

Edgar Filing: TENNECO INC - Form 10-Q

TENNECO INC  
Form 10-Q  
November 09, 2006

-----  
-----  
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, 2006

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.

# Edgar Filing: TENNECO INC - Form 10-Q

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated  
filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Common Stock, par value \$.01 per share: 45,527,276 shares as of October 30, 2006.

-----  
-----

## TABLE OF CONTENTS

	PAGE
	----
PART I--FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).....	5
Tenneco Inc. and Consolidated Subsidiaries--	
Report of Independent Registered Public Accounting Firm.....	5
Statements of Income.....	6
Balance Sheets.....	7
Statements of Cash Flows.....	8
Statements of Changes in Shareholders' Equity.....	9
Statements of Comprehensive Income (Loss).....	10
Notes to Consolidated Financial Statements.....	11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	36
Item 3. Quantitative and Qualitative Disclosures About Market Risk....	63
Item 4. Controls and Procedures.....	63
PART II--OTHER INFORMATION	
Item 1. Legal Proceedings.....	*
Item 1A. Risk Factors.....	64
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds...	64
Item 3. Defaults Upon Senior Securities.....	*
Item 4. Submission of Matters to a Vote of Security Holders.....	*
Item 5. Other Information.....	*
Item 6. Exhibits.....	64

-----

## Edgar Filing: TENNECO INC - Form 10-Q

\* 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," "plans," "expect," "anticipated," "estimates," and similar expressions (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

- changes in automotive manufacturers' production rates and their actual and forecasted requirements for our products, including 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;
- 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 and other methods;
- the cyclical nature of the global vehicular industry, including the performance of the global aftermarket sector and the longer product lives of automobile parts;
- changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the recent shift in consumer preferences from light trucks and SUVs to other vehicles in light of higher fuel costs (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 cyclicity of automotive production and sales of automobiles which include our products, and the potential negative impact on our revenues

## Edgar Filing: TENNECO INC - Form 10-Q

and margins from such products;

- 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;
- 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 us from such companies;
- 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 and on purchases of light trucks and SUVs;
- the cost and outcome of existing and any future legal proceedings;
- 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;
- 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;
- capital availability or costs, including changes in interest rates, market perceptions of the industries in which we operate or ratings of securities;
- 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;

## Edgar Filing: TENNECO INC - Form 10-Q

- the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, and environmental liabilities in excess of the amount reserved;
- 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, 2005, 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.

4

### 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 consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of September 30, 2006, and the related consolidated statements of income, cash flows, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2006 and 2005, and changes in shareholders' equity for the nine-month periods ended September 30, 2006 and 2005. These interim financial statements are the responsibility of Tenneco Inc.'s management.

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

Based on our review, we are not aware of any material modifications that

## Edgar Filing: TENNECO INC - Form 10-Q

should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company changed its accounting for stock-based compensation expense effective January 1, 2006 upon adoption of Statement of Financial Accounting Standard No. 123(R), "Share-Based Payment."

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 consolidated subsidiaries as of December 31, 2005, and the related consolidated statements of income, cash flows, changes in shareholders' equity, and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated March 14, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2005 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 3, 2006

5

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	(MILLIONS EXCEPT SHARE AND PER SHARE AMOUNTS)			
<b>REVENUES</b>				
Net sales and operating revenues....	\$ 1,122	\$ 1,096	\$ 3,476	\$ 3,377
<b>COSTS AND EXPENSES</b>				
Cost of sales (exclusive of depreciation and amortization shown below).....	926	889	2,819	2,718
Engineering, research, and development.....	24	22	68	64
Selling, general, and administrative.....	82	96	290	287
Depreciation and amortization of other intangibles.....	45	44	136	134
	1,077	1,051	3,313	3,203

Edgar Filing: TENNECO INC - Form 10-Q

OTHER INCOME (EXPENSE)				
Loss on sale of receivables.....	(2)	(1)	(4)	(2)
Other income.....	2	6	1	5
	---	5	(3)	3
INCOME BEFORE INTEREST EXPENSE, INCOME TAXES, AND MINORITY INTEREST.....	45	50	160	177
Interest expense (net of interest capitalized).....	34	33	101	97
Income tax expense.....	3	7	18	29
Minority interest.....	2	--	4	1
NET INCOME.....	\$ 6	\$ 10	\$ 37	\$ 50
EARNINGS PER SHARE				
Average shares of common stock outstanding--				
Basic.....	44,986,076	43,279,086	44,466,543	42,969,663
Diluted.....	47,207,110	45,583,668	46,790,147	45,215,418
Basic earnings per share of common stock.....	\$ 0.13	\$ 0.25	\$ 0.84	\$ 1.17
Diluted earnings per share of common stock.....	\$ 0.12	\$ 0.23	\$ 0.79	\$ 1.11

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

6

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEETS  
(UNAUDITED)

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
	(MILLIONS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 116	\$ 141
Receivables--		
Customer notes and accounts, net.....	619	515
Other.....	22	28
Inventories--		
Finished goods.....	183	154

Edgar Filing: TENNECO INC - Form 10-Q

Work in process.....	88	81
Raw materials.....	114	89
Materials and supplies.....	34	36
Deferred income taxes.....	46	43
Prepayments and other.....	139	110
	-----	-----
	1,361	1,197
	-----	-----
Other assets:		
Long-term notes receivable, net.....	27	23
Goodwill.....	201	200
Intangibles, net.....	32	30
Deferred income taxes.....	317	307
Other.....	135	140
	-----	-----
	712	700
	-----	-----
Plant, property, and equipment, at cost.....	2,577	2,428
Less--Reserves for depreciation and amortization.....	(1,497)	(1,385)
	-----	-----
	1,080	1,043
	-----	-----
	\$ 3,153	\$ 2,940
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Short-term debt (including current maturities of long-term debt).....	\$ 51	\$ 22
Trade payables.....	730	651
Accrued taxes.....	52	31
Accrued interest.....	34	38
Accrued liabilities.....	213	208
Other.....	25	29
	-----	-----
	1,105	979
	-----	-----
Long-term debt.....	1,352	1,356
	-----	-----
Deferred income taxes.....	84	86
	-----	-----
Postretirement benefits.....	283	285
	-----	-----
Deferred credits and other liabilities.....	81	81
	-----	-----
Commitments and contingencies		
Minority interest.....	28	24
	-----	-----
Shareholders' equity:		
Common stock.....	--	--
Premium on common stock and other capital surplus.....	2,785	2,776
Accumulated other comprehensive loss.....	(235)	(282)
Retained earnings (accumulated deficit).....	(2,090)	(2,125)
	-----	-----
	460	369
Less--Shares held as treasury stock, at cost.....	240	240
	-----	-----
	220	129
	-----	-----
	\$ 3,153	\$ 2,940
	=====	=====



Edgar Filing: TENNECO INC - Form 10-Q

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

7

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	(MILLIONS)			
<b>OPERATING ACTIVITIES</b>				
Net income.....	\$ 6	\$ 10	\$ 37	\$ 50
Adjustments to reconcile net income to cash provided (used) by operating activities--				
Depreciation and amortization of other intangibles...	45	44	136	134
Deferred income taxes.....	1	8	9	3
Stock option expense.....	1	--	3	--
Loss on sale of assets, net.....	--	1	2	2
Changes in components of working capital (net of acquisition)--				
(Increase) decrease in receivables.....	17	(9)	(85)	(209)
(Increase) decrease in inventories.....	(7)	11	(47)	(22)
(Increase) decrease in prepayments and other current assets.....	(7)	(4)	(34)	(23)
Increase (decrease) in payables.....	(39)	(12)	51	52
Increase (decrease) in accrued taxes.....	(8)	(8)	(8)	11
Increase (decrease) in accrued interest.....	(5)	(4)	(4)	(2)
Increase (decrease) in other current liabilities..	4	15	--	5
Other.....	(5)	(14)	--	(27)
Net cash provided (used) by operating activities.....	3	38	60	(26)
<b>INVESTING ACTIVITIES</b>				
Net proceeds from the sale of assets.....	4	1	6	4
Expenditures for plant, property, and equipment.....	(43)	(37)	(130)	(100)
Expenditures for software related intangible assets....	(3)	(5)	(9)	(12)
Acquisition of businesses (net of cash acquired).....	--	--	--	(11)
Investments and other.....	(2)	(1)	(1)	1
Net cash used by investing activities.....	(44)	(42)	(134)	(118)

Edgar Filing: TENNECO INC - Form 10-Q

	----	----	-----	-----
FINANCING ACTIVITIES				
Issuance of common shares.....	3	2	13	6
Issuance of long-term debt.....	--	1	--	1
Retirement of long-term debt.....	(1)	(1)	(3)	(43)
Net increase in short-term debt excluding current maturities of long-term debt.....	32	22	29	56
Other.....	--	1	2	1
	----	----	-----	-----
Net cash provided by financing activities.....	34	25	41	21
	----	----	-----	-----
Effect of foreign exchange rate changes on cash and cash equivalents.....	--	2	8	(2)
	----	----	-----	-----
Increase (Decrease) in cash and cash equivalents.....	(7)	23	(25)	(125)
Cash and cash equivalents, July 1 and January 1, respectively.....	123	66	141	214
	----	----	-----	-----
Cash and cash equivalents, September 30 (Note).....	\$116	\$ 89	\$ 116	\$ 89
	=====	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the period for interest.....	\$ 36	\$ 33	\$ 103	\$ 94
Cash paid during the period for income taxes (net of refunds).....	\$ 11	\$ 5	\$ 18	\$ 16

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.

8

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,			
	2006		2005	
	SHARES	AMOUNT	SHARES	AMOUNT
	-----	-----	-----	-----
	(MILLIONS EXCEPT SHARE AMOUNTS)			
COMMON STOCK				
Balance January 1.....	45,544,668	\$ --	44,275,594	\$ --
Issued (Reacquired) pursuant to benefit plans.....	(114,546)	--	283,921	--
Stock options exercised.....	1,389,261	--	847,798	--

Edgar Filing: TENNECO INC - Form 10-Q

Balance September 30.....	46,819,383	--	45,407,313	--
	=====		=====	
PREMIUM ON COMMON STOCK AND OTHER CAPITAL SURPLUS				
Balance January 1.....		2,776		2,764
Premium on common stock issued pursuant to benefit plans.....		9		10
Balance September 30.....		2,785		2,774
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance January 1.....		(282)		(185)
Other comprehensive income (loss).....		47		(67)
Balance September 30.....		(235)		(252)
RETAINED EARNINGS (ACCUMULATED DEFICIT)				
Balance January 1.....		(2,125)		(2,180)
Net income.....		37		50
Other.....		(2)		(2)
Balance September 30.....		(2,090)		(2,132)
LESS--COMMON STOCK HELD AS TREASURY STOCK, AT COST				
Balance January 1 and September 30.....	1,294,692	240	1,294,692	240
	=====	-----	=====	-----
Total.....		\$ 220		\$ 150
		=====		=====

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

9

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

THREE MONTHS ENDED SEPTEMBER 30,			
2006		2005	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	COMPREHENSIVE INCOME (LOSS)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	COMPREHENSIVE INCOME (LOSS)
-----	-----	-----	-----



## Edgar Filing: TENNECO INC - Form 10-Q

Balance September 30.....	\$ (235)	---	\$ (252)	----
	=====		=====	-----
Other comprehensive income (loss)...		47		(67)
		---		----
COMPREHENSIVE INCOME (LOSS).....		\$84		\$ (17)
		===		=====

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

10

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) As you read the accompanying financial statements and Management's Discussion and Analysis you should also read our Annual Report on Form 10-K for the year ended December 31, 2005.

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 interim consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. 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 consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies at cost plus equity in undistributed earnings and cumulative translation adjustments from the date of acquisition since we have the ability to exert significant influence over operating and financial policies.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Specifically, we have reclassified expenditures for software-related intangible assets in the statements of cash flows from operating activities to investing activities as we believe this presentation is preferable. We do not believe this change in presentation is material to the financial statements.

(2) Equity Plans--In December 1996, we adopted the 1996 Stock Ownership Plan, which permitted the granting of 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. The plan, which terminated as to new awards on December 31, 2001, was renamed the "Stock Ownership Plan." In December 1999, we adopted the Supplemental Stock Ownership Plan, which permitted the granting of a variety of similar awards to our directors, officers, employees and consultants. We were authorized to deliver up to about 1.1 million treasury shares of common stock under the Supplemental Stock Ownership Plan, which also terminated as to

## Edgar Filing: TENNECO INC - Form 10-Q

new awards on December 31, 2001. In March 2002, we adopted the 2002 Long-Term Incentive Plan which permitted the granting of a variety of similar awards to our officers, directors, employees and consultants. Up to 4 million shares of our common stock were authorized for delivery under the 2002 Long-Term Incentive Plan. In March 2006, we adopted the 2006 Long-Term Incentive Plan which replaced the 2002 Long-Term Incentive Plan and permits the granting of a variety of similar awards to directors, officers, employees and consultants. As of September 30, 2006, up to 2,569,381 shares of our common stock have been authorized for delivery under the 2006 Long-Term Incentive Plan. Our nonqualified stock options have 7 to 20 year terms and vest equally over a three year service period from the date of the grant.

We have granted restricted common stock to our directors and certain key employees. These awards generally require, among other things, that the award holder remains in service to our company during the restriction period. We have also granted stock equivalent units to certain key employees that are payable in cash annually based on the attainment of specified performance goals. The grant value is indexed to the stock price. Each employee granted stock equivalent units receives a percentage of the total grant's value. In addition, we have granted SARs to certain key employees in our Asian operations that are payable in cash after a three year service period. The grant value is indexed to the stock price.

Accounting Methods--Prior to January 1, 2006, we utilized the intrinsic value method to account for our stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation cost was reflected in net income related to stock options as all options granted under the plans had an exercise price equal to the market price of the underlying common stock on the date of the grant. Compensation cost was previously recognized for restricted stock, stock equivalent units and SARs under this accounting principle.

11

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) (UNAUDITED)

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," using the modified prospective application method. Under this transition method, compensation cost recognized for the nine months ended September 30, 2006, includes the applicable amounts of: (1) compensation cost of all unvested stock-based awards granted prior to January 1, 2006, based upon the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures, and (2) compensation cost for all stock-based awards granted on or after January 1, 2006, based upon the grant date fair value estimated in accordance with the new provisions of SFAS No. 123(R). Results for prior periods have not been restated.

THREE MONTHS ENDED	NINE MONTHS ENDED
SEPTEMBER 30,	SEPTEMBER 30,
-----	-----

Edgar Filing: TENNECO INC - Form 10-Q

	2005	2005
	-----	-----
	(MILLIONS EXCEPT PER SHARE AMOUNTS)	
Net income.....	\$ 10	\$ 50
Add: Stock-based employee compensation expense included in net income, net of income tax.....	1	4
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of income tax.....	(2)	(6)
Adjusted net income.....	\$ 9 =====	\$ 48 =====
Earnings per share:		
Basic--as reported.....	\$0.25	\$1.17
Basic--as adjusted for stock-based compensation expense..	\$0.23	\$1.13
Diluted--as reported.....	\$0.23	\$1.11
Diluted--as adjusted for stock-based compensation expense.....	\$0.22	\$1.07

SFAS No. 109, "Accounting for Income Taxes," discusses the deductibility of transactions. We are allowed a tax deduction for compensation cost which is calculated as the difference between the value of the stock at the date of grant and the price upon exercise of a stock option. Prior to adopting SFAS No. 123(R), we presented the cash flow benefit of these deductions as operating cash flows. Under SFAS No. 123(R), excess tax benefits, which are any excess tax benefits we may realize upon the exercise of stock options that are greater than the tax benefit recognized on the compensation cost recorded in our income statement, are recognized as an addition to paid-in capital. We present cash retained as a result of excess tax benefits as financing cash flows. Any write-offs of deferred tax assets related to unrealized tax benefits associated with the recognized compensation cost would be reported as income tax expense.

Effects of Adopting--Under the previous accounting rules, we recognized compensation expense for restricted stock, stock equivalent units and SARs in the income statement and we continue to do so under SFAS No. 123(R). Compensation expense for these awards, net of tax, was approximately \$6 million for the nine months ended September 30, 2006 compared to approximately \$4 million for the nine months ended September 30, 2005, and was recorded in selling, general, and administrative expense on the statement of income at the corporate level.

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)  
(UNAUDITED)

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

Edgar Filing: TENNECO INC - Form 10-Q

NINE MONTHS ENDED  
SEPTEMBER 30, 2006

-----  
(MILLIONS)

Selling, general and administrative.....	\$ 3
	-----
Loss before interest expense, income taxes and minority interest.....	(3)
Income tax benefit.....	(1)
	-----
Net loss.....	\$ (2)
	=====
Decrease in basic earnings per share.....	\$(0.04)
Decrease in diluted earnings per share.....	\$(0.04)

For the nine months ended September 30, 2006, the impact of adopting SFAS No. 123(R) on our results of operations including nonqualified stock options and other stock-based compensation was additional expense of approximately \$2 million or \$0.04 per diluted share. Adoption of this accounting standard also increased the calculated number of diluted shares by approximately 0.4 million primarily due to the elimination of assumed excess tax benefits.

For stock options awarded to retirement eligible employees prior to the adoption of SFAS No. 123(R) we immediately accelerate the recognition of any outstanding compensation cost when employees retire before the end of the explicit vesting period. This methodology has not had a material impact on our recognized compensation cost.

As of September 30, 2006, there was approximately \$4 million, net of tax, of total unrecognized compensation costs related to these stock-based awards that we expect to recognize over a weighted average period of 1.2 years.

Cash received from option exercises for the nine months ended September 30, 2006, was approximately \$8 million. Stock option exercises during the first nine months of 2006 generated an excess tax benefit of approximately \$9 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 the awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. Determining the fair value of share-based awards 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.

NINE MONTHS  
ENDED  
SEPTEMBER 30,  
-----



Edgar Filing: TENNECO INC - Form 10-Q

	2006	2005
	-----	-----
Stock Options		
Weighted average grant date fair value, per share.....	\$9.27	\$8.14
Weighted average assumptions used:		
Expected volatility.....	42.6%	43.0%
Expected lives.....	5.1	7
Risk-free interest rates.....	4.2%	4.0%
Dividend yields.....	0.0%	0.0%

13

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

Effective January 1, 2006, we changed our method of determining volatility on all new options granted after that date to implied volatility rather than an analysis of historical volatility. We believe the market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates. The effect of this change did not have a material impact to our results of operations.

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.

On January 10, 2001, we announced that our Board of Directors eliminated the quarterly dividend on our common stock. As a result, there is no dividend yield.

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

NINE MONTHS ENDED SEPTEMBER 30, 2006			
SHARES UNDER OPTION	WEIGHTED AVG. EXERCISE PRICES	WEIGHTED AVG. REMAINING LIFE IN YEARS	AGGREGAT INTRINSI VALUE
-----	-----	-----	-----
			(MILLIONS)

Edgar Filing: TENNECO INC - Form 10-Q

Outstanding Stock Options					
Outstanding, January 1, 2006.....	4,922,095	\$ 9.08			
Granted.....	451,750	21.21			
Canceled.....	(15,738)	20.08			
Forfeited.....	(3,061)	7.35			
Exercised.....	(803,472)	4.30			\$14
	-----				
Outstanding, March 31, 2006.....	4,551,574	11.08	5.5		49
Granted.....	1,500	10.75			
Canceled.....	(42,050)	5.67			
Forfeited.....	(4,231)	12.46			
Exercised.....	(164,394)	4.02			3
	-----				
Outstanding, June 30, 2006.....	4,342,399	11.40	5.3		51
	=====				
Granted.....	335	24.15			
Canceled.....	--	--			
Forfeited.....	(158,010)	17.26			
Exercised.....	(421,395)	8.36			6
	-----				
Outstanding, September 30, 2006.....	3,763,329	11.50	5.0		44
	=====				
Exercisable, September 30, 2006.....	3,015,554	\$10.02	5.0		\$40
	=====				

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)  
(UNAUDITED)

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

	NINE MONTHS ENDED SEPTEMBER 30, 2006	
	-----	-----
	SHARES	WEIGHTED AVG. GRANT DATE FAIR VALUE
	-----	-----
Nonvested Restricted Shares		
Nonvested balance at January 1, 2006.....	533,714	\$12.67
Granted.....	249,477	21.23
Vested.....	(222,687)	10.94

Edgar Filing: TENNECO INC - Form 10-Q

Forfeited.....	--	--
	-----	
Nonvested balance at March 31, 2006.....	560,504	\$17.17
Granted.....	--	--
Vested.....	(3,749)	12.24
Forfeited.....	--	--
	-----	
Nonvested balance at June 30, 2006.....	556,755	\$17.20
Granted.....	335	24.15
Vested.....	(6,043)	18.87
Forfeited.....	(136,082)	17.43
	=====	
Nonvested balance at September 30, 2006.....	414,965	\$17.11
	=====	

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, 2006, approximately \$5 million of total unrecognized compensation costs related to compensation for restricted stock awards is expected to be recognized over a weighted-average period of approximately 2 years.

Stock Equivalent Units and SAR's--Stock equivalent units and SAR's are paid in cash and recognized as a liability based upon their fair value. As of September 30, 2006, approximately \$2 million of total unrecognized compensation costs is expected to be recognized by December 31, 2006.

(3) In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an aggregate of \$150 million of fixed interest rate debt at an annual rate of 10 1/4 percent to floating interest rate debt at an annual rate of LIBOR plus an average spread of 5.68 percent. Each agreement requires semi-annual settlements through July 15, 2013. Based upon the LIBOR rate as determined under these agreements of 5.61 percent (which is in effect until January 15, 2007) the inclusion of these swaps in our financial results is expected to add \$1 million to our 2006 annual interest expense. These swaps qualify as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and as such are recorded on the balance sheet at fair value with an offset to the underlying hedged item, which is long-term debt. As of September 30, 2006, the fair value of the interest rate swaps was a liability of approximately \$7 million which has been recorded as a decrease to long-term debt and an increase to other long-term liabilities.

In February 2005, we amended our senior credit facility to reduce by 75 basis points the interest rate on the term loan B facility and the tranche B-1 letter of credit/revolving loan facility. In connection with the amendment, we voluntarily prepaid \$40 million in principal on the term loan B, reducing the term loan B facility from \$396 million to \$356 million.

## Edgar Filing: TENNECO INC - Form 10-Q

Additional provisions of the February 2005 amendment to the senior credit facility agreement were as follows: (i) amend the definition of EBITDA to exclude all remaining cash charges and expenses related to restructuring initiatives started on or before February 24, 2005, and to exclude up to an additional \$60 million in restructuring-related expenses announced and taken after February 24, 2005, (ii) increase permitted investments to \$50 million, (iii) exclude expenses related to the issuance of stock options from the definition of consolidated net income, (iv) permit us to redeem up to \$125 million of senior secured notes after January 1, 2008 (subject to certain conditions), (v) increase our ability to add commitments under the revolving credit facility by \$25 million, and (vi) make other minor modifications. We incurred approximately \$1 million in fees and expenses associated with this amendment, which were capitalized and are being amortized over the remaining term of the agreement.

Following the February 2005 voluntary prepayment of \$40 million, the term loan B facility is payable as follows: \$74 million due March 31, 2010, and \$94 million due each of June 30, September 30 and December 12, 2010. The revolving credit facility requires that if any amounts are drawn, they be repaid by December 2008. 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 December 2010. We can borrow revolving loans from the \$155 million tranche B-1 letter of credit/revolving loan facility and use that facility to support letters of credit. The tranche B-1 letter of credit/revolving loan facility lenders have deposited \$155 million with the administrative agent, who has invested that amount in time deposits. We do not have an interest in any of the funds on deposit. When we draw revolving loans under this facility, the loans are funded from the \$155 million on deposit with the administrative agent. When we make repayments, the repayments are redeposited with the administrative agent.

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 will not be liable for any losses to or misappropriation of any (i) return due to the administrative agent's failure to achieve the return described above or to pay all or any portion of such return to any lender under such facility or (ii) funds on deposit in such account by such lender (other than the obligation to repay funds released from such accounts and provided to us as revolving loans under such facility).

During 2005, we increased the amount of commitments under our revolving credit facility from \$220 million to \$300 million and reduced the amount of commitments under our tranche B-1 letter of credit/revolving loan facility from \$180 million to \$155 million. This reduction of our tranche B-1 letter of credit/revolving loan facility was required under the terms of the senior credit facility, as we had increased the amount of our revolving credit facility commitments by more than \$55 million.

In October 2005, we further amended our senior credit facility increasing the amount of commitments we may seek under the revolving credit portion of the facility from \$300 million to \$350 million, along with other technical changes. We are not required to reduce the commitments under our tranche B-1 letter of credit/revolving loan facility should we obtain additional revolving credit commitments. In July 2006, we increased the amount of commitments under the revolving credit portion of the facility from \$300 million to \$320 million. We have not yet sought any increased commitments above the \$320 million level, but may do so when, in our judgment, market conditions are favorable.

## Edgar Filing: TENNECO INC - Form 10-Q

(4) 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.

16

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) (UNAUDITED)

In the fourth quarter of 2001, our Board of Directors approved a restructuring plan, a project known as Project Genesis, designed to lower our fixed costs, improve efficiency and utilization, and better optimize our global footprint. Project Genesis involved closing eight facilities, improving the process flow and efficiency through value mapping and plant arrangement at 20 facilities, relocating production among facilities, and centralizing some functional areas. The total of all these restructuring and other costs recorded in the fourth quarter of 2001 was \$32 million before tax, \$31 million after tax, or \$0.81 per diluted common share. We eliminated 974 positions in connection with Project Genesis. Additionally, we executed this plan more efficiently than originally anticipated and as a result in the fourth quarter of 2002 reduced our reserves related to this restructuring activity by \$6 million, which was recorded in cost of sales. In the fourth quarter of 2003, we reclassified \$2 million of severance reserve to the asset impairment reserve. This reclassification became necessary, as actual asset impairments along with the sale of our closed facilities were different than the original estimates. We completed the remaining restructuring activities under Project Genesis as of the end of 2004. Since Project Genesis was announced, we have undertaken a number of related projects designed to restructure our operations, described below.

In the first quarter of 2003, we incurred severance costs of \$1 million associated with eliminating 17 salaried positions through selective layoffs and an early retirement program. Additionally, 93 hourly positions were eliminated through selective layoffs in the quarter. These reductions were done to reduce ongoing labor costs in North America. This charge was primarily recorded in cost of sales.

In October of 2003, we announced the closing of an emission control manufacturing facility in Birmingham, U.K. Approximately 130 employees were eligible for severance benefits in accordance with union contracts and U.K. legal requirements. We incurred approximately \$3 million in costs related to this action in 2004. This action is in addition to the plant closings announced in Project Genesis in the fourth quarter of 2001.

In October 2004, we announced a plan to eliminate 250 salaried positions through selected layoffs and an elective early retirement program. The majority of layoffs were at middle and senior management levels. As of September 30, 2006, we have incurred \$23 million in severance costs. Of this total, \$7 million was recorded in cost of sales and \$16 million was recorded in selling, general and administrative expense.

## Edgar Filing: TENNECO INC - Form 10-Q

In February 2006, we decided to reduce the work force at certain of our global locations as part of our ongoing effort to reduce our cost structure. We recorded a pre-tax charge of \$2 million during the third quarter of 2006 and \$6 million for the first nine months of 2006 for severance and other benefits related to these reductions in force, substantially all of which have been paid in cash.

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.

We incurred \$7 million in restructuring and restructuring-related costs during the third quarter of 2006, of which \$6 million was recorded in cost of sales and \$1 million in selling, general and administrative expense. Including the costs incurred in 2002 through 2005 of \$71 million, we have incurred a total of \$92 million for activities related to our restructuring initiatives as of September 30, 2006.

Under the terms of our amended and restated senior credit agreement that took effect on December 12, 2003, we were allowed to exclude up to \$60 million of cash charges and expenses, before taxes, related to cost reduction initiatives over the 2002 to 2006 time period from the calculation of the financial covenant ratios we are required to maintain under our senior credit agreement. In February 2005, our senior credit facility was amended to exclude all remaining cash charges and expenses related to restructuring initiatives started on or before February 24, 2005. As

17

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) (UNAUDITED)

of September 30, 2006, we have excluded \$63 million in allowable charges relating to restructuring initiatives previously started.

Under our amended facility, we are allowed to exclude up to an additional \$60 million of cash charges and expenses, before taxes, related to restructuring activities initiated after February 24, 2005 from the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2006, we have excluded \$27 million in allowable charges relating to restructuring initiatives against the \$60 million available under the terms of the February 2005 amendment to the senior credit facility.

(5) 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 and that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the

## Edgar Filing: TENNECO INC - Form 10-Q

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 financial statements.

As of September 30, 2006, 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 to be approximately \$8 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 results of operations or consolidated financial position.

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. For example, one of our Chinese joint ventures is currently defending a legal proceeding by Chinese government officials related to whether the joint venture applied the proper tariff code to certain of its imports. 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

## Edgar Filing: TENNECO INC - Form 10-Q

predicted with certainty, based on present 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 or results of operations. 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 the 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 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. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future financial condition or results of operations.

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 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 current liabilities on the balance sheet.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(MILLIONS)	
Beginning Balance January 1,.....	\$ 22	\$19
Accruals related to product warranties.....	16	10
Reductions for payments made.....	(12)	(9)



Edgar Filing: TENNECO INC - Form 10-Q

Ending Balance September 30,.....	---- \$ 26 ====	--- \$20 ===
-----------------------------------	-----------------------	--------------------

The current year increase in the warranty accrual is primarily driven by higher unit pricing in the North American aftermarket and miscellaneous warranty issues in Australia and China

(6) In March 2005, the FASB issued Interpretation No. ("FIN") 46(R)-5, "Implicit Variable Interests under FASB Interpretation No. 46" (revised December 2003). The statement addresses whether a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity ("VIE") or potential VIE when specific conditions exist. The guidance was applied in the first reporting period beginning after March 3, 2005. The adoption of FSP No. FIN 46(R)-5 did not have an impact on our consolidated financial statements.

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)  
(UNAUDITED)

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations." This interpretation clarifies that the term conditional asset retirement obligation as used in FASB No. 143, "Accounting for Conditional Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This interpretation was effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN No. 47 did not have a material impact on our financial position or results of operation.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Corrections," which supersedes APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." This statement changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on our financial position or results of operation.

In June 2005, the FASB issued Staff Position ("FSP") No. 143-1, "Accounting for Electronic Equipment Waste Obligations." This statement addresses the accounting for obligations associated with Directive 2005/96/EC on Waste Electrical and Electronic Equipment adopted by the European Union. The Directive distinguishes between "new" and "historical" waste. The guidance should be applied the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the law by the applicable EU-member country. The adoption of FSP No. 143-1 did not have a material impact on our financial position or results of operation.

In November 2005, the FASB issued FSP FAS 123(R)-3, "Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP requires

## Edgar Filing: TENNECO INC - Form 10-Q

an entity to follow either the transition guidance for the additional paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment, or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We continue to evaluate the impact that the adoption of this FSP could have on our financial statements.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation is effective for fiscal years ending after December 15, 2006. We continue to evaluate the impact that adoption of this interpretation could have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material impact to our financial statements.

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 will be 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

20

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) (UNAUDITED)

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 Other Comprehensive Income (OCI) section of shareholders' equity on the balance sheet. We are currently evaluating the potential impact this standard may have on our financial position and results of operations, but because we had previously recorded only a portion of the excess of obligations over plan assets in our defined benefit plans and retiree health care plans, we expect this will result in a reduction of OCI in shareholders' equity.

## Edgar Filing: TENNECO INC - Form 10-Q

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. We currently use a September 30 measurement date for substantially all of our defined benefit plans and are planning to adopt this statement's measurement date change effective for calendar year 2007. We do not believe the impact of the application of this part of the statement will be material to our financial position and results of operations.

(7) 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, net of a factoring 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 \$144 million and \$146 million at September 30, 2006 and 2005, respectively. We recognized a loss of approximately \$4 million for the nine months ended September 30, 2006, and approximately \$2 million for the nine months ended September 30, 2005, 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 6 percent during 2006. 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 value the retained interest based upon the amount we expect to collect from our customers, which approximates book value.

21

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED) (UNAUDITED)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	(MILLIONS EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic earnings per share--				
Income.....	\$ 6	\$ 10	\$ 37	\$ 50
	=====	=====	=====	=====
Average shares of common stock outstanding.....	44,986,076	43,279,086	44,466,543	42,969,663
	=====	=====	=====	=====
Earnings per average share of common stock.....	\$ 0.13	\$ 0.25	\$ 0.84	\$ 1.17
	=====	=====	=====	=====

Edgar Filing: TENNECO INC - Form 10-Q

Diluted earnings per share--

Income.....	\$	6	\$	10	\$	37	\$	50
		=====		=====		=====		=====
Average shares of common stock outstanding.....		44,986,076		43,279,086		44,466,543		42,969,663
Effect of dilutive securities:								
Restricted stock.....		335,432		425,395		409,223		356,337
Stock options.....		1,885,602		1,879,187		1,914,381		1,889,418
		-----		-----		-----		-----
Average shares of common stock outstanding including dilutive securities.....		47,207,110		45,583,668		46,790,147		45,215,418
		=====		=====		=====		=====
Earnings per average share of common stock.....	\$	0.12	\$	0.23	\$	0.79	\$	1.11
		=====		=====		=====		=====

Options to purchase 1,020,145 and 1,239,391 shares of common stock were outstanding at September 30, 2006 and 2005, respectively, but were not included in the computation of diluted EPS because the options were anti-dilutive for the quarters ended September 30, 2006 and 2005, respectively.

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

	THREE MONTHS ENDED SEPTEMBER 30,					
	PENSION				POSTRETIREMENT	
	2006		2005		2006	2005
	US	FOREIGN	US	FOREIGN	US	US
	(MILLIONS)					
Service cost--benefits earned during the year.....	\$ 4	\$ 2	\$ 3	\$ 1	\$--	\$ 1
Interest cost.....	5	3	5	3	2	2
Expected return on plan assets.....	(4)	(4)	(4)	(4)	--	--
Net amortization:						
Actuarial loss.....	2	1	1	1	2	2
Prior service cost.....	--	1	1	1	(1)	(2)
	---	---	---	---	---	---
Net pension and postretirement costs.....	\$ 7	\$ 3	\$ 6	\$ 2	\$ 3	\$ 3
	===	===	===	===	===	===

Edgar Filing: TENNECO INC - Form 10-Q

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,					
	PENSION				POSTRETIREMENT	
	2006		2005		2006	2005
	US	FOREIGN	US	FOREIGN	US	US
	(MILLIONS)					
Service cost--benefits earned during the year.....	\$ 12	\$ 6	\$ 11	\$ 5	\$ 2	\$ 2
Interest cost.....	14	11	14	10	6	6
Expected return on plan assets.....	(14)	(12)	(12)	(11)	--	--
Net amortization:						
Actuarial loss.....	4	4	3	2	5	5
Prior service cost.....	2	1	2	1	(4)	(5)
Net pension and postretirement costs.....	\$ 18	\$ 10	\$ 18	\$ 7	\$ 9	\$ 8

For the nine months ended September 30, 2006, we made pension contributions of approximately \$26 million for our domestic pension plans and \$10 million for our foreign pension plans. Based on current actuarial estimates, we believe we will be required to make approximately \$7 million in contributions for the remainder of 2006.

We made postretirement contributions of approximately \$6 million during the first nine months of 2006. Based on current actuarial estimates, we believe we will be required to make approximately \$3 million in contributions for the remainder of 2006.

In August 2006, we announced that we are freezing our current defined benefit plans as of December 31, 2006 and replacing them with additional contributions under defined contribution plans for nearly all U.S.-based salaried and non-union hourly employees effective January 1, 2007.

(10) We occasionally provide guarantees that could require us to make future payments in the event that the third party primary obligor does not make its required payments. We have not recorded a liability for any of these guarantees. The only third party guarantee we have made is the performance of lease obligations by a former affiliate. Our maximum liability under this guarantee was less than \$1 million at both September 30, 2006 and 2005. We have no recourse in the event of default by the former affiliate. However, we have

## Edgar Filing: TENNECO INC - Form 10-Q

not been required to make any payments under this guarantee.

Additionally, 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 and our senior subordinated notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of 66 percent of the stock of certain first-tier foreign subsidiaries. The arrangement for the \$475 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 12 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. We have guaranteed through letters of credit support for local credit facilities and cash management requirements for some of our subsidiaries totaling \$15 million. We have also issued \$20 million in letters of credit to support some of our subsidiaries' insurance arrangements. In addition, we have issued \$3 million in guarantees through letters of credit to guarantee other obligations of subsidiaries primarily related to environmental remediation activities.

Interest Rate Swaps--In April 2004, we hedged our exposure to fixed interest rates by entering into fixed-to-floating interest rate swaps covering \$150 million of our fixed interest rate debt. These swaps qualify

23

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED) (UNAUDITED)

as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and as such are recorded on the balance sheet at fair value as a long-term asset or liability with an offset to the underlying hedged item, which is long-term debt. The cost of replacing these contracts in the event of non-performance by the counterparties was not material. These hedges are highly effective, so we have not recognized in earnings any amounts related to the ineffectiveness of the interest rate swaps. No amounts were excluded from the assessment of hedge effectiveness.

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 were 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 were collected before their maturity date totaled \$20 million at September 30, 2006, compared with \$26 million at September 30, 2005.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery

## Edgar Filing: TENNECO INC - Form 10-Q

of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled approximately \$9 million at September 30, 2006 and are classified as notes payable. Financial instruments received from OE customers and not redeemed totaled approximately \$7 million at September 30, 2006 and are classified as other current assets. One of our Chinese subsidiaries is required to maintain a cash balance at a financial institution issuing the financial instruments which are used to satisfy vendor payments. The balance was not material at September 30, 2006 and is classified as cash and cash equivalents.

(11) In July 2005, we announced changes in the structure of our organization which changed the components of our reportable segments. The European segment now includes our Indian operations. The Asia Pacific segment includes our other Asian and Australian operations. While this had no impact on our consolidated results, it changed our segment results. You should note that we have reclassified prior year's segment data where appropriate to conform to the 2006 presentations.

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.

24

### TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED) (UNAUDITED)

The following table summarizes certain Tenneco segment information:

	SEGMENT				CONSOLIDATED
	NORTH AMERICA	EUROPE	ASIA PACIFIC	RECLASS & ELIMS	
	(MILLIONS)				
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006					
Revenues from external customers.....	\$ 442	\$ 569	\$111	\$ --	\$1,122
Intersegment revenues.....	2	15	4	(21)	--
Income before interest expense, income taxes, and minority interest.....	16	24	5	--	45
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005					
Revenues from external customers.....	\$ 502	\$ 500	\$ 94	\$ --	\$1,096
Intersegment revenues.....	1	12	3	(16)	--

## Edgar Filing: TENNECO INC - Form 10-Q

Income before interest expense, income taxes, and minority interest.....	37	9	4	--	50
AT SEPTEMBER 30, 2006, AND FOR THE NINE MONTHS THEN ENDED					
Revenues from external customers.....	\$1,481	\$1,692	\$303	\$ --	\$3,476
Intersegment revenues.....	5	47	11	(63)	--
Income before interest expense, income taxes, and minority interest.....	87	66	7	--	160
Total assets.....	1,394	1,412	290	57	3,153
AT SEPTEMBER 30, 2005, AND FOR THE NINE MONTHS THEN ENDED					
Revenues from external customers.....	\$1,543	\$1,564	\$270	\$ --	\$3,377
Intersegment revenues.....	4	42	9	(55)	--
Income before interest expense, income taxes, and minority interest.....	126	41	10	--	177
Total assets.....	1,361	1,387	259	43	3,050

(12) Supplemental guarantor condensed financial statements are presented below:

### Basis of Presentation

Subject to limited exceptions, all of our existing and future material domestic wholly owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior subordinated notes due 2014 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 statements of the Guarantor Subsidiaries in connection with our 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.

## TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED) (UNAUDITED)

#### STATEMENT OF INCOME (LOSS)



Edgar Filing: TENNECO INC - Form 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONS
			(MILLIONS)		
<b>REVENUES</b>					
Net sales and operating revenues--					
External.....	\$430	\$692	\$ --	\$ --	\$
Affiliated companies.....	22	112	--	(134)	
	452	804	--	(134)	
<b>COSTS AND EXPENSES</b>					
Cost of sales (exclusive of depreciation shown below)....	374	685	--	(133)	
Engineering, research, and development.....	8	16	--	--	
Selling, general, and administrative.....	34	47	1	--	
Depreciation and amortization of other intangibles.....	17	28	--	--	
	433	776	1	(133)	
<b>OTHER INCOME (EXPENSE)</b>					
Loss on sale of receivables.....	--	(2)	--	--	
Other income (loss).....	1	--	--	1	
	1	(2)	--	1	
<b>INCOME (LOSS) BEFORE INTEREST EXPENSE, INCOME TAXES, MINORITY INTEREST, AND EQUITY IN NET INCOME FROM AFFILIATED COMPANIES.....</b>					
Interest expense--					
External (net of interest capitalized).....	(2)	1	35	--	
Affiliated companies (net of interest income).....	43	(3)	(40)	--	
Income tax expense (benefit)....	(6)	8	13	(12)	
Minority interest.....	--	2	--	--	
	(15)	18	(9)	12	
Equity in net income (loss) from affiliated companies.....	12	1	15	(28)	
<b>NET INCOME (LOSS).....</b>	<b>\$ (3)</b>	<b>\$ 19</b>	<b>\$ 6</b>	<b>\$ (16)</b>	<b>\$</b>

Edgar Filing: TENNECO INC - Form 10-Q

26

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

STATEMENT OF INCOME (LOSS)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONS
	(MILLIONS)				
REVENUES					
Net sales and operating revenues--					
External.....	\$497	\$599	\$ --	\$ --	\$
Affiliated companies.....	19	121	--	(140)	
	-----	-----	-----	-----	
	516	720	--	(140)	
	-----	-----	-----	-----	
COSTS AND EXPENSES					
Cost of sales (exclusive of depreciation shown below)....	419	610	--	(140)	
Engineering, research, and development.....	8	14	--	--	
Selling, general, and administrative.....	47	49	--	--	
Depreciation and amortization of other intangibles.....	17	27	--	--	
	-----	-----	-----	-----	
	491	700	--	(140)	
	-----	-----	-----	-----	
OTHER INCOME (EXPENSE)					
Loss on sale of receivables.....	--	(1)	--	--	
Other income (loss).....	12	(7)	--	1	
	-----	-----	-----	-----	
	12	(8)	--	1	
	-----	-----	-----	-----	
INCOME (LOSS) BEFORE INTEREST EXPENSE, INCOME TAXES, MINORITY INTEREST, AND EQUITY IN NET INCOME FROM AFFILIATED COMPANIES.....					
	37	12	--	1	
Interest expense--					
External (net of interest capitalized).....	(1)	1	33	--	
Affiliated companies (net of interest income).....	31	(2)	(29)	--	
Income tax expense (benefit)....	14	(10)	(2)	5	
Minority interest.....	--	--	--	--	

Edgar Filing: TENNECO INC - Form 10-Q

	----	----	----	-----
	(7)	23	(2)	(4)
Equity in net income (loss) from affiliated companies.....	28	--	12	(40)
	----	----	----	-----
NET INCOME (LOSS).....	\$ 21	\$ 23	\$ 10	\$ (44)
	=====	=====	=====	=====

27

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

STATEMENT OF INCOME (LOSS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONS
	-----	-----	-----	-----	-----
			(MILLIONS)		
REVENUES					
Net sales and operating revenues--					
External.....	\$1,438	\$2,038	\$ --	\$ --	\$
Affiliated companies.....	66	360	--	(426)	
	-----	-----	-----	-----	
	1,504	2,398	--	(426)	
	-----	-----	-----	-----	
COSTS AND EXPENSES					
Cost of sales (exclusive of depreciation shown below)....	1,212	2,032	--	(425)	
Engineering, research, and development.....	25	43	--	--	
Selling, general, and administrative.....	125	162	3	--	
Depreciation and amortization of other intangibles.....	52	84	--	--	
	-----	-----	-----	-----	
	1,414	2,321	3	(425)	
	-----	-----	-----	-----	
OTHER INCOME (EXPENSE)					
Loss on sale of receivables.....	--	(4)	--	--	
Other income (loss).....	6	(5)	--	--	
	-----	-----	-----	-----	

Edgar Filing: TENNECO INC - Form 10-Q

	6	(9)	--	--
INCOME (LOSS) BEFORE INTEREST EXPENSE, INCOME TAXES, MINORITY INTEREST, AND EQUITY IN NET INCOME FROM AFFILIATED COMPANIES.....	96	68	(3)	(1)
Interest expense--				
External (net of interest capitalized).....	(4)	3	102	--
Affiliated companies (net of interest income).....	121	(9)	(112)	--
Income tax expense (benefit)....	--	19	39	(40)
Minority interest.....	--	4	--	--
	-----	-----	-----	-----
Equity in net income (loss) from affiliated companies.....	(21)	51	(32)	39
	-----	-----	-----	-----
NET INCOME (LOSS).....	\$ 17	\$ 52	\$ 37	\$ (69)
	=====	=====	=====	=====

28

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

STATEMENT OF INCOME (LOSS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOLIDATED
	-----	-----	-----	-----	-----
	(MILLIONS)				
REVENUES					
Net sales and operating revenues--					
External.....	\$1,552	\$1,825	\$ --	\$ --	\$3,377
Affiliated companies.....	54	379	--	(433)	--
	-----	-----	-----	-----	-----
	1,606	2,204	--	(433)	3,377
	-----	-----	-----	-----	-----
COSTS AND EXPENSES					
Cost of sales (exclusive of					

Edgar Filing: TENNECO INC - Form 10-Q

depreciation shown below).....	1,291	1,860	--	(433)	2,7
Engineering, research, and development.....	32	32	--	--	
Selling, general, and administrative.....	122	165	--	--	2
Depreciation and amortization of other intangibles.....	52	82	--	--	1
	-----	-----	----	-----	-----
	1,497	2,139	--	(433)	3,2
	-----	-----	----	-----	-----
OTHER INCOME (EXPENSE)					
Loss on sale of receivables.....	--	(2)	--	--	
Other income (loss).....	20	(12)	--	(3)	
	-----	-----	----	-----	-----
	20	(14)	--	(3)	
	-----	-----	----	-----	-----
INCOME (LOSS) BEFORE INTEREST EXPENSE, INCOME TAXES, MINORITY INTEREST, AND EQUITY IN NET INCOME FROM AFFILIATED COMPANIES.....	129	51	--	(3)	1
Interest expense--					
External (net of interest capitalized).....	(1)	3	95	--	
Affiliated companies (net of interest income).....	101	(20)	(81)	--	
Income tax expense (benefit).....	51	5	(7)	(20)	
Minority interest.....	--	1	--	--	
	-----	-----	----	-----	-----
	(22)	62	(7)	17	
Equity in net income (loss) from affiliated companies.....	74	--	57	(131)	
	-----	-----	----	-----	-----
NET INCOME (LOSS).....	\$ 52	\$ 62	\$ 50	\$ (114)	\$
	=====	=====	=====	=====	=====

29

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)  
(UNAUDITED)

BALANCE SHEET

SEPTEMBER 30, 2006

-----				
	TENNECO INC.			
	GUARANTOR	NONGUARANTOR	(PARENT	RECLASS &
	SUBSIDIARIES	SUBSIDIARIES	COMPANY)	ELIMS
				CONSOLI

Edgar Filing: TENNECO INC - Form 10-Q

	(MILLIONS)				
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 1	\$ 115	\$ --	\$ --	\$ 1
Receivables, net.....	320	789	25	(493)	6
Inventories.....	128	291	--	--	4
Deferred income taxes.....	33	12	3	(2)	
Prepayments and other.....	25	114	--	--	1
	-----	-----	-----	-----	-----
	507	1,321	28	(495)	1,3
	-----	-----	-----	-----	-----
Other assets:					
Investment in affiliated companies.....	467	--	1,104	(1,571)	
Notes and advances receivable from affiliates.....	3,375	206	4,962	(8,543)	
Long-term notes receivable, net..	2	25	--	--	
Goodwill.....	136	65	--	--	2
Intangibles, net.....	12	20	--	--	
Deferred income taxes.....	264	53	197	(197)	3
Other.....	37	69	29	--	1
	-----	-----	-----	-----	-----
	4,293	438	6,292	(10,311)	7
	-----	-----	-----	-----	-----
Plant, property, and equipment, at cost.....	950	1,627	--	--	2,5
Less--Reserves for depreciation and amortization.....	608	889	--	--	1,4
	-----	-----	-----	-----	-----
	342	738	--	--	1,0
	-----	-----	-----	-----	-----
	\$5,142	\$2,497	\$6,320	\$ (10,806)	\$3,1
	=====	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt--non-affiliated.....	\$ --	\$ 22	\$ 29	\$ --	\$
Short-term debt--affiliated...	133	268	10	(411)	
Trade payables.....	221	588	--	(79)	7
Accrued taxes.....	161	24	--	(133)	
Other.....	126	115	34	(3)	2
	-----	-----	-----	-----	-----
	641	1,017	73	(626)	1,1
Long-term debt--non-affiliated.....	--	11	1,341	--	1,3
Long-term debt--affiliated.....	3,806	56	4,681	(8,543)	
Deferred income taxes.....	104	76	--	(96)	
Postretirement benefits and other liabilities.....	261	90	6	7	3
Commitments and contingencies					
Minority interest.....	--	28	--	--	
Shareholder's equity.....	330	1,219	219	(1,548)	2
	-----	-----	-----	-----	-----
	\$5,142	\$2,497	\$6,320	\$ (10,806)	\$3,1
	=====	=====	=====	=====	=====

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
 (UNAUDITED)

BALANCE SHEET

	DECEMBER 31, 2005				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOLIDATED
	(MILLIONS)				
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 31	\$ 110	\$ --	\$ --	\$ 1
Receivables, net.....	203	675	30	(365)	5
Inventories.....	109	251	--	--	3
Deferred income taxes.....	35	7	1	--	--
Prepayments and other.....	14	96	--	--	1
	392	1,139	31	(365)	1,1
Other assets:					
Investment in affiliated companies.....	436	--	1,032	(1,468)	--
Notes and advances receivable from affiliates.....	3,235	139	4,785	(8,159)	--
Long-term notes receivable, net..	2	21	--	--	--
Goodwill.....	135	65	--	--	2
Intangibles, net.....	14	16	--	--	--
Deferred income taxes.....	247	60	176	(176)	3
Other.....	37	71	32	--	1
	4,106	372	6,025	(9,803)	7
Plant, property, and equipment, at cost.....	921	1,507	--	--	2,4
Less--Reserves for depreciation and amortization.....	593	792	--	--	1,3
	328	715	--	--	1,0
	\$4,826	\$2,226	\$6,056	\$ (10,168)	\$2,9

Edgar Filing: TENNECO INC - Form 10-Q

	=====	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt (including current maturities of long- term debt)					
Short-term debt--non- affiliated.....	\$ --	\$ 22	\$ --	\$ --	\$ --
Short-term debt--affiliated...	128	124	10	(262)	
Trade payables.....	219	526	--	(94)	6
Accrued taxes.....	(29)	22	38	--	
Other.....	132	113	38	(8)	2
	-----	-----	-----	-----	-----
	450	807	86	(364)	9
Long-term debt--non-affiliated.....	--	12	1,344	--	1,3
Long-term debt--affiliated.....	3,541	126	4,492	(8,159)	
Deferred income taxes.....	182	80	--	(176)	
Postretirement benefits and other liabilities.....	265	90	5	6	3
Commitments and contingencies					
Minority interest.....	--	24	--	--	
Shareholders' equity.....	388	1,087	129	(1,475)	1
	-----	-----	-----	-----	-----
	\$4,826	\$2,226	\$6,056	\$ (10,168)	\$2,9
	=====	=====	=====	=====	=====

31

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)  
(UNAUDITED)

STATEMENT OF CASH FLOWS

THREE MONTHS ENDED SEPTEMBER 30, 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOL
	-----	-----	-----	-----	-----
	(MILLIONS)				
OPERATING ACTIVITIES					
Net cash provided (used) by operating activities.....	\$ (106)	\$ 184	\$ (75)	\$--	\$
	-----	-----	-----	-----	-----
INVESTING ACTIVITIES					



Edgar Filing: TENNECO INC - Form 10-Q

Net proceeds from the sale of assets.....	--	4	--	--	
Expenditures for plant, property, and equipment.....	(15)	(28)	--	--	
Expenditures for software related intangible assets.....	(2)	(1)	--	--	
Acquisition of businesses.....	--	--	--	--	
Investments and other.....	1	(3)	--	--	
	-----	-----	-----	-----	
Net cash used by investing activities.....	(16)	(28)	--	--	
	-----	-----	-----	-----	
FINANCING ACTIVITIES					
Issuance of common shares.....	--	--	3	--	
Issuance of long-term debt.....	--	--	--	--	
Retirement of long-term debt.....	--	(1)	--	--	
Net increase (decrease) in short-term debt excluding current maturities of long-term debt.....	--	3	29	--	
Intercompany dividends and net increase (decrease) in intercompany obligations.....	111	(154)	43	--	
Other.....	--	--	--	--	
	-----	-----	-----	-----	
Net cash provided (used) by financing activities.....	111	(152)	75	--	
	-----	-----	-----	-----	
Effect of foreign exchange rate changes on cash and cash equivalents.....	--	--	--	--	
	-----	-----	-----	-----	
Increase (decrease) in cash and cash equivalents.....	(11)	4	--	--	
Cash and cash equivalents, July 1...	12	111	--	--	1
	-----	-----	-----	-----	-----
Cash and cash equivalents, September 30 (Note).....	\$ 1	\$ 115	\$ --	\$--	\$1
	=====	=====	=====	=====	=====

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

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

STATEMENT OF CASH FLOWS

Edgar Filing: TENNECO INC - Form 10-Q

THREE MONTHS ENDED SEPTEMBER 30, 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOLIDATED
	(MILLIONS)				
OPERATING ACTIVITIES					
Net cash provided (used) by operating activities.....	\$ 46	\$ 52	\$ (60)	\$--	\$
INVESTING ACTIVITIES					
Net proceeds from the sale of assets.....	1	--	--	--	
Expenditures for plant, property, and equipment.....	(14)	(23)	--	--	
Expenditures for software related intangible assets.....	(3)	(2)	--	--	
Acquisition of business.....	--	--	--	--	
Investments and other.....	--	(1)	--	--	
Net cash used by investing activities.....	(16)	(26)	--	--	
FINANCING ACTIVITIES					
Issuance of common shares.....	--	--	2	--	
Issuance of long-term debt.....	--	1	--	--	
Retirement of long-term debt.....	--	--	(1)	--	
Net increase (decrease) in short-term debt excluding current maturities of long-term debt.....	169	(169)	22	--	
Intercompany dividends and net increase (decrease) in intercompany obligations.....	(199)	162	37	--	
Other.....	--	1	--	--	
Net cash provided (used) by financing activities.....	(30)	(5)	60	--	
Effect of foreign exchange rate changes on cash and cash equivalents.....	--	2	--	--	
Increase (decrease) in cash and cash equivalents.....	--	23	--	--	
Cash and cash equivalents, July 1...	--	66	--	--	
Cash and cash equivalents, September 30 (Note).....	\$ --	\$ 89	\$ --	\$--	\$

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

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
 (UNAUDITED)

STATEMENT OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30, 2006				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOLIDATED
	(MILLIONS)				
OPERATING ACTIVITIES					
Net cash provided (used) by operating activities.....	\$ 82	\$ 191	\$ (213)	\$--	\$
INVESTING ACTIVITIES					
Net proceeds from the sale of assets.....	--	6	--	--	--
Expenditures for plant, property, and equipment.....	(60)	(70)	--	--	--
Expenditures for software related intangible assets.....	(6)	(3)	--	--	--
Acquisition of businesses.....	--	--	--	--	--
Investments and other.....	1	(2)	--	--	--
Net cash used by investing activities.....	(65)	(69)	--	--	--
FINANCING ACTIVITIES					
Issuance of common shares.....	--	--	13	--	--
Issuance of long-term debt.....	--	--	--	--	--
Retirement of long-term debt.....	--	(2)	(1)	--	--
Net increase (decrease) in short-term debt excluding current maturities of long-term debt.....	--	--	29	--	--
Intercompany dividends and net increase (decrease) in intercompany obligations.....	(47)	(125)	172	--	--
Other.....	--	2	--	--	--
Net cash provided (used) by financing activities.....	(47)	(125)	213	--	--
Effect of foreign exchange rate changes on cash and cash equivalents.....	--	8	--	--	--

Edgar Filing: TENNECO INC - Form 10-Q

Increase (decrease) in cash and cash equivalents.....	(30)	5	--	--	
Cash and cash equivalents, January 1.....	31	110	--	--	
Cash and cash equivalents, September 30 (Note).....	\$ 1	\$ 115	\$ --	\$--	\$

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

34

TENNECO INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)  
(UNAUDITED)

STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	TENNECO INC. (PARENT COMPANY)	RECLASS & ELIMS	CONSOL
	(MILLIONS)				
OPERATING ACTIVITIES					
Net cash provided (used) by operating activities.....	\$ 55	\$ 92	\$ (173)	\$--	\$
INVESTING ACTIVITIES					
Net proceeds from the sale of assets.....	3	1	--	--	
Expenditures for plant, property, and equipment.....	(37)	(63)	--	--	
Expenditures for software related intangible assets.....	(5)	(7)	--	--	
Acquisition of business.....	--	(11)	--	--	
Investments and other.....	3	(2)	--	--	
Net cash used by investing activities.....	(36)	(82)	--	--	
FINANCING ACTIVITIES					

Edgar Filing: TENNECO INC - Form 10-Q

Issuance of common shares.....	--	--	6	--
Issuance of long-term debt.....	--	1	--	--
Retirement of long-term debt.....	--	(2)	(41)	--
Net increase (decrease) in short-term debt excluding current maturities of long-term debt.....	--	1	55	--
Intercompany dividends and net increase (decrease) in intercompany obligations.....	(159)	6	153	--
Other.....	--	1	--	--
	-----	-----	-----	-----
Net cash provided (used) by financing activities.....	(159)	7	173	--
	-----	-----	-----	-----
Effect of foreign exchange rate changes on cash and cash equivalents.....	--	(2)	--	--
	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	(140)	15	--	--
Cash and cash equivalents, January 1.....	140	74	--	--
	-----	-----	-----	-----
Cash and cash equivalents, September 30 (Note).....	\$ --	\$ 89	\$ --	\$ --
	=====	=====	=====	=====

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

(The preceding notes are an integral part of the foregoing financial statements.)

35

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

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 manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe(R), Rancho(R), Clevite(R) Elastomers and Fric Rot(TM) ride control products and Walker(R), Fonos(TM), and Gillet(TM) emission control products. Worldwide we serve more than 30 different original equipment manufacturers, and our products or systems are included on nine of the top 10 passenger car models produced for sale in Western Europe and all of the top 10 light truck models produced for sale in North America for 2005. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. We operate more than 70 manufacturing facilities worldwide and employ approximately 19,000 people to service our customers' demands.

## Edgar Filing: TENNECO INC - Form 10-Q

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, fixing or eliminating unprofitable businesses and reducing overall costs. In addition, our ability to adapt to key industry trends, such as the consolidation of OE customers, a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, changing aftermarket distribution channels, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to environmental 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 "Liquidity and Capital Resources" below for further discussion of cash flows.

Total revenues for the third quarter of 2006 were \$1,122 million, a two percent increase over 2005. Excluding the impact of currency and substrate sales, which typically carry lower margins, revenue was \$886 million versus \$930 million a year ago. The decrease was primarily the result of OE production volume declines of light trucks and SUVs in North America. Gross margin for the third quarter of 2006 was 17.5 percent, down from 18.9 percent in 2005. The growth in substrate sales in Europe, driven by more diesel aftertreatment and hot-end exhaust business, diluted gross margin. In addition, European manufacturing productivity improvements and global cost reduction efforts were more than offset by significant OE volume declines in North America, higher steel costs, and higher restructuring costs. Selling, general, administrative and engineering expenses for the third quarter of 2006 were 9.4 percent of revenues, as compared to 10.8 percent of revenues for the same period last year. Aggressive efforts to reduce costs globally, including tight discretionary spending controls, drove the improvement.

Earnings before interest, taxes and minority interest ("EBIT") was \$45 million for the third quarter of 2006, down from \$50 million a year ago. Restructuring and restructuring-related expenses in the third quarter of 2006, before taxes, were \$7 million compared to \$2 million in the same period last year.

Total revenues for the first nine months of 2006 were \$3,476 million, a three percent increase over the \$3,377 million reported for the same period last year. Excluding the impact of currency and substrate sales, revenue was down \$39 million, or one percent, driven by declines in North American OE production of light trucks and SUVs. Gross margin for the first nine months of 2006 was 18.9 percent compared to 19.5 percent in the same 2005 period. The change is primarily attributable to significant OE volume declines in North America, higher restructuring and material costs and a shift in the mix of our OE emission control business in Europe toward more hot-end exhaust and diesel aftertreatment business, which contains more substrate content that carries lower margins. This was partially offset by improved manufacturing efficiencies, particularly in our European OE businesses. Selling, general, administrative and engineering expense was 10.3 percent of revenues for the first nine months of 2006 compared to 10.4 percent in 2005. EBIT for the first nine months of 2006 was \$160 million, compared to

## Edgar Filing: TENNECO INC - Form 10-Q

\$177 million in the 2005 period. The change was primarily due to higher restructuring and restructuring-related expenses and aftermarket customer changeover costs.

In July 2005, we announced changes in the structure of our organization which changed the components of our reportable segments. The European segment now includes our Indian (as well as South American) operations. The Asia Pacific segment includes our other Asian and Australian operations. While this had no impact on our consolidated results, it changed our segment results. These changes in segment reporting have been reflected in this Management's Discussion and Analysis, and the accompanying consolidated financial statements, for all periods presented.

In December 2005, we completed the acquisition of the minority interest of the joint venture partner for our Indian ride control operations. We purchased the minority owned interest for approximately \$5 million in cash and property.

37

### RESULTS FROM OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

#### NET SALES AND OPERATING REVENUES

The following tables reflect our revenues for the third quarter of 2006 and 2005. 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. Additionally, "substrate" catalytic converter and diesel particulate filter sales include precious metals pricing, which may be volatile. These substrate sales occur when, at the direction of our OE customers, we purchase catalytic converters and diesel particulate filter components from suppliers, use them in our manufacturing process, and sell them as part of the completed system. While, generally, our original equipment customers assume the risk of this volatility, it impacts our reported revenues. Excluding "substrate" catalytic converter and diesel particulate filters sales removes this impact. We have not reflected any currency impact in the 2005 table since this is the base period for measuring the effects of currency during 2006 on our operations. We use this information to analyze the trend in our revenues before these factors. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

THREE MONTHS ENDED SEPTEMBER 30, 2006				
REVENUES	CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY	SUBSTRATE SALES EXCLUDING CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY AN SUBSTRATE SALES
(MILLIONS)				

Edgar Filing: TENNECO INC - Form 10-Q

North America Original Equipment					
Ride Control.....	\$ 109	\$--	\$ 109	\$ --	\$109
Emission Control.....	198	1	197	54	143
	-----	---	-----	----	----
Total North America Original Equipment.....	307	1	306	54	252
North America Aftermarket					
Ride Control.....	91	--	91	--	91
Emission Control.....	44		44		44
	-----	---	-----	----	----
Total North America Aftermarket..	135		135		135
Total North America.....	442	1	441	54	387
Europe Original Equipment					
Ride Control.....	87	2	85	--	85
Emission Control.....	306	12	294	124	170
	-----	---	-----	----	----
Total Europe Original Equipment..	393	14	379	124	255
Europe Aftermarket					
Ride Control.....	48	1	47	--	47
Emission Control.....	58	3	55		55
	-----	---	-----	----	----
Total Europe Aftermarket.....	106	4	102		102
South America & India.....	70	3	67	9	58
Total Europe, South America & India.....	569	21	548	133	415
Asia.....	66	--	66	23	43
Australia.....	45	(1)	46	5	41
	-----	---	-----	----	----
Total Asia Pacific.....	111	(1)	112	28	84
	-----	---	-----	----	----
Total Tenneco.....	\$1,122	\$21	\$1,101	\$215	\$886
	=====	===	=====	=====	=====

38

THREE MONTHS ENDED SEPTEMBER 30, 2005

	REVENUES	CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY	SUBSTRATE SALES	REVENUES EXCLUDING CURRENCY AND SUBSTRATE SALES
	-----	-----	-----	-----	-----
	(MILLIONS)				
North America Original Equipment					
Ride Control.....	\$ 120	\$--	\$ 120	\$ --	\$120
Emission Control.....	249	--	249	69	180
	-----	---	-----	----	----



Edgar Filing: TENNECO INC - Form 10-Q

Total North America Original					
Equipment.....	369	--	369	69	300
North America Aftermarket					
Ride Control.....	90	--	90	--	90
Emission Control.....	43	--	43	--	43
	-----	---	-----	----	-----
Total North America Aftermarket...	133		133	--	133
Total North America.....	502		502	69	433
Europe Original Equipment					
Ride Control.....	84	--	84	--	84
Emission Control.....	257	--	257	77	180
	-----	---	-----	----	-----
Total Europe Original Equipment...	341		341	77	264
Europe Aftermarket					
Ride Control.....	46	--	46	--	46
Emission Control.....	51	--	51	--	51
	-----	---	-----	----	-----
Total Europe Aftermarket.....	97	--	97	--	97
South America & India.....	62	--	62	5	57
Total Europe, South America & India.....	500	--	500	82	418
Asia.....	38	--	38	10	28
Australia.....	56	--	56	5	51
	-----	---	-----	----	-----
Total Asia Pacific.....	94		94	15	79
	-----	---	-----	----	-----
Total Tenneco.....	\$1,096	\$--	\$1,096	\$166	\$930
	=====	===	=====	====	=====

Revenues from our North American operations decreased \$60 million in the third quarter of 2006 compared to the same period last year. Higher sales from the aftermarket business were more than offset by lower total North American OE revenues. North American OE emission control revenues were down \$51 million in the third quarter of 2006. This decline was primarily due to the impact from lower OE production of light trucks and SUVs, on key platforms like the Dodge Ram and Ford F-150 pick-up trucks and GM's Trailblazer/Envoy vehicles, three of Tenneco's top ten largest OE platforms. The timing on the transition of Tenneco's emission control business on one of GM's largest light truck platforms also negatively impacted revenue. North American OE ride control revenues for the third quarter of 2006 were down \$11 million from the prior year. Increased heavy duty and commercial volumes partially offset reduced light vehicle sales. Our total North American OE revenues, excluding substrate sales and currency, decreased 16 percent in the third quarter of 2006 compared to third quarter of 2005. North American light vehicle production decreased eight percent with a 16 percent decline in light truck and SUV production being partially offset by a 3% production increase in passenger cars. Aftermarket revenues for North America were \$135 million in the third quarter of 2006, an increase of \$2 million compared to the prior year, driven by sales to new customers and price increases in both product lines which more than offset lower unit volumes. Aftermarket ride control revenues grew to \$91 million in the third quarter of 2006, up one percent from the same

period last year. Aftermarket emission control revenues increased four percent in the third quarter of 2006 to \$44 million, as compared to \$43 million in 2005.

## Edgar Filing: TENNECO INC - Form 10-Q

Our European, South American and Indian segment's revenues increased \$69 million, or 14 percent, in the third quarter of 2006 compared to last year. Total European light vehicle production was flat for the third quarter of 2006 compared to the third quarter of 2005. Europe OE emission control revenues of \$306 million in the third quarter of 2006 were up 19 percent as compared to the third quarter of 2005. Excluding a \$47 million increase in substrate sales and \$12 million due to the impact of currency, Europe OE emission control revenues decreased six percent over 2005, due to lower volumes on older models like the VW Sharan, Peugeot 307, Citroen C5 and VW LT2. In addition, BMW Mini volumes were down due to a delay in the model's launch and production volumes were cut on certain other models. Helping to offset some of the overall volume decline was the BMW 3 Series as it reached its full production run rate, the launch of a new Ford platform that includes the Volvo S80 and S-MAX models, as well as strong demand from the Nissan Pathfinder, the Mercedes E-Class, VW's T5 van and the Ford Focus. Europe OE ride control revenues of \$87 million in the third quarter of 2006 were up four percent year-over-year. Excluding currency, revenues increased by one percent in the 2006 third quarter due to higher revenues on models like the Ford Fiesta, Audi A6 with our electronic shock technology, the Mazda 5 and the new DaimlerChrysler Sprinter. European aftermarket revenues increased \$9 million in the third quarter of 2006 compared to last year. When adjusted for currency, aftermarket revenues were up \$5 million or five percent. Excluding the \$4 million impact of currency, ride control aftermarket revenues were up one percent and emission control aftermarket revenues were up eight percent on improved pricing, exhaust market share gains and the introduction of new diesel particulate filter business. South American and Indian revenues were \$70 million during the third quarter of 2006, compared with \$62 million in the prior year. Stronger OE and aftermarket sales and currency appreciation drove this increase in South America.

Revenues from our Asia Pacific segment, which includes Australia and Asia, increased \$17 million to \$111 million in the third quarter of 2006 compared to the same period last year. Excluding the impact of substrate sales and currency, revenues increased to \$84 million from \$79 million in the prior year. Asian revenues for the third quarter of 2006 were \$66 million, up 76 percent from last year. This increase was primarily due to higher OE sales in China driven by new launches and higher emission control volumes on key General Motors and VW platforms. Third quarter revenues for Australia fell 20 percent to \$45 million. Currency had an unfavorable impact of \$1 million on Australian revenue, but the industry wide OE production decline of 18 percent had the most significant impact on Australia's revenue decline.

### EARNINGS BEFORE INTEREST EXPENSE, INCOME TAXES AND MINORITY INTEREST ("EBIT")

	THREE MONTHS ENDED SEPTEMBER 30,		
	2006	2005	CHANGE
	----- ----- ----- (MILLIONS)		
North America.....	\$16	\$37	\$(21)
Europe, South America & India.....	24	9	15
Asia Pacific.....	5	4	1

Edgar Filing: TENNECO INC - Form 10-Q

---	---	----
\$45	\$50	\$ (5)
===	===	====

40

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

	THREE MONTHS ENDED SEPTEMBER 30, -----	
	2006	2005
	----	----
	(MILLIONS)	
North America		
Restructuring and restructuring-related expenses.....	\$3	\$--
Europe, South America & India		
Restructuring and restructuring-related expenses.....	2	2
Asia Pacific		
Restructuring and restructuring-related expenses.....	2	--

EBIT for North American operations decreased to \$16 million in the third quarter of 2006, from \$37 million one year ago. Lower volumes on key OE exhaust platforms negatively impacted operations by \$15 million. Higher OE price concessions and increased material and warranty costs also negatively impacted EBIT. These decreases were partially offset by lower selling, general, administrative and engineering expenses and efforts to adjust operations to match the lower customer demand. Included in North America's third quarter 2006 EBIT was \$3 million in restructuring and restructuring-related expenses.

Our European, South American and Indian segment's EBIT was \$24 million for the third quarter of 2006 compared to \$9 million during the same period last year. Stronger aftermarket sales, improved European OE manufacturing efficiencies, particularly in our exhaust operations, and reduced selling, general, and administrative and engineering expense drove the improvement. These increases were partially offset by price concessions and higher material costs. South America and India benefited from higher revenue. Restructuring and restructuring-related expenses of \$2 million were included in third quarter EBIT for both periods.

EBIT for our Asia Pacific segment in the third quarter of 2006 was \$5 million compared to \$4 million in the third quarter of 2005. Stronger OE production and new platform launches in China were partially offset by higher

## Edgar Filing: TENNECO INC - Form 10-Q

warranty costs and lower sales in Australia. Included in the third quarter of 2006's EBIT was \$2 million in restructuring and restructuring-related expenses.

Currency had a \$3 million favorable impact on overall company EBIT for the three months ended September 30, 2006, as compared to the prior year.

### EBIT AS A PERCENTAGE OF REVENUE

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	----	----
North America.....	4%	7%
Europe, South America & India.....	4%	2%
Asia Pacific.....	5%	4%
Total Tenneco.....	4%	5%

In North America, EBIT as a percentage of revenue for the third quarter of 2006 was three percentage points less than last year. OE volume declines and higher material costs, as well as an increase in warranty costs in the quarter more than offset selling, general, administrative and engineering expense reductions, manufacturing efficiency improvements and the company's efforts to adjust operations to match lower customer demand. In addition, during the third quarter of 2006, North American results included higher restructuring and restructuring related charges. In Europe, South America and India, EBIT margin for the third quarter of 2006 was two percentage points higher compared to the prior year. Improved European OE manufacturing efficiencies, primarily related to our exhaust operations, and reduced selling, administrative, and engineering costs drove the improvement. EBIT as a percentage of revenue for our Asia Pacific segment increased one percentage point in the third quarter of 2006

41

versus the prior year. In Asia, stronger OE production and new platform launches offset lower Australia volumes and higher restructuring and warranty costs.

### INTEREST EXPENSE, NET OF INTEREST CAPITALIZED

We reported interest expense of \$34 million in the third quarter of 2006 compared to \$33 million in the prior year. This increase is primarily due to the impact of higher LIBOR rates on the variable interest rate portion of our debt.

In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an aggregate of \$150 million of fixed interest rate debt at an annual rate of 10 1/4 percent to floating interest rate debt at an annual rate of LIBOR plus an average spread of 5.68 percent. Each agreement requires semi-annual settlements through July 15, 2013. The LIBOR in effect for these swaps during the course of 2005 resulted in lower interest expense of approximately \$2 million for the

## Edgar Filing: TENNECO INC - Form 10-Q

year. Based upon the LIBOR rate as determined under these agreements of 5.61 percent (which is in effect until January 15, 2007) the inclusion of these swaps in our financial results is expected to add \$1 million to our 2006 annual interest expense. These swaps qualify as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and as such are recorded on the balance sheet at fair value with an offset to the underlying hedged item, which is long-term debt. As of September 30, 2006, the fair value of the interest rate swaps was a liability of approximately \$7 million which has been recorded as a decrease to long-term debt and an increase to other long-term liabilities.

### INCOME TAXES

We had income tax expense of \$3 million in the third quarter of 2006. The effective tax rate for the third quarter of 2006 was 33 percent. Income tax expense was \$7 million in the third quarter of 2005. The effective tax rate for the third quarter of 2005 was 40 percent.

### EARNINGS PER SHARE

We reported net income of \$6 million or \$0.12 per diluted common share for the third quarter of 2006, as compared to net income of \$10 million or \$0.23 per diluted common share for the third quarter of 2005. Included in the results for the third quarter of 2006 were negative impacts from expenses related to our restructuring activities. The net impact of these items decreased earnings per diluted share by \$0.10. Included in the results for the third quarter of 2005 were negative impacts from expenses related to our restructuring activities. The net impact of these items decreased earnings per diluted share by \$0.04. Please read the Notes to the consolidated financial statements for more detailed information on earnings per share.

42

## RESULTS FROM OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

### NET SALES AND OPERATING REVENUES

The following tables reflect our revenues for the first nine months of 2006 and 2005, including the same reconciliations as are presented above for the third quarter of 2006 and 2005. See "Results from Operations for the Three Months Ended September 30, 2006 and 2005" for a description of why we present, and how we use, these reconciliations.

NINE MONTHS ENDED SEPTEMBER 30, 2006				
REVENUES	CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY	SUBSTRATE SALES EXCLUDING CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY AND SUBSTRATE SALES
(MILLIONS)				

North America Original Equipment

Edgar Filing: TENNECO INC - Form 10-Q

Ride Control.....	\$ 371	\$--	\$ 371	\$ --	\$ 371
Emission Control.....	677	6	671	181	490
	-----	---	-----	----	-----
Total North America Original Equipment.....	1,048	6	1,042	181	861
North America Aftermarket					
Ride Control.....	304	--	304	--	304
Emission Control.....	129	--	129	--	129
	-----	---	-----	----	-----
Total North America Aftermarket..	433	--	433	--	433
Total North America.....	1,481	6	1,475	181	1,294
Europe Original Equipment					
Ride Control.....	280	1	279	--	279
Emission Control.....	912		912	352	560
	-----	---	-----	----	-----
Total Europe Original Equipment..	1,192	1	1,191	352	839
Europe Aftermarket					
Ride Control.....	138		138	--	138
Emission Control.....	161		161	--	161
	-----	---	-----	----	-----
Total Europe Aftermarket.....	299		299	--	299
South America & India.....	201	13	188	24	164
Total Europe, South America & India.....	1,692	14	1,678	376	1,302
Asia.....	174	--	174	59	115
Australia.....	129	(4)	133	14	119
	-----	---	-----	----	-----
Total Asia Pacific.....	303	(4)	307	73	234
	-----	---	-----	----	-----
Total Tenneco.....	\$3,476	\$16	\$3,460	\$630	\$2,830
	=====	===	=====	=====	=====

43

NINE MONTHS ENDED SEPTEMBER 30, 2005

	REVENUES	CURRENCY IMPACT	REVENUES EXCLUDING CURRENCY	SUBSTRATE SALES	REVENUES EXCLUDING CURRENCY & SUBSTRATE SALES
	-----	-----	-----	-----	-----
	(MILLIONS)				
North America Original Equipment					
Ride Control.....	\$ 378	\$--	\$ 378	\$ --	\$ 378
Emissions Control.....	756	--	756	204	552
	-----	---	-----	----	-----
Total North America Original Equipment.....	1,134	--	1,134	204	930

Edgar Filing: TENNECO INC - Form 10-Q

North America Aftermarket					
Ride Control.....	284	--	284	--	284
Emissions Control.....	125	--	125	--	125
	-----	---	-----	----	-----
Total North America Aftermarket...	409	--	409	--	409
Total North America.....	1,543	--	1,543	204	1,339
Europe Original Equipment					
Ride Control.....	291	--	291	--	291
Emissions Control.....	813	--	813	243	570
	-----	---	-----	----	-----
Total Europe Original Equipment...	1,104	--	1,104	243	861
Europe Aftermarket					
Ride Control.....	134	--	134	--	134
Emissions Control.....	154	--	154	--	154
	-----	---	-----	----	-----
Total Europe Aftermarket.....	288	--	288	--	288
South America & India.....	172	--	172	14	158
Total Europe, South America & India.....	1,564	--	1,564	257	1,307
Asia.....	108	--	108	33	75
Australia.....	162	--	162	14	148
	-----	---	-----	----	-----
Total Asia Pacific.....	270	--	270	47	223
	-----	---	-----	----	-----
Total Tenneco.....	\$3,377	\$--	\$3,377	\$508	\$2,869
	=====	===	=====	=====	=====

Revenues from our North American operations decreased \$62 million in the first nine months of 2006 compared to last year, reflecting OE production cuts and the timing of the GMT800/900 platform transition. Total North American OE revenues decreased eight percent to \$1,048 million in the first nine months of this year. OE emission control revenues were down 10 percent in the first nine months of 2006 as compared to the prior year. Adjusted for substrate sales and currency, OE emission control sales were down 11 percent compared to the prior year. OE ride control revenues decreased two percent from the prior year. Total OE revenues, excluding substrate sales and currency, decreased eight percent in the first nine months of 2006. North American light vehicle production was down two percent compared to the first nine months a year ago with an eight percent decline in light truck and SUV production being partially offset by a seven percent production increase in passenger cars. Our revenue decline was primarily due to lower OE production of light trucks and SUVs, partially offset by higher heavy duty volumes. Aftermarket revenues for North America were \$433 million in the first nine months of 2006, representing an increase of six percent compared to the same period in the prior year. Aftermarket ride control revenues increased \$20 million or 7 percent in the first nine months of 2006, due to price increases and new customers. Aftermarket emission control revenues increased three percent in the first nine months of 2006 compared to 2005, mostly due to price increases.

Our European, South American and Indian segment's revenues increased \$128 million or eight percent in the first nine months of 2006 compared to last year's first nine months. Total Europe OE revenues were \$1,192 million, up eight percent compared to the first nine months of last year. Total European light vehicle production increased

## Edgar Filing: TENNECO INC - Form 10-Q

about two percent for the first nine months of 2006 compared to the first nine months of 2005. OE emission control revenues in the first nine months increased 12 percent to \$912 million from \$813 million in the prior year. Excluding a \$109 million increase in substrate sales, OE emissions control revenues were 10 million lower than the first nine months of 2005. OE ride control revenues in the first nine months decreased to \$280 million, down four percent from \$291 million a year ago. Excluding a \$1 million favorable impact from currency, OE ride control revenues decreased four percent. We changed our reporting in the second quarter of 2005 for an "assembly-only" contract with a European OE ride control customer and began accounting for those revenues net of the related cost of sales. If we had reported our first quarter 2005 revenues in the same manner, they would have been lower by \$15 million. European aftermarket sales were \$299 million in the first nine months of this year up 4 percent compared to \$288 million in last year's first nine months. In the aftermarket, ride control and emissions control revenues were up three percent and five percent, respectively, from the prior year, reflecting improved pricing, market share gains, and new diesel particulate business. Stronger volumes, pricing and currency appreciation increased South American revenues, by \$25 million or 17 percent over the same period last year.

Revenues from our Asia Pacific operations, which include Australia and Asia, increased \$33 million to \$303 million in the first nine months of 2006 as compared to \$270 million in the first nine months of the prior year. OE volumes and substrate sales drove increased revenues of \$66 million at our Asian operations. In Australia, lower OE volumes and weakening currency decreased revenues by 20 percent to \$129 million.

### EARNINGS BEFORE INTEREST EXPENSE, INCOME TAXES, AND MINORITY INTEREST ("EBIT")

	NINE MONTHS ENDED SEPTEMBER 30,		
	2006	2005 (MILLIONS)	CHANGE
	----	-----	-----
North America.....	\$ 87	\$126	\$ (39)
Europe, South America & India.....	66	41	25
Asia Pacific.....	7	10	(3)
	----	----	----
	\$160	\$177	\$ (17)
	====	====	====

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

NINE MONTHS  
ENDED



Edgar Filing: TENNECO INC - Form 10-Q

	SEPTEMBER 30,	
	-----	
	2006	2005
	----	----
	(MILLIONS)	
North America		
Restructuring and restructuring-related expenses.....	\$10	\$ 2
Changeover costs for a major new aftermarket customer(1).....	6	--
Stock based compensation accounting change.....	1	--
Europe, South America & India		
Restructuring and restructuring-related expenses.....	6	5
Asia Pacific		
Restructuring and restructuring-related expenses.....	5	--

-----

(1) Represents costs associated with changing new aftermarket customers from their prior suppliers to an inventory of our products. Although our aftermarket business regularly incurs changeover costs, we specifically identify in the table above those changeover costs that, based on the size or number of customers involved, we believe are of an unusual nature for the quarter in which they were incurred.

45

EBIT for North American operations decreased to \$87 million in the first nine months of 2006, from \$126 million one year ago. Lower OE exhaust volumes on key light truck and SUV platforms, unfavorable OE pricing and higher material and selling, general, administrative and engineering costs were partially offset by the impact on EBIT of higher North American aftermarket revenues. Included in North America's EBIT for the first nine months of 2006 was \$10 million in restructuring and restructuring-related charges, \$6 million in customer changeover costs, and \$1 million in stock-based compensation expense associated with the adoption of a new accounting standard. Included in North America's EBIT for the first nine months of 2005 was \$2 million in restructuring and restructuring-related costs.

Our European, South American and Indian segment's EBIT was \$66 million for the first nine months of 2006 compared to \$41 million during the same period last year. Improved European OE manufacturing efficiencies, primarily related to our exhaust operations, and higher aftermarket revenues drove the increase. These increases to European EBIT were partially offset by price concessions. In addition, higher material and selling, general, administrative, and engineering costs reduced EBIT. South American pricing and volume, and favorable currency was partially offset by higher steel and other material costs. Included in Europe, South America and India's EBIT for the first nine months of 2006 was \$6 million in restructuring and restructuring-related expenses. Included in Europe, South America, and India's EBIT for the first nine months of 2005 was \$5 million in restructuring and restructuring-related expenses.

EBIT for our Asia Pacific segment was \$7 million in the first nine months of 2006 compared to \$10 million in the first nine months of 2005. Reduced volumes, higher warranty and workers compensation costs in Australia were

## Edgar Filing: TENNECO INC - Form 10-Q

partially offset by improved volumes and lower selling, general, administrative and engineering expenses in Asia. Asia Pacific's EBIT for the first nine months of 2006 included \$5 million in restructuring and restructuring-related expenses.

### EBIT AS A PERCENTAGE OF REVENUE

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
North America.....	6%	8%
Europe, South America & India.....	4%	3%
Asia Pacific.....	2%	4%
Total Tenneco.....	5%	5%

In North America, EBIT as a percentage of revenue for the first nine months of 2006 was down two percentage points compared to the prior year. Lower volumes in OE exhaust on key light truck and SUV platforms, unfavorable OE customer pricing, and higher material and selling, general, administrative and engineering costs, were partially offset by the impact on EBIT of higher aftermarket revenues. In Europe, South America and India, EBIT margins for the first nine months of 2006 were up one percentage point compared with the same period last year. Improved European OE manufacturing efficiencies, primarily related to our exhaust operations, and higher aftermarket revenues were partially offset by customer price concessions and higher selling, general, administrative, and engineering costs. EBIT as a percentage of revenue for our Asia Pacific operations decreased to two percent in the first nine months of 2006 compared to four percent in the prior year. Lower volumes and higher material costs in Australia were partially offset by improved volumes in Asia.

### INTEREST EXPENSE, NET OF INTEREST CAPITALIZED

We reported interest expense of \$101 million for the first nine months of 2006 compared to \$97 million in the prior year. This increase is primarily due to the impact of higher LIBOR rates on the variable portion of our debt. The increase was partially offset by a 25 basis point reduction in April 2006 in the interest rates on the term loan B facility and the tranche B-1 letter of credit/revolving loan facility. See more detailed explanations of our debt structure, including the prepayments and amendments to our senior credit facility in 2005, in "Liquidity and Capital Resources--Capitalization" later in this Management Discussion and Analysis.

### INCOME TAXES

Income tax expense was \$18 million for the first nine months of 2006,

## Edgar Filing: TENNECO INC - Form 10-Q

compared to \$29 million for the first nine months of 2005. The first nine months of 2006 included \$3 million tax benefit primarily related to the resolution of certain tax issues with former affiliates. Including this benefit the effective tax rate for the first nine months of 2006 was 31 percent. Excluding this benefit our effective tax rate was 35 percent. The first nine months of 2005 included \$1 million of tax expense, primarily related to adjusting state tax net operating loss carryforwards, partially offset by the settlement of prior year tax issues on a more favorable basis than originally anticipated. Including these adjustments the effective tax rate for the first nine months of 2005 was 36 percent. Excluding these adjustments our effective tax rate was 35 percent.

### EARNINGS PER SHARE

We reported earnings per diluted common share of \$0.79 for the first nine months of 2006, compared to \$1.11 per diluted share for the first nine months of 2005. Included in the results for the first nine months of 2006 were the negative impacts from expenses related to our restructuring activities, customer changeover costs and the accounting change for stock based compensation. In total, these items decreased earnings per diluted common share by \$0.36. Included in the results for the first nine months of 2005 were the negative impacts from expenses related to our restructuring activities and tax expense related to the adjustment of state net operating loss carryforwards. In total, these items decreased earnings per diluted common share by \$0.13. You should also read the Notes to the financial statements for more detailed information on earnings per share.

### RESTRUCTURING AND OTHER CHARGES

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.

In the fourth quarter of 2001, our Board of Directors approved a restructuring plan, a project known as Project Genesis, designed to lower our fixed costs, improve efficiency and utilization, and better optimize our global footprint. Project Genesis involved closing eight facilities, improving the process flow and efficiency through value mapping and plant arrangement at 20 facilities, relocating production among facilities, and centralizing some functional areas. The total of all these restructuring and other costs recorded in the fourth quarter of 2001 was \$32 million before tax, \$31 million after tax, or \$0.81 per diluted common share. We eliminated 974 positions in connection with Project Genesis. Additionally, we executed this plan more efficiently than originally anticipated and as a result in the fourth quarter of 2002 reduced our reserves related to this restructuring activity by \$6 million, which was recorded in cost of sales. In the fourth quarter of 2003, we reclassified \$2 million of severance reserve to the asset impairment reserve. This reclassification became necessary, as actual asset impairments along with the sale of our closed facilities were different than the original estimates. We completed the remaining restructuring activities under Project Genesis as of the end of 2004. Since Project Genesis was announced, we have undertaken a number of related projects designed to restructure our operations, described below.

In the first quarter of 2003, we incurred severance costs of \$1 million associated with eliminating 17 salaried positions through selective layoffs and an early retirement program. Additionally, 93 hourly positions were eliminated through selective layoffs in the quarter. These reductions were done to reduce ongoing labor costs in North America. This charge was primarily recorded in cost

## Edgar Filing: TENNECO INC - Form 10-Q

of sales.

In October of 2003, we announced the closing of an emission control manufacturing facility in Birmingham, U.K. Approximately 130 employees were eligible for severance benefits in accordance with union contracts and U.K. legal requirements. We incurred approximately \$3 million in costs related to this action in 2004. This action is in addition to the plant closings announced in Project Genesis in the fourth quarter of 2001.

47

In October 2004, we announced a plan to eliminate 250 salaried positions through selected layoffs and an elective early retirement program. The majority of layoffs were at middle and senior management levels. As of September 30, 2006, we have incurred \$23 million in severance costs. Of this total, \$7 million was recorded in cost of sales and \$16 million was recorded in selling, general and administrative expense.

In February 2006, we decided to reduce the work force at certain of our global locations as part of our ongoing effort to reduce our cost structure. We recorded a pre-tax charge of \$2 million during the third quarter of 2006 and \$6 million for the first nine months of 2006 for severance and other benefits related to these reductions in force, substantially all of which have been paid in cash.

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.

We incurred \$7 million in restructuring and restructuring-related costs during the third quarter of 2006, of which \$6 million was recorded in cost of sales and \$1 million in selling, general and administrative expense. Including the costs incurred in 2002 through 2005 of \$71 million, as of September 30, 2006 we have incurred a total of \$92 million for activities related to our restructuring initiatives.

Under the terms of our amended and restated senior credit agreement that took effect on December 12, 2003, we were allowed to exclude up to \$60 million of cash charges and expenses, before taxes, related to cost reduction initiatives over the 2002 to 2006 time period from the calculation of the financial covenant ratios we are required to maintain under our senior credit agreement. In February 2005, our senior credit facility was amended to exclude all remaining cash charges and expenses related to restructuring initiatives started on or before February 24, 2005. As of September 30, 2006, we have excluded \$63 million in allowable charges relating to restructuring initiatives previously started.

Under our amended facility, we are allowed to exclude up to an additional \$60 million of cash charges and expenses, before taxes, related to restructuring activities initiated after February 24, 2005 from the calculation of the financial covenant ratios required under our senior credit facility. As of

## Edgar Filing: TENNECO INC - Form 10-Q

September 30, 2006, we have excluded \$27 million in allowable charges relating to restructuring initiatives against the \$60 million available under the terms of the February 2005 amendment to the senior credit facility.

### CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing our financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required.

#### Revenue Recognition

We recognize revenue for sales to our original equipment and aftermarket customers when title and risk of loss passes to the customers under the terms of our arrangements with those customers, which is usually at the time of

48

shipment from our plants or distribution centers. In connection with the sale of exhaust systems to certain original equipment manufacturers, we purchase catalytic converters or components thereof and diesel particulate filters including precious metals ("substrates") on behalf of our customers which are used in the assembled system. These substrates are included in our inventory and "passed through" to the customer at our cost, plus a small margin, since we take title to the inventory and are responsible for both the delivery and quality of the finished product. Revenues recognized for substrate sales were \$630 million and \$508 million for the first nine months of 2006 and 2005, respectively. For our aftermarket customers, we provide for promotional incentives and returns at the time of sale. Estimates are based upon the terms of the incentives and historical experience with returns.

#### Warranty Reserves

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

#### Long-Term Receivables

We expense pre-production design and development costs incurred for our original equipment customers unless we have a contractual guarantee for reimbursement of those costs from the customer. At September 30, 2006, we had approximately \$20 million recorded as a long-term receivable from original equipment customers for guaranteed pre-production design and development arrangements. While we believe that the vehicle programs behind these arrangements will enter production, these arrangements allow us to recover our pre-production design and development costs in the event that the programs are cancelled or do not reach expected production levels. We have not experienced any material losses on arrangements where we have a contractual guarantee of reimbursement from our customers.

#### Income Taxes

## Edgar Filing: TENNECO INC - Form 10-Q

We have a U.S. Federal tax net operating loss ("NOL") carryforward at September 30, 2006, of \$588 million, which will expire in varying amounts from 2018 to 2025. The federal tax effect of that NOL is \$206 million, and is recorded as a deferred tax asset on our balance sheet at September 30, 2006. We also have state NOL carryforwards at September 30, 2006 of \$627 million, which will expire in varying amounts from 2006 to 2025. The tax effect of the state NOL is \$28 million, net of a valuation allowance, and is recorded as a deferred tax asset on our balance sheet at September 30, 2006. We estimate, based on available evidence both positive and negative, that it is more likely than not that we will utilize these NOLs within the prescribed carryforward period. That estimate is based upon our expectations regarding future taxable income of our U.S. operations and the implementation of available tax planning strategies that accelerate usage of the NOL. Circumstances that could change that estimate include future U.S. earnings at lower than expected levels or a majority ownership change as defined in the rules of the U.S. tax law. If that estimate changed, we would be required to cease recognizing an income tax benefit for any new NOL and could be required to record a reserve for some or all of the asset currently recorded on our balance sheet.

### Stock-Based Compensation

Prior to January 1, 2006, we utilized the intrinsic value method to account for our stock-based compensation plans in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Using the modified prospective application method, effective January 1, 2006, we account for our stock-based compensation plans in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment" which requires a fair value method of accounting for compensation costs related to our stock-based compensation plans. Under the fair value method recognition provision of the statement, a share-based payment is measured at the grant date based upon the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards 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. Under APB No. 25, for the nine months ended September 30, 2005, we estimated that the pro forma net income impact under SFAS No. 123(R) would have been

49

approximately \$2 million or \$0.04 per diluted share. For the nine months ended September 30, 2006, the results of adopting SFAS No. 123(R) on our results of operations including nonqualified stock options and other stock-based compensation was additional expense of approximately \$2 million or \$0.04 per diluted share. As of September 30, 2006, there is approximately \$4 million, net of tax, of total unrecognized compensation costs related to these stock-based awards that is expected to be recognized over a weighted average period of 1.2 years.

### Goodwill and Other Intangible Assets

We utilize an impairment-only approach to value our purchased goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Each year in the fourth quarter, we perform an impairment analysis on the balance of goodwill. Inherent in this calculation is the use of estimates as the fair value of our designated reporting units is based upon the present value of our expected future cash flows. In addition, our calculation includes our best estimate of our weighted average cost of capital and growth rate. If the

## Edgar Filing: TENNECO INC - Form 10-Q

calculation results in a fair value of goodwill which is less than the book value of goodwill, an impairment charge would be recorded in the operating results of the impaired reporting unit.

### Pension and Other Postretirement Benefits

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

Our approach to establishing the discount rate assumption for both our domestic and foreign plans starts with high-quality investment-grade bonds adjusted for an incremental yield based on actual historical performance. This incremental yield adjustment is the result of selecting securities whose yields are higher than the "normal" bonds that comprise the index. Based on this approach, for 2005 we lowered the weighted average discount rate for all of our pension plans to 5.4 percent, from 6.0 percent. The discount rate for postretirement benefits was lowered from approximately 6.3 percent for 2004 to approximately 5.8 percent for 2005.

Our approach to determining expected return on plan asset assumptions evaluates both historical returns as well as estimates of future returns, and is adjusted for any expected changes in the long-term outlook for the equity and fixed income markets. As a result, our estimate of the weighted average long-term rate of return on plan assets for all of our pension plans was lowered from 8.4 percent for 2004 to 8.2 percent for 2005.

Except in the U.K., generally, our pension plans do not require employee contributions. Our policy is to fund our pension plans in accordance with applicable U.S. and foreign government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At September 30, 2006, all legal funding requirements had been met. Other postretirement benefit obligations, such as retiree medical, and certain foreign pension plans are not funded.

In August 2006, we announced that we are freezing our current defined benefit plans and replacing them with additional contributions under defined contribution plans for nearly all U.S.-based salaried and non-union hourly employees effective January 1, 2007. We estimate that these changes will save about \$11 million in earnings before taxes annually, starting January 1, 2007. Additionally, we will realize a one-time benefit of approximately \$6 to \$7 million in the fourth quarter 2006 related to curtailing the defined benefit pension plans.

### CHANGES IN ACCOUNTING PRONOUNCEMENTS

In March 2005, the FASB issued Interpretation No. ("FIN") 46(R)-5, "Implicit Variable Interests under FASB Interpretation No. 46" (revised December 2003). The statement addresses whether a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity ("VIE") or potential VIE when

specific conditions exist. The guidance was applied in the first reporting period beginning after March 3, 2005. The adoption of FSP No. FIN 46(R)-5 did not have an impact on our consolidated financial statements.

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations." This interpretation clarifies that the term conditional asset retirement obligation as used in FASB No. 143, "Accounting for Conditional Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This interpretation was effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN No. 47 did not have a material impact on our financial position or results of operation.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Corrections," which supersedes APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." This statement changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on our financial position or results of operation.

In June 2005, the FASB issued Staff Position No. ("FSP") No. 143-1, "Accounting for Electronic Equipment Waste Obligations." This statement addresses the accounting for obligations associated with Directive 2005/96/EC on Waste Electrical and Electronic Equipment adopted by the European Union. The Directive distinguishes between "new" and "historical" waste. The guidance should be applied the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the law by the applicable EU-member country. The adoption of FSP No. 143-1 did not have a material impact on our financial position or results of operation.

In November 2005, the FASB issued FSP FAS 123(R)-3, "Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP requires an entity to follow either the transition guidance for the additional paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment, or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We continue to evaluate the impact that the adoption of this FSP could have on our financial statements.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation is effective for fiscal years ending after December 15, 2006. We continue to evaluate the impact that the adoption of this interpretation could have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement." This statement defines fair value, establishes a framework for measuring fair



## Edgar Filing: TENNECO INC - Form 10-Q

value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material impact to our financial statements.

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 will be 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

51

actuarial losses experienced by the plans will be recorded in the Other Comprehensive Income (OCI) section of shareholders' equity on the balance sheet. We are currently evaluating the potential impact this standard may have on our financial position and results of operations, but because we had previously recorded only a portion of the excess of obligations over plan assets in our defined benefit plans and retiree health care plans, we expect this will result in a reduction of OCI in shareholders' equity.

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. We currently use a September 30 measurement date for substantially all of our defined benefit plans and are planning to adopt this statement's measurement date change effective for calendar year 2007. We do not believe the impact of the application of this part of the statement will be material to our financial position and results of operations.

### LIQUIDITY AND CAPITAL RESOURCES

#### CAPITALIZATION

	SEPTEMBER 30, 2006	DECEMBER 31, 2005	% CHANGE
	-----	-----	-----
	(MILLIONS)		
Short-term debt and current maturities.....	\$ 51	\$ 22	132%
Long-term debt.....	1,352	1,356	--
	-----	-----	
Total debt.....	1,403	1,378	2

## Edgar Filing: TENNECO INC - Form 10-Q

	-----	-----	
Total minority interest.....	28	24	17
Shareholders' equity.....	220	129	71
	-----	-----	
Total capitalization.....	\$1,651	\$1,531	8
	=====	=====	

General. Short-term debt, which includes the current portion of long-term obligations and borrowings by foreign subsidiaries, as well as any outstanding borrowings on our revolving credit facilities, increased by approximately \$29 million primarily related to borrowings outstanding under our credit facilities. Borrowings under our revolving credit facilities were approximately \$28 million and \$55 million as of September 30, 2006 and 2005, respectively. The overall decrease in long-term debt resulted from payments made on our outstanding long-term debt and capital leases in addition to our position on interest rate swaps entered into in 2004. See below for further information on the interest rate swaps.

The year-to-date increase in shareholders' equity primarily resulted from \$47 million related to the translation of foreign balances into U.S. dollars. In addition our net income, premium on common stock issued pursuant to benefit plans and other transactions contributed \$44 million to shareholders' equity. While our book equity balance was small at September 30, 2006, it had no effect on our business operations. We have no debt covenants that are based upon our book equity, and there are no other agreements that are adversely impacted by our relatively low book equity.

Overview and Recent Transactions. 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. We originally entered into this facility in 1999 and since that time have periodically requested and received amendments to the facility for various purposes. In December of 2003, we engaged in a series of transactions that resulted in the full refinancing of the facility, through an amendment and restatement. In February 2005, we amended the facility, which resulted in reduced interest rates on the term loan B and tranche B-1 letter of credit/revolving loan portions of the facility. We also made a voluntary prepayment of \$40 million on the term loan B facility, reducing borrowings to \$356 million. During 2005, we increased the amount of commitments under our revolving credit facility from \$220 million to \$300 million and reduced the amount of commitments under our tranche B-1 letter of credit/revolving loan facility from \$180 million to \$155 million. In July 2006 we further increased the amount of commitments under our revolving credit facility from \$300 million to \$320 million. As of September 30, 2006, the senior credit facility

consisted of a seven-year, \$356 million term loan B facility maturing in December 2010; a five-year, \$320 million revolving credit facility maturing in December 2008; and a seven-year, \$155 million tranche B-1 letter of credit/revolving loan facility maturing in December 2010.

In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an

## Edgar Filing: TENNECO INC - Form 10-Q

aggregate of \$150 million of fixed interest rate debt at an annual rate of 10 1/4 percent to floating interest rate debt at an annual rate of LIBOR plus an average spread of 5.68 percent. Each agreement requires semi-annual settlements through July 15, 2013. Based upon the LIBOR rate as determined under these agreements of 5.61 percent (which is in effect until January 15, 2007) the inclusion of these swaps in our financial results is expected to add \$1 million to our 2006 annual interest expense. These swaps qualify as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and as such are recorded on the balance sheet at fair value with an offset to the underlying hedged item, which is long-term debt. As of September 30, 2006, the fair value of the interest rate swaps was a liability of approximately \$7 million which has been recorded as a decrease to long-term debt and an increase to other long-term liabilities. On September 30, 2006, we had \$996 million in long-term debt obligations that have fixed interest rates. Of that amount, \$475 million is fixed through July 2013 and \$500 million through November 2014, while the remainder is fixed over periods of 2007 through 2025. Included in the \$475 million is \$150 million of long-term debt obligations subject to variable interest rates as a result of our swap agreements. We also have \$356 million in long-term debt obligations that have variable interest rates based on a current market rate of interest.

In February 2005, we amended our senior credit facility to reduce by 75 basis points the interest rate on the term loan B facility and the tranche B-1 letter of credit/revolving loan facility. In connection with the amendment, we voluntarily prepaid \$40 million in principal on the term loan B, reducing the term loan B facility from \$396 million to \$356 million.

Additional provisions of the February 2005 amendment to the senior credit facility agreement were as follows: (i) amend the definition of EBITDA to exclude all remaining cash charges and expenses related to restructuring initiatives started on or before February 24, 2005, and to exclude up to an additional \$60 million in restructuring-related expenses announced and taken after February 24, 2005, (ii) increase permitted investments to \$50 million, (iii) exclude expenses related to the issuance of stock options from the definition of consolidated net income, (iv) permit us to redeem up to \$125 million of senior secured notes after January 1, 2008 (subject to certain conditions), (v) increase our ability to add commitments under the revolving credit facility by \$25 million, and (vi) make other minor modifications. We incurred approximately \$1 million in fees and expenses associated with this amendment, which were capitalized and are being amortized over the remaining term of the agreement.

During 2005, we increased the amount of commitments under our revolving credit facility from \$220 million to \$300 million and reduced the amount of commitments under our tranche B-1 letter of credit/revolving loan facility from \$180 million to \$155 million. This reduction of our tranche B-1 letter of credit/revolving loan facility was required under the terms of the senior credit facility, as we had increased the amount of our revolving credit facility commitments by more than \$55 million.

In October 2005, we further amended our senior credit facility increasing the amount of commitments we may seek under the revolving credit portion of the facility from \$300 million to \$350 million, along with other technical changes. We are not required to reduce the commitments under our tranche B-1 letter of credit/revolving loan facility should we obtain additional revolving credit commitments. In July 2006, we increased the amount of commitments under the revolving credit portion of the facility from \$300 million to \$320 million. We have not yet sought any increased commitments above the \$320 million level, but may do so when, in our judgment, market conditions are favorable.

Senior Credit Facility--Forms of Credit Provided. Following the February 2005 voluntary prepayment of \$40 million, the term loan B facility is payable as

## Edgar Filing: TENNECO INC - Form 10-Q

follows: \$74 million due March 31, 2010, and \$94 million due each of June 30, September 30 and December 12, 2010. The revolving credit facility requires that if any amounts are drawn, they be repaid by December 2008. 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.

53

The tranche B-1 letter of credit/revolving loan facility requires that it be repaid by December 2010. We can borrow revolving loans from the \$155 million tranche B-1 letter of credit/revolving loan facility and use that facility to support letters of credit. The tranche B-1 letter of credit/revolving loan facility lenders have deposited \$155 million with the administrative agent, who has invested that amount in time deposits. We do not have an interest in any of the funds on deposit. When we draw revolving loans under this facility, the loans are funded from the \$155 million on deposit with the administrative agent. When we make repayments, the repayments are redeposited with the administrative agent.

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 will not be liable for any losses to or misappropriation of any (i) return due to the administrative agent's failure to achieve the return described above or to pay all or any portion of such return to any lender under such facility or (ii) funds on deposit in such account by such lender (other than the obligation to repay funds released from such accounts and provided to us as revolving loans under such facility).

Senior Credit Facility--Interest Rates and Fees. Borrowings under the term loan B facility and the tranche B-1 letter of credit/revolving loan facility bore interest at an annual rate equal to, at our option, either (i) the London Interbank Offering Rate plus a margin of 200 basis points (reduced from 300 basis points in February 2005 and further reduced from 225 basis points in April 2006); or (ii) a rate consisting of the greater of the JP Morgan Chase prime rate or the Federal Funds rate plus 50 basis points, plus a margin of 100 basis points (reduced from 200 basis points in February 2005 and further reduced from 125 basis points in April 2006). There is no 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. If a letter of credit issued under this facility is subsequently paid and we do not reimburse the amount paid in full, then a ratable portion of each lender's deposit would be used to fund the letter of credit. We pay the tranche B-1 lenders a fee which is equal to LIBOR plus 200 basis points (reduced from 300 basis points in February 2005 and further reduced from 225 basis points in April 2006). This fee is offset by the return on the funds deposited with the administrative agent which earn interest at a per annum rate approximately equal to LIBOR. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits and effectively increases our interest expense at a per annum rate equal to LIBOR.

Borrowings under the revolving credit facility bore interest at an annual rate equal to, at our option, either (i) the London Interbank Offering Rate plus a margin of 275 basis points (reduced from 325 basis points in March 2005 and further reduced from 300 basis points in August 2005); or (ii) a rate consisting of the greater of the JP Morgan Chase prime rate or the Federal Funds rate plus

## Edgar Filing: TENNECO INC - Form 10-Q

37.5 basis points (reduced from 50 basis points to 37.5 basis points in August 2005), plus a margin of 175 basis points (reduced from 225 basis points in March 2005 and further reduced from 200 basis points in August 2005). Letters of credit issued under the revolving credit facility accrue a letter of credit fee at a per annum rate of 275 basis points (reduced from 325 basis points in March 2005 and further reduced from 300 basis points in August 2005) for the pro rata account of the lenders under such facility and a fronting fee for the ratable account of the issuers thereof at a per annum rate in an amount to be agreed upon payable quarterly in arrears. The interest margins for borrowings and letters of credit issued under the revolving credit facility are subject to adjustment based on the consolidated leverage ratio (consolidated indebtedness divided by consolidated EBITDA as defined in the senior credit facility agreement) measured at the end of each quarter. The margin we pay on the revolving credit facility is reduced by 25 basis points following each fiscal quarter for which the consolidated leverage ratio is less than 4.0 beginning in March 2005. Since our consolidated leverage ratio was 3.52 as of March 31, 2005, and 3.42 as of June 30, 2005, the margin we pay on the revolving credit facility was reduced by 25 basis points in the second quarter of 2005 and was further reduced by 25 basis points in the third quarter of 2005. We also pay a commitment fee of 50 basis points on the unused portion of the revolving credit facility. This commitment fee was reduced by 12.5 basis points during the third quarter of 2005 to 37.5 basis points as our consolidated leverage ratio was less than 3.5.

Senior Credit Facility--Other Terms and Conditions. As described above, we are highly leveraged. Our amended and restated senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated leverage ratio (consolidated indebtedness divided by consolidated EBITDA, as calculated under the facility), consolidated interest coverage ratio (consolidated EBITDA divided by consolidated cash

54

interest paid, as calculated under the facility), and fixed charge coverage ratio (consolidated EBITDA less consolidated capital expenditures, divided by consolidated cash interest paid, as calculated under the facility) at the end of each period indicated. Failure to maintain these ratios will result in a default under our senior credit facility. See "Contractual Obligations" below. The financial ratios required under the amended senior credit facility and, the actual ratios we achieved for the first, second and third quarters of 2006, are shown in the following tables:

	QUARTER ENDED						
	MARCH 31,		JUNE 30,		SEPTEMBER		DECEMBER 31,
	2006		2006		30, 2006		2006
	REQ.	ACT.	REQ.	ACT.	REQ.	ACT.	REQ.
Leverage Ratio (maximum).....	4.25	3.37	4.25	3.35	4.25	3.46	4.25
Interest Coverage Ratio (minimum).....	2.10	3.27	2.10	3.23	2.10	3.15	2.10
Fixed Charge Coverage Ratio							

Edgar Filing: TENNECO INC - Form 10-Q

(minimum)..... 1.15 2.07 1.15 1.89 1.15 1.79 1.15

	QUARTERS ENDING			
	MARCH 31- DECEMBER 31, 2007	MARCH 31- DECEMBER 31, 2008	MARCH 31- DECEMBER 31, 2009	MARCH 31- DECEMBER 31, 2010
	REQ.	REQ.	REQ.	REQ.
Leverage Ratio (maximum).....	3.75	3.50	3.50	3.50
Interest Coverage Ratio (minimum).....	2.20	2.35	2.50	2.75
Fixed Charge Coverage Ratio (minimum)...	1.25	1.35	1.50	1.75

The senior credit facility agreement provides: (i) the ability to refinance our senior subordinated notes and/or our senior secured notes using the net cash proceeds from the issuance of similarly structured debt; (ii) the ability to repurchase our senior subordinated notes and/or our senior secured notes using the net cash proceeds from issuing shares of our common stock; and (iii) the prepayment of the term loans by an amount equal to 50 percent of our excess cash flow as defined by the agreement.

The senior credit facility agreement also contains restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions as described in the amended agreement); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees; (v) capital expenditures; (vi) dividends (limited to no more than \$15 million per year); (vii) mergers and consolidations; and (viii) prepayments and modifications of subordinated and other debt instruments. Compliance with these requirements and restrictions is a condition for any incremental borrowings under the senior credit facility agreement and failure to meet these requirements enables the lenders to require repayment of any outstanding loans. As of September 30, 2006, we were in compliance with all the financial covenants (as indicated above) and operational restrictions of the facility.

Our senior credit facility does not contain any terms that could accelerate the payment of the facility as a result of a credit rating agency downgrade.

Senior Secured and Subordinated Notes. Our outstanding debt also includes \$475 million of 10 1/4 percent senior secured notes due July 15, 2013, in addition to the \$500 million of 8 5/8 percent senior subordinated notes due November 15, 2014. We can redeem some or all of the notes at any time after July 15, 2008, in the case of the senior secured notes, and November 15, 2009, in the case of the senior subordinated notes. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes. We are permitted to redeem up to 35 percent of the senior subordinated notes with the proceeds of certain equity offerings completed before November 15, 2007.

Our senior secured and subordinated notes require that, as a condition

## Edgar Filing: TENNECO INC - Form 10-Q

precedent to incurring certain types of indebtedness not otherwise permitted, our consolidated fixed charge coverage ratio, as calculated on a proforma basis, to be greater than 2.25 and 2.00, respectively. We have not incurred any of the types of indebtedness not otherwise permitted by the indentures. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (ii) dividends; (iii) distributions and stock repurchases; (iv) investments; (v) asset sales and (vi) mergers and consolidations. Subject to limited exceptions, all of our

55

existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee these notes on a joint and several basis. In addition, the senior secured notes and related guarantees are secured by second priority liens, subject to specified exceptions, on all of our and our subsidiary guarantors' assets that secure obligations under our senior credit facility, except that only a portion of the capital stock of our subsidiary guarantor's domestic subsidiaries is provided as collateral and no assets or capital stock of our direct or indirect foreign subsidiaries secure the notes or guarantees. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. The senior subordinated notes rank junior in right of payment to our senior credit facility and any future senior debt incurred. As of September 30, 2006, we were in compliance with the covenants and restrictions of these indentures.

**Accounts Receivable Securitization.** In addition to our senior credit facility, senior secured notes and senior subordinated notes, we also sell some of our accounts receivable on a nonrecourse basis in North America and Europe. In North America, we have an accounts receivable securitization program with two commercial banks. We sell original equipment and aftermarket receivables on a daily basis under this program. We sold accounts receivable under this program of \$92 million and \$97 million at September 30, 2006 and 2005, respectively. This program is subject to cancellation prior to its maturity date if we were to (i) fail to pay interest or principal payments on an amount of indebtedness exceeding \$50 million, (ii) default on the financial covenant ratios under the senior credit facility, or (iii) fail to maintain certain financial ratios in connection with the accounts receivable securitization program. In January 2006, this program was renewed for 364 days to January 29, 2007 at a facility size of \$100 million. We also sell some receivables in our European operations to regional banks in Europe. At September 30, 2006, we sold \$52 million of accounts receivable in Europe up from \$49 million at September 30, 2005. The arrangements to sell receivables in Europe are not committed and can be cancelled at any time. If we were not able to sell receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreements may increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreements.

**Capital Requirements.** We believe that cash flows from operations, combined with available borrowing capacity described above, assuming that we maintain compliance with the financial covenants and other requirements of our loan agreement, will be sufficient to meet our future capital requirements for the following year. Our ability to meet the financial covenants depends upon a number of operational and economic factors, many of which are beyond our control. Factors that could impact our ability to comply with the financial covenants include the rate at which consumers continue to buy new vehicles and the rate at which they continue to repair vehicles already in service, as well as our ability to successfully implement our restructuring plans and offset

## Edgar Filing: TENNECO INC - Form 10-Q

higher raw material prices. Lower North American vehicle production levels, weakening in the global aftermarket, or a reduction in vehicle production levels in Europe, beyond our expectations, could impact our ability to meet our financial covenant ratios. In the event that we are unable to meet these financial covenants, we would consider several options to meet our cash flow needs. These options could include further renegotiations with our senior credit lenders, additional cost reduction or restructuring initiatives, sales of assets or common stock, or other alternatives to enhance our financial and operating position. Should we be required to implement any of these actions to meet our cash flow needs, we believe we can do so in a reasonable time frame.

56

### CONTRACTUAL OBLIGATIONS

Our remaining required debt principal amortization and payment obligations under lease and certain other financial commitments as of September 30, 2006, are shown in the following table:

	PAYMENTS DUE IN:						TOTAL
	2006	2007	2008	2009	2010	BEYOND 2010	
	(MILLIONS)						
Obligations:							
Revolver borrowings.....	\$ 28	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 28
Senior long-term debt.....	--	--	--	--	356	--	356
Long-term notes.....	--	1	2	--	--	470	473
Capital leases.....	1	3	2	2	3	--	11
Subordinated long-term debt.....	--	--	--	--	--	500	500
Other subsidiary debt.....	1	--	--	--	--	2	3
Short-term debt.....	19	--	--	--	--	--	19
	-----	-----	-----	-----	-----	-----	-----
Debt and capital lease obligations....	49	4	4	2	359	972	1,390
Operating leases.....	4	15	11	9	6	7	52
Interest payments.....	39	132	131	131	129	294	856
Capital commitments.....	10	--	--	--	--	--	10
	-----	-----	-----	-----	-----	-----	-----
Total Payments.....	\$102	\$151	\$146	\$142	\$494	\$1,273	\$2,308
	=====	=====	=====	=====	=====	=====	=====

We principally use our revolving credit facilities to finance our short-term capital requirements. As a result, we classify any outstanding balances of the revolving credit facilities within our short-term debt even though the revolving credit facility has a termination date of December 13, 2008 and the tranche B-1 letter of credit facility/revolving loan facility has a termination date of December 13, 2010.



## Edgar Filing: TENNECO INC - Form 10-Q

If we do not maintain compliance with the terms of our senior credit facility, senior secured notes indenture and senior subordinated debt indenture described above, all amounts under those arrangements could, automatically or at the option of the lenders or other debt holders, become due. Additionally, each of those facilities contains provisions that certain events of default under one facility will constitute a default under the other facility, allowing the acceleration of all amounts due. We currently expect to maintain compliance with terms of all of our various credit agreements for the foreseeable future.

Included in our contractual obligations is the amount of interest to be paid on our long-term debt. As our debt structure contains both fixed and variable rate interest debt, we have made assumptions in calculating the amount of the future interest payments. Interest on our senior secured notes and senior subordinated notes is calculated using the fixed rates of 10 1/4 percent and 8 5/8 percent, respectively. Interest on our variable rate debt is calculated as 200 basis points plus LIBOR of 5.32 percent which was the rate at September 30, 2006. We have assumed that LIBOR will remain unchanged for the outlying years. See "--Capitalization." In addition we have included the impact of our interest rate swaps entered into in April 2004. See "Interest Rate Risk" below.

We have also included an estimate of expenditures required after September 30, 2006 to complete the facilities and projects authorized at December 31, 2005, in which we have made substantial commitments in connections with facilities.

We have not included purchase obligations as part of our contractual obligations as we generally do not enter into long-term agreements with our suppliers. In addition, the agreements we currently have do not specify the volumes we are required to purchase. If any commitment is provided, in many cases the agreements state only the minimum percentage of our purchase requirements we must buy from the supplier. As a result, these purchase obligations fluctuate from year to year and we are not able to quantify the amount of our future obligation.

We have not included material cash requirements for taxes as we are a taxpayer in certain foreign jurisdictions but not in domestic locations. Additionally, it is difficult to estimate taxes to be paid as changes in where we generate income can have a significant impact on future tax payments. We have also not included cash requirements for funding pension and postretirement benefit costs. Based upon current estimates we believe we will be required to make contributions of approximately \$52 million to those plans in 2006, of which approximately \$42 million has

57

been contributed as of September 30, 2006. In the third quarter of 2006, an additional \$4 million in pension contributions were made following the adoption of the Pension Protection Act of 2006. As a result, we expect our 2007 contributions to be approximately \$30 million. Pension and postretirement contributions beyond 2006 will be required but those amounts will vary based upon many factors, including the performance of our pension fund investments during 2006. In addition, we have not included cash requirements for environmental remediation. Based upon current estimates we believe we will be required to spend approximately \$8 million over the next 20 to 30 years. However, due to possible modifications in remediation processes and other factors, it is difficult to determine the actual timing of the payments. See "--Environmental and Other Matters".

We occasionally provide guarantees that could require us to make future

## Edgar Filing: TENNECO INC - Form 10-Q

payments in the event that the third party primary obligor does not make its required payments. We have not recorded a liability for any of these guarantees. The only third party guarantee we have made is the performance of lease obligations by a former affiliate. Our maximum liability under this guarantee was less than \$1 million at both September 30, 2006 and 2005. We have no recourse in the event of default by the former affiliate. However, we have not been required to make any payments under this guarantee.

Additionally, 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 then existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility, our senior secured notes and our senior subordinated notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of 66 percent of the stock of certain first-tier foreign subsidiaries. The arrangement for the \$475 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 12 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. We have guaranteed through letters of credit support for local credit facilities and cash management requirements for some of our subsidiaries totaling \$15 million. We have also issued \$20 million in letters of credit to support some of our subsidiaries' insurance arrangements. In addition, we have issued \$3 million in guarantees through letters of credit to guarantee other obligations of subsidiaries primarily related to environmental remediation activities.

### CASH FLOWS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(MILLIONS)	
Cash provided (used) by:		
Operating activities.....	\$ 3	\$ 38
Investing activities.....	(44)	(42)
Financing activities.....	34	25

#### Operating Activities

For the three months ended September 30, 2006, operating activities provided \$3 million in cash compared to \$38 million in cash during the same period last year. For the three months ended September 30, 2005, cash used for working capital was \$45 million versus \$11 million for the three months ended

## Edgar Filing: TENNECO INC - Form 10-Q

September 30, 2005. Receivables provided cash of \$17 million compared to a cash outflow of \$9 million, a \$26 million improvement from last year due to an improvement in days sales outstanding in the current year and the prior year discontinuation of accelerated payment programs with a North American OE customer. Inventory represented a cash outflow of \$7 million during the three months ended September 30, 2006, an increase of \$18 million over the prior year. This was primarily a result of preparing for platform launches in North America. Accounts payable cash outflow of \$39 million was an

58

increase from last year's cash outflow of \$12 million. Cash taxes were \$11 million for the three months ended September 30, 2006, compared to \$5 million in the prior year, primarily due to the timing of foreign tax payments.

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 were 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 were collected before their maturity date totaled \$20 million for the three months ended September 30, 2006, compared with \$26 million for the same period in 2005.

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 \$9 million for the three months ended September 30, 2006 and are classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$7 million for the three months ended September 30, 2006 and are classified as other current assets. One of our Chinese subsidiaries is required to maintain a cash balance at a financial institution issuing the financial instruments which are used to satisfy vendor payments. The balance was immaterial at September 30, 2006 and is classified as cash and cash equivalents.

### Investing Activities

Cash used for investing activities was \$2 million higher in the three months ended September 30, 2006 as compared to the same period one year ago. This increase was primarily driven by capital expenditures which were \$43 million in the three months ended September 30, 2006 compared to \$37 million a year ago. This increase of \$6 million in capital expenditures was partially offset by net proceeds from the sale of assets of \$4 million primarily due to the sale of the old Beijing facility.

### Financing Activities

Cash flow from financing activities was a \$34 million inflow in the three months ended September 30, 2006 compared to an inflow of \$25 million in the same period of 2005. The increase is primarily related to short-term borrowings.

CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

Edgar Filing: TENNECO INC - Form 10-Q

NINE MONTHS  
ENDED  
SEPTEMBER 30,  
-----  
2006      2005  
-----  
(MILLIONS)

Cash provided (used) by:

Operating activities.....	\$ 60	\$ (26)
Investing activities.....	(134)	(118)
Financing activities.....	41	21

Operating Activities

For the nine months ended September 30, 2006, operating activities provided \$60 million in cash compared to a use of \$26 million in cash during the same period last year. For the first nine months of 2006, cash used for working capital was \$127 million versus \$188 million for the first nine months of 2005. Receivables were a cash outflow of \$85 million compared to a cash outflow of \$209 million, a \$124 million improvement from last year primarily due to the discontinuation of accelerated payment programs with three major OE customers in North America in the prior year. Inventory represented a cash outflow of \$47 million during the first nine months of 2006, an increase of \$25 million over the prior year. This primarily resulted from building higher inventories in preparation of platform launches. Accounts payable provided cash of \$51 million, down from last year's cash inflow

59

of \$52 million. Cash taxes were an \$18 million outflow for the nine months ended September 30, 2006, compared with a \$16 million outflow of cash in the prior year, primarily due to the timing of foreign tax payments. See also -- "Cash Flows for the Three Months Ended September 30, 2006 and 2005".

Investing Activities

Cash used for investing activities was \$16 million higher in the first nine months of 2006 compared to the same period one year ago. This increase was primarily driven by capital expenditures which were \$130 million in the first nine months of 2006 compared to \$100 million a year ago. This increase of \$30 million in capital expenditures was primarily due to the timing of future OE customer platform launches. During the first nine months of 2005, we used \$11 million in cash to acquire the exhaust operations of Gabilan Manufacturing, partially offset by net proceeds from the sale of assets of \$4 million.

Financing Activities

Cash flow from financing activities was a \$41 million inflow in the first nine months of 2006 compared to an inflow of \$21 million in the same period of 2005. The 2006 inflow was related to short-term debt borrowings and the exercise of stock options. The 2005 inflow is primarily attributable to \$56 million increased borrowings from our revolving credit facility partially offset by \$43 million in cash used to reduce our long-term debt.

## Edgar Filing: TENNECO INC - Form 10-Q

### INTEREST RATE RISK

Our financial instruments that are sensitive to market risk for changes in interest rates are primarily our debt securities. We primarily use our revolving credit facilities to finance our short-term capital requirements. We pay a current market rate of interest on these borrowings. We have financed our long-term capital requirements with long-term debt with original maturity dates ranging from five to ten years.

In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an aggregate of \$150 million of fixed interest rate debt at an annual rate of 10 1/4 percent to floating interest rate debt at an annual rate of LIBOR plus an average spread of 5.68 percent. Each agreement requires semi-annual settlements through July 15, 2013. Based upon the LIBOR rate as determined under these agreements of 5.61 percent (which is in effect until January 15, 2007) the inclusion of these swaps in our financial results is expected to add \$1 million to our 2006 annual interest expense. These swaps qualify as fair value hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and as such are recorded on the balance sheet at fair value with an offset to the underlying hedged item, which is long-term debt. As of September 30, 2006, the fair value of the interest rate swaps was a liability of approximately \$7 million which has been recorded as a decrease to long-term debt and an increase to other long-term liabilities. On September 30, 2006, we had \$996 million in long-term debt obligations that have fixed interest rates. Of that amount, \$475 million is fixed through July 2013 and \$500 million through November 2014, while the remainder is fixed over periods of 2007 through 2025. Included in the \$475 million is \$150 million of long-term debt obligations subject to variable interest rates as a result of our swap agreements. We also have \$356 million in long-term debt obligations that have variable interest rates based on a current market rate of interest.

We estimate that the fair value of our long-term debt at September 30, 2006 was about 103 percent of its book value. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by about \$2 million after tax, excluding the effect of the interest rate swaps we completed in April 2004. A one percentage point increase or decrease in interest rates on the swaps we completed in April 2004 would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by approximately \$1 million after tax.

### OUTLOOK

Continued high oil prices and rising interest rates make this an uncertain and challenging environment for automotive suppliers. During the third quarter, North American light vehicle production levels were down eight percent over the prior year and current estimates for the fourth quarter are that North American light vehicle

production levels will be down significantly year-over-year, primarily in the light truck and SUV segment, despite an increase in passenger car production. Our North American business is sensitive to customer preferences as we have a greater percentage of our total North American OE revenues related to light vehicle build rate represented by light trucks and SUVs. We remain cautious about the outlook for North American production rates due to the overall financial condition of original equipment manufacturers, especially Ford and

## Edgar Filing: TENNECO INC - Form 10-Q

General Motors who have announced production cuts, plant closings, and other restructuring activities. We are also uncertain about the willingness of the original equipment manufacturers to continue to support consumer vehicle sales through incentives. We believe that new product launches, the ability to flex our operations in line with the revised production schedules, our market position with Japanese OE customers, and a strong new product and technology pipeline will help us to partially mitigate pressures from North American production rates. European light vehicle production is expected to increase about four percent in the fourth quarter as compared to the prior year. Heavy duty truck production rates for 2006 are expected to remain at the same levels as 2005, primarily due to the pull forward of production ahead of the introduction of stricter emission regulations in 2007. In China, light vehicle production is projected to grow to 1.8 million units in the fourth quarter, significantly up from 1.4 million units in the same quarter for the prior year. In the aftermarket, longer product replacement cycles are expected to continue to negatively impact volumes. Efforts to increase new and existing sales are ongoing in our global aftermarket business.

Raw material prices, and in particular stainless steel prices, continue to be a concern with price pressures expected to continue into the foreseeable future. We are leveraging our supply of scrap steel and our anticipated larger steel buy in 2007 as we prepare for our new product launches to negotiate the best possible pricing. Where appropriate, we have sought to mitigate short-term volatility in steel prices through supply commitments with firm base and surcharge pricing. These commitments generally extend for one year and are staggered to further mitigate short-term volatility. We are also working to address this issue by evaluating alternative materials and processes, increasing component and assembly outsourcing to low cost countries, identifying opportunities for new sources of supply in low-cost countries and aggressively pursuing recovery of higher costs from our customers. In addition to these actions, we continue to pursue productivity initiatives and review opportunities to reduce costs through Six Sigma, Lean manufacturing and restructuring activities.

### ENVIRONMENTAL AND OTHER MATTERS

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations and 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 financial statements.

As of September 30, 2006, 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 to be approximately \$8 million. For the Superfund site and the current and former facilities, we have established

## Edgar Filing: TENNECO INC - Form 10-Q

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

61

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 results of operations or consolidated financial position.

From time to time we are subject to product warranty claims whereby we are required to bear costs of repair or replacement of certain of our products. Warranty claims may range from individual customer claims to full recalls of all products in the field. 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 current liabilities on the balance sheet. See Note 5 to our consolidated financial statements included under Item 1 for information regarding our warranty reserves.

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. For example, one of our Chinese joint ventures is currently defending a legal proceeding by Chinese government officials related to whether the joint venture applied the proper tariff code to certain of its imports. 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 present 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 or results of operations. 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

## Edgar Filing: TENNECO INC - Form 10-Q

scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 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. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future financial condition or results of operations.

### EMPLOYEE STOCK OWNERSHIP PLANS

We have established Employee Stock Ownership Plans for the benefit of our employees. Under the plans, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75 percent of their salary through contributions to the plan, which are invested in selected mutual funds or used to buy our common stock. We currently match in cash 50 percent of each employee's contribution up to eight percent of the employee's salary. We recorded expense for these matching contributions of approximately \$5 million for each of the nine months ended September 30, 2006 and 2005, respectively. All contributions vest immediately.

62

In connection with freezing the defined benefit pension plans for nearly all U.S. based salaried and hourly employees effective December 31, 2006, and the related replacement of those defined benefit plans with defined contribution plans, we expect contributions to the Employee Stock Option Plans will increase significantly beginning in 2007.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### ITEM 4. CONTROLS AND PROCEDURES

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



## Edgar Filing: TENNECO INC - Form 10-Q

appropriate to allow timely decisions regarding required disclosures.

63

### PART II

#### ITEM 1A. RISK FACTORS

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005.

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

(a) None.

(b) Not applicable.

(c) Purchase of equity securities by the issuer and affiliated purchasers. The following table provides information relating to our purchase of shares of our common stock in the second quarter of 2006. All of these purchases reflect shares withheld upon vesting of restricted stock, to satisfy statutory minimum tax withholding obligations.

PERIOD -----	TOTAL NUMBER OF SHARES PURCHASED -----	AVERAGE PRICE PAID -----
July 2006.....	154	\$25.94
August 2006.....	--	--
September 2006.....	--	--
	---	
Total.....	154	\$25.94

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

#### ITEM 6. EXHIBITS

(a) Exhibits. The exhibits filed with this report are listed on the Exhibit Index following the signature page of this report, which is incorporated herein by reference.

64

# Edgar Filing: TENNECO INC - Form 10-Q

## SIGNATURE

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

TENNECO INC.

By: /s/ KENNETH R. TRAMMELL

-----  
Kenneth R. Trammell  
Office of the Chief Executive and  
Executive Vice  
President and Chief Financial  
Officer

Dated: November 9, 2006

65

## INDEX TO EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q FOR QUARTER ENDED SEPTEMBER 30, 2006

EXHIBIT NUMBER -----	DESCRIPTION -----
2	-- None
3.1(a)	-- Restated Certificate of Incorporation of the registrant dated December 11, 1996 (incorporated herein by reference from Exhibit 3.1(a) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
3.1(b)	-- Certificate of Amendment, dated December 11, 1996 (incorporated herein by reference from Exhibit 3.1(c) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
3.1(c)	-- Certificate of Ownership and Merger, dated July 8, 1997 (incorporated herein by reference from Exhibit 3.1(d) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
3.1(d)	-- Certificate of Designation of Series B Junior Participating Preferred Stock dated September 9, 1998 (incorporated herein by reference from Exhibit 3.1(d) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 1-12387).
3.1(e)	-- Certificate of Elimination of the Series A Participating Junior Preferred Stock of the registrant dated September 11, 1998 (incorporated herein by reference from Exhibit 3.1(e) of the registrant's Quarterly Report on Form 10-Q for the quarter ended

Edgar Filing: TENNECO INC - Form 10-Q

- September 30, 1998, File No. 1-12387).
- 3.1(f) -- Certificate of Amendment to Restated Certificate of Incorporation of the registrant dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(f) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
- 3.1(g) -- Certificate of Amendment to Restated Certificate of Incorporation of the registrant dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(g) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
- 3.1(h) -- Certificate of Ownership and Merger merging Tenneco Automotive Merger Sub Inc. with and into the registrant, dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(h) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
- 3.1(i) -- Certificate of Amendment to Restated Certificate of Incorporation of the registrant dated May 9, 2000 (incorporated herein by reference from Exhibit 3.1(i) of the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, File No. 1-12387).
- 3.1(j) -- Certificate of Ownership and Merger merging Tenneco Inc. with and into the registrant, dated October 27, 2005 (incorporated herein by reference from Exhibit 99.1 of the registrant's Current Report on Form 8-K dated October 28, 2005, File No. 1-12387).
- 3.2 -- By-laws of the registrant, as amended July 10, 2006 (incorporated herein by reference from Exhibit 99.1 of the registrant's Current Report on Form 8-K dated July 10, 2006, File No. 1-12387).
- 3.3 -- Certificate of Incorporation of Tenneco Global Holdings Inc. ("Global"), as amended (incorporated herein by reference to Exhibit 3.3 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.4 -- By-laws of Global (incorporated herein by reference to Exhibit 3.4 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.5 -- Certificate of Incorporation of TMC Texas Inc. ("TMC") (incorporated herein by reference to Exhibit 3.5 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.6 -- By-laws of TMC (incorporated herein by reference to Exhibit 3.6 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.7 -- Amended and Restated Certificate of Incorporation of Tenneco International Holding Corp. ("TIHC") (incorporated herein by reference to Exhibit 3.7 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).

66

EXHIBIT NUMBER -----	DESCRIPTION -----
3.8	-- Amended and Restated By-laws of TIHC (incorporated herein by reference to Exhibit 3.8 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
3.9	-- Certificate of Incorporation of Clevite Industries Inc. ("Clevite"),

## Edgar Filing: TENNECO INC - Form 10-Q

- as amended (incorporated herein by reference to Exhibit 3.9 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.10 -- By-laws of Clevite (incorporated herein by reference to Exhibit 3.10 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.11 -- Amended and Restated Certificate of Incorporation of the Pullman Company ("Pullman") (incorporated herein by reference to Exhibit 3.11 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.12 -- By-laws of Pullman (incorporated herein by reference to Exhibit 3.12 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.13 -- Certificate of Incorporation of Tenneco Automotive Operating Company Inc. ("Operating") (incorporated herein by reference to Exhibit 3.13 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 3.14 -- By-laws of Operating (incorporated herein by reference to Exhibit 3.14 to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 4.1(a) -- Rights Agreement dated as of September 8, 1998, by and between the registrant and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference from Exhibit 4.1 of the registrant's Current Report on Form 8-K dated September 24, 1998, File No. 1-12387).
- 4.1(b) -- Amendment No. 1 to Rights Agreement, dated March 14, 2000, by and between the registrant and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference from Exhibit 4.4(b) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 1-12387).
- 4.1(c) -- Amendment No. 2 to Rights Agreement, dated February 5, 2001, by and between the registrant and First Union National Bank, as Rights Agent (incorporated herein by reference from Exhibit 4.4(b) of the registrant's Post-Effective Amendment No. 3, dated February 26, 2001, to its Registration Statement on Form 8-A dated September 17, 1998).
- 4.2(a) -- Indenture, dated as of November 1, 1996, between the registrant and The Chase Manhattan Bank, as Trustee (incorporated herein by reference from Exhibit 4.1 of the registrant's Registration Statement on Form S-4, Registration No. 333-14003).
- 4.2(b) -- First Supplemental Indenture dated as of December 11, 1996 to Indenture dated as of November 1, 1996 between the registrant and The Chase Manhattan Bank, as Trustee (incorporated herein by reference from Exhibit 4.3(b) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 4.2(c) -- Third Supplemental Indenture dated as of December 11, 1996 to Indenture dated as of November 1, 1996 between the registrant and The Chase Manhattan Bank, as Trustee (incorporated herein by reference from Exhibit 4.3(d) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 4.2(d) -- Fourth Supplemental Indenture dated as of December 11, 1996 to Indenture dated as of November 1, 1996 between the registrant and The Chase Manhattan Bank, as Trustee (incorporated herein by reference from Exhibit 4.3(e) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 4.2(e) -- Eleventh Supplemental Indenture, dated October 21, 1999, to Indenture dated November 1, 1996 between The Chase Manhattan Bank, as Trustee, and the registrant (incorporated herein by reference from Exhibit 4.2(1) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
- 4.3 -- Specimen stock certificate for Tenneco Inc. common stock (incorporated herein by reference from Exhibit 4.3 of the

## Edgar Filing: TENNECO INC - Form 10-Q

registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 1-12387).

67

EXHIBIT NUMBER -----	DESCRIPTION -----
4.4(a)	-- Indenture dated October 14, 1999 by and between the registrant and The Bank of New York, as trustee (incorporated herein by reference from Exhibit 4.4(a) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
4.4(b)	-- Supplemental Indenture dated November 4, 1999 among Tenneco Automotive Operating Company Inc., Tenneco International Holding Corp., Tenneco Global Holdings Inc., the Pullman Company, Clevite Industries Inc. and TMC Texas Inc. in favor of The Bank of New York, as trustee (incorporated herein by reference from Exhibit 4.4(b) of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
4.4(c)	-- Subsidiary Guarantee dated as of October 14, 1999 from Tenneco Automotive Operating Company Inc., Tenneco International Holding Corp., Tenneco Global Holdings Inc., the Pullman Company, Clevite Industries Inc. and TMC Texas Inc. in favor of The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.4(c) to the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
4.5(a)	-- Amended and Restated Credit Agreement, dated as of December 12, 2003, among the registrant, the several banks and other financial institutions or entities from time to time parties thereto, Bank of America, N.A. and Citicorp North America, Inc., as co-documentation agents, Deutsche Bank Securities Inc., as syndication agent, and JP Morgan Chase Bank, as administrative agent (incorporated herein by reference to Exhibit 4.5(a) to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 1-12387).
4.5(b)	-- Amended and Restated Guarantee And Collateral Agreement, dated as of November 4, 1999, by Tenneco Inc. and the subsidiary guarantors named therein, in favor of JPMorgan Chase Bank, as Administrative Agent (incorporated herein by reference from Exhibit 4.5(f) to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-12387).
4.5(c)	-- First Amendment, dated as of April 30, 2004, to the Amended and Restated Credit Agreement dated as of December 12, 2003, among the registrant, JP Morgan Chase Bank as administrative agent and the various lenders party thereto (incorporated herein by reference from Exhibit 4.5(c) to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, File No. 1-12387).
4.5(d)	-- Second Amendment, dated November 19, 2004, to the Amended and Restated Credit Agreement dated as of December 12, 2003, among the registrant, JP Morgan Chase Bank as administrative agent and the various lenders party thereto (incorporated herein by reference from Exhibit 99.2 of the registrant's Current Report on Form 8-K dated November 19, 2004, File No. 1-12387).
4.5(e)	-- Third Amendment, dated February 17, 2005, to the Amended and Restated Credit Agreement, dated as of December 12, 2003 among the

## Edgar Filing: TENNECO INC - Form 10-Q

- registrant, JP Morgan Chase Bank as administrative agent and the various lenders party thereto (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K dated February 17, 2005, File No. 1-12387).
- 4.5(f) -- New Lender Supplement, dated as of March 31, 2005, by and among Wachovia Bank, National Association, the registrant and JPMorgan Chase Bank, N.A.; New Lender Supplement, dated as of March 31, 2005, by and among Wells Fargo Foothill, LLC, the registrant and JPMorgan Chase Bank, N.A.; New Lender Supplement, dated as of March 31, 2005, by and among Charter One Bank, NA, the registrant and JPMorgan Chase Bank, N.A. (incorporated herein by reference from Exhibit 4.5(f) to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, File No. 1-12387).
- 4.5(g) -- New Lender Supplement, dated as of April 29, 2005, by and among The Bank of Nova Scotia, the registrant and JPMorgan Chase Bank, N.A. (incorporated herein by reference from Exhibit 4.5(g) to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, File No. 1-12387).
- 4.5(h) -- Fourth Amendment, dated October 7, 2005, to the Amended and Restated Credit Agreement, dated as of December 12, 2003, among the registrant, JP Morgan Chase Bank as administrative agent and the various lenders party thereto (incorporated herein by reference from Exhibit 4.5(h) to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 1-12387).

68

EXHIBIT NUMBER -----	DESCRIPTION -----
4.5(i)	-- First Amendment, dated October 7, 2005, to the Amended and Restated Guarantee and Collateral Agreement, dated as of November 4, 1999, by the registrant and the subsidiary guarantors named therein, in favor of JPMorgan Chase Bank, as Administrative Agent (incorporated herein by reference from Exhibit 4.5(i) to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 1-12387).
4.5(j)	-- New Lender Supplement, dated as of July 27, 2006, by and among LaSalle Bank National Association, Tenneco Inc. and JPMorgan Chase Bank, N.A. (incorporated herein by reference to Exhibit 4.5(j) to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, File No. 1-12387).
4.6(a)	-- Indenture, dated as of June 19, 2003, among the registrant, the subsidiary guarantors named therein and Wachovia Bank, National Association (incorporated herein by reference from Exhibit 4.6(a) to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-12387).
4.6(b)	-- Collateral Agreement, dated as of June 19, 2003, by the registrant and the subsidiary guarantors named therein in favor of Wachovia Bank, National Association (incorporated herein by reference from Exhibit 4.6(b) to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-12387).
4.6(c)	-- Registration Rights Agreement, dated as of June 19, 2003, among the registrant, the subsidiary guarantors named therein, and the initial

## Edgar Filing: TENNECO INC - Form 10-Q

- purchasers named therein, for whom JPMorgan Securities Inc. acted as representative (incorporated herein by reference from Exhibit 4.6(c) to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-12387).
- 4.6(d) -- Supplemental Indenture, dated as of December 12, 2003, among the registrant, the subsidiary guarantors named therein and Wachovia Bank, National Association (incorporated herein by reference to Exhibit 4.6(d) to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 1-12387).
- 4.6(e) -- Registration Rights Agreement, dated as of December 12, 2003, among the registrant, the subsidiary guarantors named therein, and the initial purchasers named therein, for whom Banc of America Securities LLC acted as representative agent (incorporated herein by reference to Exhibit 4.5(a) to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 1-12387).
- 4.6(f) -- Second Supplemental Indenture, dated as of October 28, 2005, among the registrant, the subsidiary guarantors named therein and Wachovia Bank, National Association (incorporated herein by reference from Exhibit 4.6(f) to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 1-12387).
- 4.7 -- Intercreditor Agreement, dated as of June 19, 2003, among JPMorgan Chase Bank, as Credit Agent, Wachovia Bank, National Association, as Trustee and Collateral Agent, and the registrant (incorporated herein by reference from Exhibit 4.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-12387).
- 4.8(a) -- Indenture, dated as of November 19, 2004, among the registrant, the subsidiary guarantors named therein and The Bank of New York Trust Company (incorporated herein by reference from Exhibit 99.1 of the registrant's Current Report on Form 8-K dated November 19, 2004, File No. 1-12387).
- 4.8(b) -- Supplemental Indenture, dated as of March 28, 2005, among the registrant, the guarantors party thereto and the Bank of New York Trust Company, N.A., as trustee (incorporated herein by reference from Exhibit 4.3 to the registrant's Registration Statement on Form S-4, Reg No. 333-123752).
- 4.8(c) -- Registration Rights Agreement, dated as of November 19, 2004, among the registrant, the guarantors party thereto and the initial purchasers party thereto (incorporated herein by reference from Exhibit 4.2 to the registrant's Registration Statement on Form S-4, Reg No. 333-123752).
- 4.8(d) -- Second Supplemental Indenture, dated as of October 27, 2005, among the registrant, the guarantors party thereto and the Bank of New York Trust Company, N.A., as trustee (incorporated herein by reference from Exhibit 4.8(d) to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 1-12387).
- 9 -- None.

EXHIBIT  
NUMBER  
-----

DESCRIPTION  
-----

## Edgar Filing: TENNECO INC - Form 10-Q

- 10.1 -- Distribution Agreement, dated November 1, 1996, by and among El Paso Tennessee Pipeline Co., the registrant, and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 2 of the registrant's Form 10, File No. 1-12387).
- 10.2 -- Amendment No. 1 to Distribution Agreement, dated as of December 11, 1996, by and among El Paso Tennessee Pipeline Co., the registrant, and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.2 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.3 -- Debt and Cash Allocation Agreement, dated December 11, 1996, by and among El Paso Tennessee Pipeline Co., the registrant, and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.3 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.4 -- Benefits Agreement, dated December 11, 1996, by and among El Paso Tennessee Pipeline Co., the registrant, and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.4 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.5 -- Insurance Agreement, dated December 11, 1996, by and among El Paso Tennessee Pipeline Co., the registrant, and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.5 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.6 -- Tax Sharing Agreement, dated December 11, 1996, by and among El Paso Tennessee Pipeline Co., Newport News Shipbuilding Inc., the registrant, and El Paso Natural Gas Company (incorporated herein by reference from Exhibit 10.6 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.7 -- First Amendment to Tax Sharing Agreement, dated as of December 11, 1996, among El Paso Tennessee Pipeline Co., the registrant, El Paso Natural Gas Company and Newport News Shipbuilding Inc. (incorporated herein by reference from Exhibit 10.7 of the registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-12387).
- 10.8 -- Value Added 'TAVA' Incentive Compensation Plan, as in effect for periods through December 31, 2005 (incorporated herein by reference from Exhibit 10.8 of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, File No. 1-12387).
- 10.9 -- Change of Control Severance Benefits Plan for Key Executives (incorporated herein by reference from Exhibit 10.13 of the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
- 10.10 -- Stock Ownership Plan (incorporated herein by reference from Exhibit 10.10 of the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
- 10.11 -- Key Executive Pension Plan (incorporated herein by reference from Exhibit 10.11 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
- 10.12 -- Deferred Compensation Plan (incorporated herein by reference from Exhibit 10.12 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
- 10.13 -- Supplemental Executive Retirement Plan (incorporated herein by reference from Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
- 10.14 -- Human Resources Agreement by and between the registrant and Tenneco Packaging Inc. dated November 4, 1999 (incorporated herein by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K dated November 4, 1999, File No. 1-12387).
- 10.15 -- Tax Sharing Agreement by and between the registrant and Tenneco Packaging Inc. dated November 3, 1999 (incorporated herein by reference to Exhibit 99.2 to the registrant's Current Report on Form



## Edgar Filing: TENNECO INC - Form 10-Q

10.16      8-K dated November 4, 1999, File No. 1-12387).  
 --      Amended and Restated Transition Services Agreement by and between  
 the registrant and Tenneco Packaging Inc. dated as of November 4,  
 1999 (incorporated herein by reference from Exhibit 10.21 of the  
 registrant's Quarterly Report on Form 10-Q for the quarter ended  
 September 30, 1999, File No. 1-12387).

70

EXHIBIT NUMBER -----	DESCRIPTION -----
10.17	-- Assumption Agreement among Tenneco Automotive Operating Company Inc., Tenneco International Holding Corp., Tenneco Global Holdings Inc., The Pullman Company, Clevite Industries Inc., TMC Texas Inc., Salomon Smith Barney Inc. and the other Initial Purchasers listed in the Purchase Agreement dated as of November 4, 1999 (incorporated herein by reference from Exhibit 10.24 of the registrant's Registration Statement on Form S-4, Reg. No. 333-93757).
10.18	-- Amendment No. 1 to Change in Control Severance Benefits Plan for Key Executives (incorporated herein by reference from Exhibit 10.23 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
10.19	-- Letter Agreement dated July 27, 2000 between the registrant and Mark P. Frissora (incorporated herein by reference from Exhibit 10.24 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
10.20	-- Letter Agreement dated July 27, 2000 between the registrant and Richard P. Schneider (incorporated herein by reference from Exhibit 10.26 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-12387).
10.21	-- Letter Agreement dated July 27, 2000 between the registrant and Timothy R. Donovan (incorporated herein by reference from Exhibit 10.28 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-12387).
10.22	-- Form of Indemnity Agreement entered into between the registrant and the following directors of the registrant: Paul Stecko, M. Kathryn Eickhoff and Dennis Severance (incorporated herein by reference from Exhibit 10.29 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, File No. 1-12387).
10.23	-- Mark P. Frissora Special Appendix under Supplemental Executive Retirement Plan (incorporated herein by reference from Exhibit 10.30 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-12387).
10.24	-- Letter Agreement dated as of June 1, 2001 between the registrant and Hari Nair (incorporated herein by reference from Exhibit 10.28 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2001. File No. 1-12387).
10.25	-- 2002 Long-Term Incentive Plan (As Amended and Restated Effective March 11, 2003) (incorporated herein by reference from Exhibit 10.26 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003. File No. 1-12387).
10.26	-- Amendment No. 1 to Deferred Compensation Plan (incorporated herein by reference from Exhibit 10.27 to the registrant's Annual Report on

## Edgar Filing: TENNECO INC - Form 10-Q

- 10.27 -- Form 10-K for the year ended December 31, 2002, File No. 1-12387).  
Supplemental Stock Ownership Plan (incorporated herein by reference  
from Exhibit 10.28 to the registrant's Annual Report on Form 10-K  
for the year ended December 31, 2002, File No. 1-12387).
- 10.28 -- Form of Stock Equivalent Unit Award Agreement under the 2002 Long-  
Term Incentive Plan, as amended (incorporated herein by reference  
from Exhibit 99.1 of the registrant's Current Report on Form 8-K  
dated January 13, 2005, File No. 1-12387).
- 10.29 -- Form of Stock Option Agreement for employees under the 2002 Long-  
Term Incentive Plan, as amended (providing for a ten year option  
term) (incorporated herein by reference from Exhibit 99.2 of the  
registrant's Current Report on Form 8-K dated January 13, 2005, File  
No. 1-12387).
- 10.30 -- Form of Stock Option Agreement for non-employee directors under the  
2002 Long-Term Incentive Plan, as amended (providing for a ten year  
option term) (incorporated herein by reference from Exhibit 99.3 of  
the registrant's Current Report on Form 8-K dated January 13, 2005,  
File No. 1-12387).
- 10.31 -- Form of Restricted Stock Award Agreement for employees under the  
2002 Long-Term Incentive Plan, as amended (three year cliff vesting)  
(incorporated herein by reference from Exhibit 99.4 of the  
registrant's Current Report on Form 8-K dated January 13, 2005, File  
No. 1-12387).
- 10.32 -- Form of Restricted Stock Award Agreement for non-employee directors  
under the 2002 Long-Term Incentive Plan, as amended (incorporated  
herein by reference from Exhibit 99.5 of the registrant's Current  
Report on Form 8-K dated January 13, 2005, File No. 1-12387).

71

EXHIBIT NUMBER -----	DESCRIPTION -----
10.33	-- Form of Restricted Stock Award Agreement for employees under the 2002 Long-Term Incentive Plan, as amended (vesting 1/3 annually) (incorporated herein by reference from Exhibit 99.1 of the registrant's Current Report on Form 8-K dated January 17, 2005, File No. 1-12387).
10.34	-- Form of Stock Option Agreement for employees under the 2002 Long- Term Incentive Plan, as amended (providing for a seven year option term) (incorporated herein by reference from Exhibit 99.2 of the registrant's Current Report on Form 8-K dated January 17, 2005, File No. 1-12387).
10.35	-- Form of Stock Option Agreement for non-employee directors under the 2002 Long-Term Incentive Plan, as amended (providing for a seven year option term) (incorporated herein by reference from Exhibit 99.3 of the registrant's Current Report on Form 8-K dated January 17, 2005, File No. 1-12387).
10.36	-- Form of Performance Share Agreement for non-employee directors under the 2002 Long-Term Incentive Plan, as amended (incorporated herein by reference from Exhibit 10.37 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004, file No. 1-12387).
10.37	-- Summary of 2006 Outside Directors' Compensation (incorporated herein by reference from Exhibit 10.37 to the registrant's Annual Report on

## Edgar Filing: TENNECO INC - Form 10-Q

10.38	--	Form 10-K for the year ended December 31, 2005, file No. 1-12387). Summary of 2006 Named Executive Officer Compensation (incorporated herein by reference from Exhibit 10.38 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, file No. 1-12387).
10.39	--	Amendment No. 1 to the Key Executive Pension Plan (incorporated herein by reference from Exhibit 10.39 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, File No. 1-12387).
10.40	--	Amendment No. 1 to the Supplemental Executive Retirement Plan (incorporated herein by reference from Exhibit 10.40 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.41	--	Second Amendment to the Key Executive Pension Plan (incorporated herein by reference from Exhibit 10.41 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.42	--	Amendment No. 2 to the Deferred Compensation Plan (incorporated herein by reference from Exhibit 10.42 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.43	--	Supplemental Retirement Plan (incorporated herein by reference from Exhibit 10.43 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.44	--	Mark P. Frissora Special Appendix under Supplemental Retirement Plan (incorporated herein by reference from Exhibit 10.44 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.45	--	Supplemental Pension Plan for Management (incorporated herein by reference from Exhibit 10.45 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.46	--	Incentive Deferral Plan (incorporated herein by reference from Exhibit 10.46 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 1-12387).
10.47	--	Amended and Restated Value Added ("TAVA") Incentive Compensation Plan, effective January 1, 2006 (incorporated herein by reference from Exhibit 10.47 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, file No. 1-12387).
10.48	--	Form of Restricted Stock Award Agreement for non-employee directors under the 2002 Long-Term Incentive Plan, as amended (providing for one year cliff vesting) (incorporated herein by reference from Exhibit 10.48 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, file No. 1-12387).
10.49	--	Form of Stock Equivalent Unit Award Agreement, as amended, under the 2002 Long-Term Incentive Plan, as amended (incorporated herein by reference from Exhibit 10.49 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, File No. 1-12387).

72

EXHIBIT NUMBER -----	DESCRIPTION -----
10.50	-- Summary of Amendments to Deferred Compensation Plan and Incentive

## Edgar Filing: TENNECO INC - Form 10-Q

		Deferral Plan (incorporated herein by reference from Exhibit 10.50 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, File No. 1-12387).
10.51	--	Tenneco Inc. 2006 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K, dated May 9, 2006).
10.52	--	Form of Restricted Stock Award Agreement for non-employee directors under the Tenneco Inc. 2006 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.2 to the registrant's Current Report on Form 8-K, dated May 9, 2006).
10.53	--	Form of Stock Option Agreement for employees under the Tenneco Inc. 2006 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.3 to the registrant's Current Report on Form 8-K, dated May 9, 2006).
10.54	--	Form of Restricted Stock Award Agreement for employees under the Tenneco Inc. 2006 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.4 to the registrant's Current Report on Form 8-K, dated May 9, 2006).
*10.55	--	Summary of Amendments to the Company's excess defined benefit plans, the terms of a new excess defined contribution plan and Amendments to certain executives' employment agreements.
11	--	None.
*12	--	Computation of Ratio of Earnings to Fixed Charges.
*15	--	Letter of Deloitte & Touche LLP regarding interim financial information.
18	--	None.
19	--	None.
22	--	None.
23	--	None.
24	--	None.
*31.1	--	Certification of Timothy R. Donovan under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	--	Certification of Hari N. Nair under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.3	--	Certification of Neal Yanos under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.4	--	Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	--	Certification of Timothy R. Donovan, Hari N. Nair, Neal Yanos and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.
99	--	None.
100	--	None.

-----

\* Filed herewith.