the prior period cash flow statements to conform to the current year presentation. We have reclassified $(16) million and $(19) million from the line item other operating activities for the three months and six months ended June 30, 2008, respectively, 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 $1 million and $5 million from the line item increase (decrease) in payables and $1 million and $1 million from the line item increase (decrease) in other current liabilities to the line item other operating activities for the three months and six months ended June 30, 2008, respectively to classify currency movement with the related line items. 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 $3 million for the three months ended June 30, 2008, 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. The increase (decrease) in bank overdrafts for the six months ended June 30, 2008 was less than $1 million.

On January 1, 2009, we adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160) which required us to reclassify retrospectively for all periods presented, noncontrolling ownership interests (formerly called minority interests) from the mezzanine section of the balance sheet between liabilities and equity to the equity section of the balance sheet, and to change our presentation of net income (loss) in the condensed consolidated statements of cash flows to include the portion of net income (loss) attributable to noncontrolling ownership interests. We have also expanded our financial statement presentation and disclosure of noncontrolling ownership interests on our condensed consolidated statements of income (loss), condensed consolidated statements of comprehensive income (loss) and condensed consolidated statements of changes in shareholders equity in accordance with the new SFAS No. 160 disclosure requirements.

We are subject to the requirements of EITF Topic No. D-98, Classification and Measurement of Redeemable Securities (EITF D-98), which interprets Rule 5-02.28 of Regulation S-X. Rule 5-02.28 requires shares whose redemption are outside of the control of the issuer to be classified outside of permanent equity. We have

noncontrolling interests in three joint ventures with redemption features that could require us to purchase the noncontrolling interest at fair value in the event of a change in control of Tenneco Inc. Additionally, a noncontrolling interest in a third joint venture requires us to purchase the noncontrolling interest at fair value in the event of default or under certain other circumstances. We do not believe that it is probable that the redemption features in any of these joint venture agreements will be triggered. However, the redemption of these shares is not solely within our control. Accordingly, the related noncontrolling interests are presented as Redeemable noncontrolling interests in the mezzanine section of our condensed consolidated balance sheets in accordance with

TENNECO INC.

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

EITF D-98. EITF D-98 does not impact the accounting for noncontrolling interests on our condensed consolidated statements of net income (loss).

(2) In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 Fair Value Measurement (SFAS No. 157) which was effective for financial statements issued for fiscal years beginning after November 15, 2007. We have adopted the measurement and disclosure provisions of SFAS No. 157 relating to our financial assets and liabilities which are measured on a recurring basis starting on January 1, 2008. On January 1, 2009, we adopted the measurement and disclosure provision of SFAS No. 157 relating to our 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 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.

The fair value of our recurring financial assets and liabilities at June 30, 2009 are as follows:

	Level 1	Level 2 (Millions)	Level 3
Financial Assets:			
Foreign exchange forward contracts	n/a	$ 3	n/a

Foreign exchange forward contracts We use foreign exchange forward purchase and sales contracts with terms of less than one year to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We do not enter into derivative financial instruments for speculative purposes. 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. We have not designated our foreign exchange forward contracts as hedging instruments under FASB Statement No. 133, *Derivative Instruments and Hedging Activities.* Accordingly, the change in fair value of these foreign exchange forward contracts is recorded as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income (loss). The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance

sheet. The fair value of our foreign exchange forward contracts, presented on a gross basis by derivative contract at June 30, 2009 was as follows:

	Fair Value of Derivative Instruments		
	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	$ 4	$ 1	$ 3

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TENNECO INC.

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

The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of June 30, 2009:

		Notional Amount in Foreign Currency	Weighted Average Settlement Rates	Fair Value in U.S. Dollars
		(Millions Except Settlement Rates)		
Australian dollars	Purchase	37	0.806	$ 30
	Sell	(3)	0.806	(3)
British pounds	Purchase	26	1.645	44
	Sell	(25)	1.646	(42)
European euro	Purchase			
	Sell	(25)	1.404	(35)
South African rand	Purchase	396	0.130	51
	Sell	(26)	0.130	(3)
U.S. dollars	Purchase	6	1.004	6
	Sell	(58)	1.001	(58)
Other	Purchase	911	0.016	14
	Sell	(1)	0.860	(1)
				$ 3

(3) The carrying and estimated fair values of our financial instruments by class at June 30, 2009 were as follows:

	Carrying Amount	Fair Value
	(Millions) Asset (Liabilities)	
Long-term debt (including current maturities)	$ (1,460)	$ (1,232)
Instruments with off-balance sheet risk:		
Foreign exchange forward contracts	3	3

Asset and Liability Instruments The fair value of cash and cash equivalents, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount.

Long-term Debt The fair value of our public fixed rate senior secured, senior and senior subordinated notes is based on quoted market prices. The fair value of our private borrowings under our senior credit facility and other long-term debt instruments is based on the market value of debt with similar maturities, interest rates and risk characteristics.

(4) Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of June 30, 2009, the senior credit facility consisted of a five-year, $144 million term loan A maturing in March 2012, a five-year, $550 million revolving credit facility maturing in March 2012, and a seven-year $130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. Our outstanding debt also includes $245 million of 101/4 percent senior secured notes due July 15, 2013, $250 million of 81/8 percent senior notes due November 15, 2015, and $500 million of 85/8 percent senior subordinated notes due November 15, 2014. At June 30, 2009, we had unused borrowing capacity of $333 million under our $680 million revolving credit facility with $299 million in outstanding borrowings and $48 million in letters of credit.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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. Over the next twelve months we plan to repay $32 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the $32 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

The tranche B-1 letter of credit/revolving loan facility requires repayment by March 2014. We can borrow revolving loans and issue letters of credit under the $130 million tranche B-1 letter of credit/revolving loan facility. The tranche B-1 letter of credit/revolving loan facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. There is no additional cost to us for issuing letters of credit under the tranche B-1 letter of credit/revolving loan facility, however, outstanding letters of credit reduce our availability to borrow revolving loans under this portion of the facility. We pay the tranche B-1 lenders interest equal to LIBOR plus a margin, which is offset by the return on the funds deposited with the administrative agent by the lenders which earn interest at an annual rate approximately equal to LIBOR less 25 basis points. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduce the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). The financial ratios required under the senior credit facility for 2009 and beyond are set forth below. As of June 30, 2009, we were in compliance with all the financial covenants and operational restrictions of the senior credit facility.

Period Ending	**Leverage Ratio**	**Interest Coverage Ratio**
March 31, 2009	5.50	2.25
June 30, 2009	7.35	1.85
September 30, 2009	7.90	1.55
December 31, 2009	6.60	1.60
March 31, 2010	5.50	2.00
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55

June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

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

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

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

On December 24, 2008, we amended our senior secured credit facility to increase the margin we pay on the borrowings from 1.50% to 3.00% on revolver loans, term loan A and tranche B-1 loans, from 0.50% to 2.00% on prime-based loans, from 1.00% to 2.50% on federal funds based loans and from 0.35% to 0.50% on the commitment fee associated with the facility. In addition, we agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately $3 million.

In December 2008, we terminated the fixed-to-floating interest rate swaps we entered into in April 2004. The change in the market value of these swaps was recorded as part of interest expense with an offset to other long-term assets or liabilities.

(5) 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.

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In 2008, we recorded tax expense of $289 million primarily related to establishing a valuation allowance against our net deferred tax assets in the U.S. During the first six months of 2009, we recorded an additional valuation allowance of $19 million primarily related to U.S. tax benefits recorded on first six months 2009 U.S. losses. In the U.S., we utilize the results from 2008 and a projection of our results for 2009 as a measure of the cumulative losses in recent years. Accounting standards do not permit us to give any consideration to a likely economic recovery in the U.S. or the recent new business we have won particularly in the commercial vehicle segment 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 and the impact of the current negative operating environment on our tax planning strategies. 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 $70 million relating to the expected utilization of those NOLs. The federal NOL expires beginning in 2020 through 2028. The state NOLs expire in various years through 2028.

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

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