TENNECO INC
Form 10-Q
November 06, 2009

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

FORM 10-Q

(Mark One)

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

Commission file number 1-12387

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

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

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

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

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

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

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

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

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

Common Stock, par value $0.01 per share: 47,393,593 shares outstanding as of October 30, 2009.

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

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

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

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

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

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

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

changes in automotive manufacturers production rates and their actual and forecasted requirements for our products, such as the significant production cuts over the past year by automotive manufacturers in response to difficult economic conditions;

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

the loss of any of our large original equipment manufacturer (OEM) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs;

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

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

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

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

costs related to product warranties;

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

operating hazards associated with our business;

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

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

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

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

customer acceptance of new products;

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

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

our ability to successfully integrate any acquisitions that we complete;

changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;

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

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

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

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

potential volatility in our effective tax rate;

acts of war and/or terrorism, including, but not limited to, the current military action in Iraq and Afghanistan, the current situation in North Korea, and the continuing war on terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and

the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2008, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (the Company) as of September 30, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2009 and 2008, and of changes in shareholders equity for the nine-month periods ended September 30, 2009 and 2008. These interim financial statements are the responsibility of the Company s management.

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

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

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

Deloitte & Touche LLP

Chicago, IL
November 6, 2009

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	$ 1,254	$ 1,497	$ 3,327	$ 4,708
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,043	1,298	2,783	4,007
Engineering, research, and development	27	29	72	99
Selling, general, and administrative	90	87	256	294
Depreciation and amortization of other intangibles	55	56	162	168
	1,215	1,470	3,273	4,568
Other income (expense)				
Loss on sale of receivables	(2)	(3)	(6)	(7)
Other income (expense)	(2)	4	(9)	9
	(4)	1	(15)	2
Income before interest expense, income taxes, and noncontrolling interests	35	28	39	142
Interest expense (net of interest capitalized of $1 million and $2 million for the three months ended September 30, 2009 and 2008, respectively and $3 million and $5 million for the nine months ended September 30, 2009 and 2008, respectively)	35	30	101	88
Income tax expense	4	131	18	163
Net income (loss)	(4)	(133)	(80)	(109)
Less: Net income attributable to noncontrolling interests	4	3	10	8

Net income (loss) attributable to Tenneco Inc.	$	(8)	$	(136)	$	(90)	$	(117)
Earnings (loss) per share								
Weighted average shares of common stock outstanding								
Basic		46,742,403		46,441,954		46,694,885		46,359,051
Diluted		46,742,403		46,441,954		46,694,885		46,359,051
Basic earnings (loss) per share of common stock	$	(0.17)	$	(2.92)	$	(1.93)	$	(2.53)
Diluted earnings (loss) per share of common stock	$	(0.17)	$	(2.92)	$	(1.93)	$	(2.53)

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

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TENNECO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2009	December 31, 2008
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 137	$ 126
Receivables		
Customer notes and accounts, net	669	529
Other	49	45
Inventories		
Finished goods	173	211
Work in process	136	143
Raw materials	104	114
Materials and supplies	43	45
Deferred income taxes	28	18
Prepayments and other	146	107
Total current assets	1,485	1,338
Other assets:		
Long-term receivables, net	8	11
Goodwill	89	95
Intangibles, net	30	26
Deferred income taxes	85	88
Other	116	125
	328	345
Plant, property, and equipment, at cost	3,153	2,960
Less Accumulated depreciation and amortization	(2,027)	(1,815)
	1,126	1,145
Total assets	$ 2,939	$ 2,828
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 73	$ 49
Trade payables	822	790
Accrued taxes	47	30
Accrued interest	31	22

Accrued liabilities		233		201
Other		46		65
Total current liabilities		1,252		1,157
Long-term debt		1,395		1,402
Deferred income taxes		62		51
Postretirement benefits		366		377
Deferred credits and other liabilities		77		61
Commitments and contingencies				
Total liabilities		3,152		3,048
Redeemable noncontrolling interests		5		7
Tenneco Inc. Shareholders equity:				
Common stock				
Premium on common stock and other capital surplus		2,816		2,809
Accumulated other comprehensive loss		(228)		(318)
Retained earnings (accumulated deficit)		(2,592)		(2,502)
		(4)		(11)
Less Shares held as treasury stock, at cost		240		240
Total Tenneco Inc. shareholders equity		(244)		(251)
Noncontrolling interests		26		24
Total equity		(218)		(227)
Total liabilities, redeemable noncontrolling interests and equity	$	2,939	$	2,828

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

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Millions)			
Operating Activities				
Net income (loss)	$ (4)	$ (133)	$ (80)	$ (109)
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities				
Depreciation and amortization of other intangibles	55	56	162	168
Deferred income taxes	(7)	102	(10)	84
Stock-based compensation	1	2	5	7
Loss on sale of assets	2	2	6	7
Changes in components of working capital				
(Increase) decrease in receivables	(67)	34	(124)	(114)
(Increase) decrease in inventories	9	(4)	76	(51)
(Increase) decrease in prepayments and other current assets	(30)	(3)	(35)	(42)
Increase (decrease) in payables	92	(9)	56	41
Increase (decrease) in accrued taxes	1	(17)	20	8
Increase (decrease) in accrued interest	8	9	9	8
Increase (decrease) in other current liabilities	13	(12)	8	4
Changes in long-term assets	2	(3)	8	6
Changes in long-term liabilities	3	19	4	24
Other	(1)	(3)	3	(7)
Net cash provided by operating activities	77	40	108	34
Investing Activities				
Proceeds from the sale of assets	1		3	2
Cash payments for plant, property, and equipment	(20)	(65)	(86)	(192)
Cash payments for software related intangible assets	(1)	(1)	(5)	(9)
Acquisition of business, net of cash acquired		3	1	(16)
Investments and other	1		1	
Net cash used by investing activities	(19)	(63)	(86)	(215)
Financing Activities				
Issuance of common shares				1
Issuance of long-term debt	4		6	
Debt issuance cost of long-term debt			(8)	

Retirement of long-term debt	(7)	(1)	(15)	(4)
Increase (decrease) in bank overdrafts	6	(18)	(18)	(18)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	(51)	27	24	148
Distributions to noncontrolling interest partners			(10)	(4)
Net cash provided (used) by financing activities	(48)	8	(21)	123
Effect of foreign exchange rate changes on cash and cash equivalents	16	(22)	10	(3)
Increase (decrease) in cash and cash equivalents	26	(37)	11	(61)
Cash and cash equivalents, July 1 and January 1, respectively	111	164	126	188
Cash and cash equivalents, September 30 (Note)	$ 137	$ 127	$ 137	$ 127
Supplemental Cash Flow Information				
Cash paid during the period for interest	$ 26	$ 22	$ 91	$ 83
Cash paid during the period for income taxes (net of refunds)	20	26	32	50
Non-cash Investing and Financing Activities				
Period ended balance of payable for plant, property, and equipment	$ 13	$ 24	$ 13	$ 24
Assumption of debt from business acquisition		$ 10		$ 10

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

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

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

	Nine Months Ended September 30,			
	2009		2008	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	48,314,490	$	47,892,532	$
Issued pursuant to benefit plans	287,704		182,322	
Stock options exercised	131,904		180,176	
Balance September 30	48,734,098		48,255,030	
Premium on Common Stock and Other Capital Surplus				
Balance January 1		2,809		2,800
Premium on common stock issued pursuant to benefit plans		7		7
Balance September 30		2,816		2,807
Accumulated Other Comprehensive Loss				
Balance January 1		(318)		(73)
Other comprehensive income (loss)		90		(68)
Balance September 30		(228)		(141)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,502)		(2,087)
Net income (loss) attributable to Tenneco Inc.		(90)		(117)
Balance September 30		(2,592)		(2,204)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1 and September 30	1,294,692	240	1,294,692	240
Total Tenneco Inc. shareholders equity		$ (244)		$ 222
Noncontrolling Interests:				
Balance January 1		$ 24		$ 25
Net income attributable to noncontrolling interests		7		5
Dividend declared		(5)		(3)

Balance September 30	$	26	$	27
Total equity	$	(218)	$	249

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

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TENNECO INC.

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

	Three Months Ended September 30, 2009					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (8)		$ 4		$ (4)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	$ (3)		$		$ (3)	
Translation of foreign currency statements	47	47			47	47
Balance September 30	44				44	
Additional Liability for Pension Benefits						
Balance July 1	(276)				(276)	
Additional liability for pension benefits, net of tax of $1 million	4	4			4	4
Balance September 30	(272)				(272)	
Balance September 30	$ (228)		$		$ (228)	
Other Comprehensive Income (Loss)		51				51
Comprehensive Income (Loss)		$ 43		$ 4		$ 47

	Three Months Ended September 30, 2008					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (136)		$ 3		$ (133)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	$ 151		$		$ 151	
Translation of foreign currency statements	(133)	(133)			(133)	(133)
Balance September 30	18				18	
Additional Liability for Pension Benefits						
Balance July 1	(158)				(158)	
Additional liability for pension benefits, net of tax of $4 million	(1)	(1)			(1)	(1)
Balance September 30	(159)				(159)	
Balance September 30	$ (141)		$		$ (141)	
Other Comprehensive Income (Loss)		(134)				(134)
Comprehensive Income (Loss)		$ (270)		$ 3		$ (267)

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TENNECO INC.

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

	Nine Months Ended September 30, 2009					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (90)		$ 10		$ (80)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ (42)		$		$ (42)	
Translation of foreign currency statements	86	86			86	86
Balance September 30	44				44	
Additional Liability for Pension Benefits						
Balance January 1	(276)				(276)	
Additional liability for pension benefits, net of tax of $1 million	4	4			4	4
Balance September 30	(272)				(272)	
Balance September 30	$ (228)		$		$ (228)	
Other Comprehensive Income (Loss)		90				90
Comprehensive Income (Loss)		$		$ 10		$ 10

	Nine Months Ended September 30, 2008					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (117)		$ 8		$ (109)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ 85		$		$ 85	
Translation of foreign currency statements	(67)	(67)			(67)	(67)
Balance September 30	18				18	
Additional Liability for Pension Benefits						
Balance January 1	(158)				(158)	
Additional liability for pension benefits, net of tax of $4 million	(1)	(1)			(1)	(1)
Balance September 30	(159)				(159)	
Balance September 30	$ (141)		$		$ (141)	
Other Comprehensive Income (Loss)		(68)				(68)
Comprehensive Income (Loss)		$ (185)		$ 8		$ (177)

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

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies as an equity method investment, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated all intercompany transactions. We have evaluated all subsequent events through November 6, 2009, the date the financial statements were issued.

Certain reclassifications have been made to the prior period cash flow statements to conform to the current year presentation. We have reclassified several amounts within the operating section of the cash flow statement, none of which were significant, to conform to the current year presentation.

On January 1, 2009, we adopted new accounting guidance on the presentation and disclosure of noncontrolling interests in consolidated financial statements, which required us to reclassify retrospectively for all periods presented, noncontrolling ownership interests (formerly called minority interests) from the mezzanine section of the balance sheet between liabilities and equity to the equity section of the balance sheet, and to change our presentation of net income (loss) in the condensed consolidated statements of cash flows to include the portion of net income (loss) attributable to noncontrolling ownership interests. We have noncontrolling interests in two joint ventures with redemption features that could require us to purchase the noncontrolling interest at fair value in the event of a change in control of Tenneco Inc. Additionally, a noncontrolling interest in a third joint venture requires us to purchase the noncontrolling interest at fair value in the event of default or under certain other circumstances. We do not believe that it is probable that the redemption features in any of these joint venture agreements will be triggered. However, the redemption of these shares is not solely within our control. Accordingly, the related noncontrolling interests are presented as Redeemable noncontrolling interests in the mezzanine section of our condensed consolidated balance sheets. We have also expanded our financial statement presentation and disclosure of noncontrolling ownership interests on our condensed consolidated statements of income (loss), condensed consolidated statements of comprehensive income (loss) and condensed consolidated statements of changes in shareholders equity in accordance with these new disclosure requirements.

(2) We adopted new accounting guidance on fair value measurements and disclosures relating to our financial assets and liabilities which are measured on a recurring basis on January 1, 2008, and on January 1, 2009, for those financial assets and liabilities which are measured on non-recurring basis. The adoption of the new fair value accounting guidance did not have a material impact on our fair value measurements. The new guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal most

advantageous market for the asset or liability in an orderly transaction between market participants. A fair value hierarchy has been defined, which prioritizes the inputs used in measuring fair value into the following levels:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
Level 3	Unobservable inputs based on our own assumptions.

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TENNECO INC.

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

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

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

Foreign exchange forward contracts We use foreign exchange forward purchase and sales contracts with terms of less than one year to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We do not enter into derivative financial instruments for speculative purposes. The fair value of our foreign exchange forward contracts is based on a model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income (loss). The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange forward contracts, presented on a gross basis by derivative contract at September 30, 2009 was as follows:

	Fair Value of Derivative Instruments		
	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	$ 2	$ 1	$ 1

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

		Notional Amount in Foreign Currency	Weighted Average Settlement Rates	Fair Value in U.S. Dollars
		(Millions Except Settlement Rates)		
Australian dollars	Purchase	51	0.882	$ 45
	Sell	(9)	0.882	(8)

British pounds	Purchase	33	1.598	53
	Sell	(32)	1.598	(51)
European euro	Purchase			
	Sell	(20)	1.465	(29)
South African rand	Purchase	429	0.133	57
	Sell	(89)	0.133	(12)
U.S. dollars	Purchase	19	1.002	19
	Sell	(85)	1.001	(85)
Other	Purchase	789	0.017	13
	Sell	(1)	0.934	(1)
				$ 1

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

	Carrying Amount	Fair Value
	(Millions) Asset (Liabilities)	
Long-term debt (including current maturities)	$ (1,400)	$ (1,364)
Instruments with off-balance sheet risk:		
Foreign exchange forward contracts	1	1

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

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

(4) Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of September 30, 2009, the senior credit facility consisted of a five-year, $139 million term loan A maturing in March 2012, a five-year, $550 million revolving credit facility maturing in March 2012, and a seven-year $130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. Our outstanding debt also includes $245 million of 101/4 percent senior secured notes due July 15, 2013, $250 million of 81/8 percent senior notes due November 15, 2015, and $500 million of 85/8 percent senior subordinated notes due November 15, 2014. At September 30, 2009, we had unused borrowing capacity of $390 million under our $680 million revolving credit facility with $242 million in outstanding borrowings and $48 million in letters of credit.

The term loan A facility is payable in twelve consecutive quarterly installments, commencing June 30, 2009, as follows: $6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, $15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and $17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. Over the next twelve months we plan to repay $41 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the $41 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

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

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

Period Ending	Leverage Ratio	Interest Coverage Ratio
December 31, 2009	6.60	1.60
March 31, 2010	5.50	2.00
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

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

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

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

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

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

(5) We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

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

Future reversals of existing taxable temporary differences;

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

Tax-planning strategies.

In 2008, we recorded tax expense of $289 million primarily related to establishing a valuation allowance against our net deferred tax assets in the U.S. During the first nine months of 2009, we recorded an additional valuation allowance of $25 million primarily related to U.S. tax benefits recorded on first nine months 2009 U.S. losses. In the U.S., we utilize the results from 2008 and a projection of our results for 2009 as a measure of the cumulative losses in recent years. Accounting standards do not permit us to give any consideration to a likely economic recovery in the U.S. or the recent new business we have won particularly in the commercial vehicle segment in evaluating the requirement to record a valuation allowance. Consequently, we concluded that our ability to fully utilize our NOLs was limited due to projecting the current negative economic environment into the future and the impact of the current negative operating environment on our tax planning strategies. As a result of tax planning strategies which have not yet been implemented but which we plan to implement and which do not depend upon generating future taxable income, we continue to carry deferred tax assets in the U.S. of $70 million relating to the expected utilization of those NOLs. The federal NOL expires beginning in 2020 through 2028. The state NOLs expire in various years through 2028.

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

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

(6) We have an agreement to sell an interest in some of our U.S. trade accounts receivable to a third party. Receivables become eligible for the program on a daily basis, at which time the receivables are sold to the third party without recourse, net of a discount, through a wholly-owned subsidiary. Under this agreement, as well as individual agreements with third parties in Europe, we have sold accounts receivable of $208 million and $179 million at September 30, 2009 and December 31, 2008, respectively. We recognized a loss of $2 million and $3 million for the three month periods ended September 30, 2009 and 2008, respectively, and $6 million and

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$7 million for the nine month periods ended September 30, 2009 and 2008, respectively, on these sales of trade accounts, representing the discount from book values at which these receivables were sold to the third party. The discount rate varies based on funding cost incurred by the third party, which has averaged approximately five percent during 2009. In the U.S. securitization program, we retain ownership of the remaining interest in the pool of receivables not sold to the third party. The retained interest represents a credit enhancement for the program. We record the retained interest based upon the amount we expect to collect from our customers, which approximates book value.

In January 2009, the U.S. securitization program was amended and extended to March 2, 2009 at a facility size of $120 million. These revisions had the affect of reducing the amount of receivables sold by approximately $10 million to $30 million compared to the terms of the previous program. On February 23, 2009, this program was extended for 364 days to February 22, 2010 at a facility size of $100 million. In April 2009, we further amended the U.S. securitization program by removing receivables related to General Motors Corporation and Chrysler LLC from the program. The program was further amended in June 2009 to include receivables from Chrysler Group LLC and in July 2009 to include receivables from General Motors Company.

Removing General Motors Corporation and Chrysler LLC from our existing securitization program allowed us to sell all or a portion of those receivables into the supplier program established by the United States Treasury Department to support suppliers by guaranteeing receivables of certain domestic OEMs. Those receivables sold into the program were paid in cash on the original due date of the accounts receivable. We elected to end our participation in the U.S. Treasury program in July.

(7) Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. We incurred $40 million in restructuring and related costs during 2008, of which $17 million was recorded in cost of sales and $23 million was recorded in selling, general, administrative and engineering expense. In the third quarter of 2009, we incurred $11 million in restructuring and related costs, all of which was recorded in cost of sales. In the first nine months of 2009, we incurred $17 million in restructuring and related costs, of which $14 million was recorded in cost of sales, $1 million was recorded in selling, general, administrative and engineering expense and $2 million was recorded in depreciation and amortization expense.

Under the terms of our amended and restated senior credit agreement that took effect on February 23, 2009, we are allowed to exclude $40 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after February 23, 2009 from the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2009, we have excluded $15 million in allowable charges relating to restructuring initiatives against the $40 million available under the terms of the February 2009 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska as we continue to restructure our operations. We had originally announced plans to close one OE ride control plant in the United States as part of our global restructuring announcement in October of 2008, but postponed this action in January 2009 in order to preserve cash during the global economic crisis. We expect the elimination of 500 positions at the Cozad plant and expect to record up to $20 million in restructuring and related expenses, of which approximately $14 million represents cash expenditures, with all expenses recorded by third quarter of 2010. We plan to hire at other facilities as we move production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During the third quarter of 2009 we did record $11 million of restructuring and related expenses related to this initiative.

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We still expect, as originally announced in October 2008 and revised in January 2009, the elimination of 1,100 positions and estimate that we will record up to $31 million in charges, of which approximately $25 million represents cash expenditures, in connection with the restructuring program announced in the fourth quarter of 2008. We recorded $24 million of these charges in 2008, $6 million in the first nine months of 2009 and expect to record the remaining $1 million during the rest of 2009.

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

As of September 30, 2009, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At September 30, our estimated share of environmental remediation costs at these sites was approximately $17 million. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability.

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

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

We are from time to time involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our

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Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, we have recently become subject to an audit in 11 states of our practices with respect to the payment of unclaimed property to those states. We have practices in place designed to ensure that we pay unclaimed property as required. We are in the early stages of this audit, which could cover over 20 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. A small percentage of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. Nearly all of the claims are related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. During the first nine months of 2009, dismissals were initiated on behalf of 3 plaintiffs and are in process; we were dismissed from an additional 737 cases. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

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

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Millions)	
Beginning Balance January 1,	$ 27	$ 25
Accruals related to product warranties	10	13
Reductions for payments made	(9)	(10)
Ending Balance September 30,	$ 28	$ 28

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Millions Except Share and Per Share Amounts)			
Basic earnings (loss) per share				
Net income (loss) attributable to Tenneco Inc.	$ (8)	$ (136)	$ (90)	$ (117)
Average shares of common stock outstanding	46,742,403	46,441,954	46,694,885	46,359,051
Earnings (loss) per average share of common stock	$ (0.17)	$ (2.92)	$ (1.93)	$ (2.53)
Diluted earnings (loss) per share				
Net income (loss) attributable to Tenneco Inc.	$ (8)	$ (136)	$ (90)	$ (117)
Average shares of common stock outstanding	46,742,403	46,441,954	46,694,885	46,359,051
Effect of dilutive securities:				

Restricted stock				
Stock options				
Average shares of common stock outstanding including dilutive securities	46,742,403	46,441,954	46,694,885	46,359,051
Earnings (loss) per average share of common stock	$ (0.17)	$ (2.92)	$ (1.93)	$ (2.53)

As a result of the net loss for the three months and nine months ended September 30, 2009 and 2008, the calculation of diluted loss per share does not include the dilutive effect of 1,342,994 and 879,990 stock options for the three month periods ended September 30, 2009 and 2008, respectively, and 907,178 and 1,131,327 stock options for the nine month periods ended September 30, 2009 and 2008, respectively. The calculation also does not include the dilutive effect of 381,159 shares of restricted stock for the three month period ended September 30, 2009 and 39,992 shares of restricted stock for the nine month period ended September 30, 2008. In addition, for the three month periods ended September 30, 2009 and 2008, options to purchase 2,336,927 and 2,317,909 shares of common stock and 264,354 and 492,923 shares of restricted stock were outstanding, respectively, but not included in the computation of diluted earnings (loss) per share because the options were anti-dilutive. For the nine month periods ended September 30, 2009 and 2008, options to purchase 2,772,743 and 2,066,572 shares of common stock and 645,513 and 452,931 shares of restricted stock were outstanding, respectively, but not included in the computation of diluted earnings (loss) per share as they were anti-dilutive.

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

On May 13, 2009, our stockholders approved an amendment to the Tenneco Inc. 2006 Long-Term Incentive Plan to increase the shares of common stock available thereunder by 2.3 million. Each share underlying an award generally counts as one share against the total plan availability. Each share underlying a full value award (e.g. restricted stock), however, counts as 1.25 shares against the total plan availability.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Millions)	
Selling, general and administrative	$ 2	$ 3
Loss before interest expense, income taxes and noncontrolling interests	(2)	(3)
Income tax benefit		
Net loss	$ (2)	$ (3)
Decrease in basic earnings per share	$ (0.05)	$ (0.07)
Decrease in diluted earnings per share	$ (0.05)	$ (0.07)

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

As of September 30, 2009, there was approximately $3 million of unrecognized compensation costs related to these stock-based awards that we expect to recognize over a weighted average period of 1.2 years.

Compensation expense for restricted stock, long-term performance units and SARs, was approximately $4 million for the nine months ended September 30, 2009 and 2008, respectively, and was recorded in selling, general, and administrative expense on the statement of income (loss).

Cash received from stock option exercises during the nine months ended September 30, 2009 and 2008 was $1 million in each period, respectively. Stock option exercises during the first nine months of 2009 and 2008 would have generated an excess tax benefit of $1 million in each period, respectively. We did not record the excess tax benefit as we have federal and state net operating losses which are not currently being utilized.

Assumptions We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and market behavior. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

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	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Stock Options Granted		
Weighted average grant date fair value, per share	$ 1.31	$ 8.03
Weighted average assumptions used:		
Expected volatility	82.6%	37.7%
Expected lives	4.5	4.1
Risk-free interest rates	1.48%	2.79%
Dividends yields	0.00%	0.00%

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

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

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

	Nine Months Ended September 30, 2009			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2009	3,149,376	$ 15.16	4.1	$ 1
Granted	697,600	1.99		
Cancelled				
Forfeited	(12,994)	19.41		
Exercised				$
Outstanding, March 31, 2009	3,833,982	$ 12.75	5.0	$
Granted	12,159	6.61		
Cancelled				
Forfeited	(25,841)	26.31		

Exercised	(41,460)	2.29		$
Outstanding, June 30, 2009	3,778,840	$ 12.75	4.7	$ 5
Granted				
Cancelled				
Forfeited	(8,775)	14.36		
Exercised	(90,144)	7.59		$ 1
Outstanding, September 30, 2009	3,679,921	$ 12.87	4.6	$ 19

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

	Nine Months Ended September 30, 2009		
	Shares	Weighted Avg. Grant Date Fair Value	
Nonvested Restricted Shares			
Nonvested balance at January 1, 2009	435,468	$	24.58
Granted	431,975		1.96
Vested	(204,965)		24.17
Forfeited			
Nonvested balance at March 31, 2009	662,478	$	9.92
Granted	5,622		6.61
Vested	(19,569)		12.75
Forfeited			
Nonvested balance at June 30, 2009	648,531	$	9.81
Granted			
Vested	(2,277)		14.58
Forfeited	(741)		1.84
Nonvested balance at September 30, 2009	645,513	$	9.84

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, 2009, approximately $4 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.1 years.

Long-Term Performance Units and SARs Long-term performance units and SARs are paid in cash and recognized as a liability based upon their fair value. As of September 30, 2009, less than $1 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 1.1 years.

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

	Three Months Ended September 30,		
	Pension		Postretirement
	2009	2008	20