

TENNECO INC  
Form 10-Q  
November 06, 2012  
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**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, 2012**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Commission file number 1-12387**

**TENNECO INC.**

(Exact name of registrant as specified in its charter)

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

**76-0515284**  
(I.R.S. Employer  
Identification No.)

**500 North Field Drive, Lake Forest, Illinois**  
(Address of principal executive offices)

**60045**  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that

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the registrant was required to submit and post such files). Yes  No

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

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

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

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

Common Stock, par value \$0.01 per share: 60,220,472 shares outstanding as of October 31, 2012.

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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 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:

general economic, business and market conditions;

our ability to source and procure needed materials, components and other products and services in accordance with customer demand and at competitive prices;

changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks, which tend to be higher margin products for our customers and us, to other lower margin vehicles, for which we may or may not have supply arrangements;

changes in consumer demand for our automotive, commercial or aftermarket products, or changes in automotive and commercial vehicle manufacturers' production rates and their actual and forecasted requirements for our products, due to difficult economic conditions, such as the significant production cuts by automotive manufacturers during 2008 and 2009, as well as any future reduction in demand for our products due to the sovereign debt crisis in Europe;

the overall highly competitive nature of the automobile and commercial vehicle parts industries, and any resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing and volumes over the life of the applicable program);

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 or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;

industrywide strikes, 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 (GM) 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, customer recovery and other methods;

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the negative impact of higher fuel prices on transportation and logistics costs, raw material costs and discretionary purchases of vehicles or aftermarket products;

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

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our ability to successfully execute cash management, restructuring and other cost reduction plans and to realize anticipated benefits from these plans;

costs related to product warranties and other customer satisfaction actions;

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

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 cost and outcome of existing and any future claims or legal proceedings, including, but not limited to, claims or proceedings against us or our customers relating to product performance, product safety or intellectual property rights;

economic, exchange rate and political conditions in the 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 and effectively manage our joint ventures and other third-party relationships;

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;

any changes by the International Organization for Standardization (ISO) or other such committees in their certification protocols for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;

the impact of changes in and compliance with laws and regulations, including: environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved; 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;

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potential volatility in our effective tax rate;

natural disasters, such as the 2011 earthquake in Japan and flooding in Thailand, and any resultant disruptions in the supply or production of goods or services to us or by us or in demand by our customers;

acts of war and/or 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, 2011, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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**PART I.**

**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of September 30, 2012, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month and nine-month periods ended September 30, 2012 and 2011, and changes in shareholders' equity for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated February 24, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

**/s/ PricewaterhouseCoopers LLP**  
Chicago, Illinois  
November 6, 2012

The Report of Independent Registered Public Accounting Firm included above is not a report or part of a Registration Statement prepared or certified by an independent accountant within the meaning of Sections 7 and 11 of the Securities Act of 1933, and the accountants' Section 11 liability does not extend to such report.



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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Millions Except Share and Per Share Amounts)			
<b>Revenues</b>				
Net sales and operating revenues	\$ 1,778	\$ 1,773	\$ 5,610	\$ 5,421
<b>Costs and expenses</b>				
Cost of sales (exclusive of depreciation and amortization shown below)	1,494	1,492	4,696	4,523
Goodwill impairment charge		11		11
Engineering, research, and development	28	32	94	102
Selling, general, and administrative	94	101	321	328
Depreciation and amortization of other intangibles	49	51	148	156
	1,665	1,687	5,259	5,120
<b>Other expense</b>				
Loss on sale of receivables	(1)	(1)	(3)	(4)
Other	(1)	(1)	(4)	(6)
	(2)	(2)	(7)	(10)
<b>Earnings before interest expense, income taxes, and noncontrolling interests</b>	111	84	344	291
Interest expense (net of interest capitalized of \$1 million for both three months ended September 30, 2012 and 2011, respectively, and \$3 million for both nine months ended September 30, 2012 and 2011, respectively)	21	27	84	81
<b>Earnings before income taxes and noncontrolling interests</b>	90	57	260	210
Income tax (benefit) expense	(42)	21	(3)	65
Net income	132	36	263	145
Less: Net income attributable to noncontrolling interests	7	6	21	18
<b>Net income attributable to Tenneco Inc.</b>	\$ 125	\$ 30	\$ 242	\$ 127
<b>Earnings per share</b>				
Weighted average shares of common stock outstanding				
Basic	59,766,097	59,793,866	59,983,310	59,866,717

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Diluted	60,949,632	61,541,476	61,266,124	61,802,403
Basic earnings per share of common stock	\$ 2.09	\$ 0.51	\$ 4.04	\$ 2.12
Diluted earnings per share of common stock	\$ 2.05	\$ 0.49	\$ 3.95	\$ 2.06

The accompanying notes to the condensed consolidated financial statements are an integral

part of these condensed consolidated statements of income.

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

	Tenneco Inc.		Three Months Ended September 30, 2012 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)
<b>Net Income</b>		\$ 125		\$ 7		\$ 132
<b>Accumulated Other Comprehensive Income (Loss)</b>						
<b>Cumulative Translation Adjustment</b>						
Balance July 1	\$ (47)		\$ 4		\$ (43)	
Translation of foreign currency statements	14	14			14	14
Balance September 30	(33)		4		(29)	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance July 1	(344)				(344)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance September 30	(341)				(341)	
Balance September 30	\$ (374)		\$ 4		\$ (370)	
<b>Other Comprehensive Income</b>		17				17
<b>Comprehensive Income</b>		\$ 142		\$ 7		\$ 149

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

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

	Tenneco Inc.		Three Months Ended September 30, 2011 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)
<b>Net Income</b>		\$ 30		\$ 6		\$ 36
<b>Accumulated Other Comprehensive Income (Loss)</b>						
<b>Cumulative Translation Adjustment</b>						
Balance July 1	\$ 59		\$ 5		\$ 64	
Translation of foreign currency statements	(82)	(82)	(1)	(1)	(83)	(83)
Balance September 30	(23)		4		(19)	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance July 1	(246)				(246)	
Additional Liability for Pension and Postretirement Benefits, net of tax	4	4			4	4
Balance September 30	(242)				(242)	
Balance September 30	\$ (265)		\$ 4		\$ (261)	
<b>Other Comprehensive Loss</b>		(78)		(1)		(79)
<b>Comprehensive Income (Loss)</b>		\$ (48)		\$ 5		\$ (43)

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

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

	Tenneco Inc.		Nine Months Ended September 30, 2012 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)
<b>Net Income</b>		\$ 242		\$ 21		\$ 263
<b>Accumulated Other Comprehensive Income (Loss)</b>						
<b>Cumulative Translation Adjustment</b>						
Balance January 1	\$ (30)		\$ 4		\$ (26)	
Translation of foreign currency statements	(3)	(3)			(3)	(3)
Balance September 30	(33)		4		(29)	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance January 1	(352)				(352)	
Additional Liability for Pension and Postretirement Benefits, net of tax	11	11			11	11
Balance September 30	(341)				(341)	
Balance September 30	\$ (374)		\$ 4		\$ (370)	
<b>Other Comprehensive Income</b>		8				8
<b>Comprehensive Income</b>		\$ 250		\$ 21		\$ 271

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

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

	Tenneco Inc.		Nine Months Ended September 30, 2011 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)
<b>Net Income</b>		\$ 127		\$ 18		\$ 145
(Millions)						
<b>Accumulated Other Comprehensive Income</b>						
<b>Cumulative Translation Adjustment</b>						
Balance January 1	\$ 8		\$ 5		\$ 13	
Translation of foreign currency statements	(31)	(31)	(1)	(1)	(32)	(32)
Balance September 30	(23)		4		(19)	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance January 1	(250)				(250)	
Additional Liability for Pension and Postretirement Benefits, net of tax	8	8			8	8
Balance September 30	(242)				(242)	
Balance September 30	\$ (265)		\$ 4		\$ (261)	
<b>Other Comprehensive Loss</b>		(23)		(1)		(24)
<b>Comprehensive Income</b>		\$ 104		\$ 17		\$ 121

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

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

	September 30, 2012	December 31, 2011
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 207	\$ 214
Receivables		
Customer notes and accounts, net	1,098	936
Other	33	44
Inventories		
Finished goods	256	244
Work in process	217	181
Raw materials	147	121
Materials and supplies	52	46
Deferred income taxes	70	40
Prepayments and other	193	153
Total current assets	2,273	1,979
Other assets:		
Long-term receivables, net	4	10
Goodwill	73	74
Intangibles, net	37	32
Deferred income taxes	122	92
Other	105	103
	341	311
Plant, property, and equipment, at cost	3,282	3,153
Less Accumulated depreciation and amortization	(2,194)	(2,106)
	1,088	1,047
Total Assets	\$ 3,702	\$ 3,337
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 134	\$ 66
Trade payables	1,188	1,171
Accrued taxes	57	44
Accrued interest	14	13
Accrued liabilities	245	226
Other	43	50
Total current liabilities	1,681	1,570
Long-term debt	1,211	1,158
Deferred income taxes	41	51
Postretirement benefits	350	385
Deferred credits and other liabilities	122	118
Commitments and contingencies		

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Total liabilities	3,405	3,282
Redeemable noncontrolling interests	13	12
Tenneco Inc. Shareholders' equity:		
Common stock	1	1
Premium on common stock and other capital surplus	3,026	3,016
Accumulated other comprehensive loss	(374)	(382)
Retained earnings (accumulated deficit)	(2,137)	(2,379)
	516	256
Less: Shares held as treasury stock, at cost	274	256
Total Tenneco Inc. shareholders' equity	242	
Noncontrolling interests	42	43
Total equity	284	43
Total liabilities, redeemable noncontrolling interests and equity	\$ 3,702	\$ 3,337

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



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

	<b>Three Months Ended September 30, 2012</b>	<b>Three Months Ended September 30, 2011</b>	<b>Nine Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2011</b>
	(Millions)			
<b>Operating Activities</b>				
Net income	\$ 132	\$ 36	\$ 263	\$ 145
Adjustments to reconcile net income to cash provided by operating activities				
Goodwill impairment charge		11		11
Depreciation and amortization of other intangibles	49	51	148	156
Deferred income taxes	(87)	2	(94)	(3)
Stock-based compensation	2	2	9	6
Loss on sale of assets	1	2	3	3
Changes in components of working capital				
(Increase) decrease in receivables	55	(24)	(157)	(314)
(Increase) decrease in inventories	2	(25)	(81)	(85)
(Increase) decrease in prepayments and other current assets	(1)	6	(40)	(18)
Increase (decrease) in payables	(50)	25	36	159
Increase (decrease) in accrued taxes	19	(7)	37	(7)
Increase in accrued interest	5	9	1	9
Increase (decrease) in other current liabilities		(2)	15	15
Changes in long-term assets	7	1	16	(2)
Changes in long-term liabilities	(13)	(10)	(35)	(31)
Other	4	3	5	
Net cash provided by operating activities	125	80	126	44
<b>Investing Activities</b>				
Proceeds from the sale of assets	1		2	4
Cash payments for plant, property, and equipment	(70)	(50)	(195)	(145)
Cash payments for software related intangible assets	(3)	(4)	(10)	(10)
Cash payments for net assets purchased	(7)		(7)	
Net cash used by investing activities	(79)	(54)	(210)	(151)
<b>Financing Activities</b>				
Retirement of long-term debt	(3)		(406)	(23)
Issuance of long-term debt		1	250	5
Debt issuance cost of long-term debt			(13)	(1)
Purchase of common stock under the share repurchase program		(5)	(18)	(16)
Increase (decrease) in bank overdrafts	2	(5)	2	3
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	(19)	20	217	108
Net increase (decrease) in short-term borrowings secured by accounts receivable			60	
Capital contribution from noncontrolling interest partner	4		5	1
Purchase of additional noncontrolling equity interest		(4)		(4)
Distributions to noncontrolling interest partners	(9)	(10)	(27)	(20)
Net cash provided (used) by financing activities	(25)	(3)	70	53

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Effect of foreign exchange rate changes on cash and cash equivalents	5	(21)	7	(16)
Increase (decrease) in cash and cash equivalents	26	2	(7)	(70)
Cash and cash equivalents, July 1 and January 1, respectively	181	161	214	233
Cash and cash equivalents, September 30 (Note)	\$ 207	\$ 163	\$ 207	\$ 163
<b>Supplemental Cash Flow Information</b>				
Cash paid during the period for interest	\$ 16	\$ 18	\$ 75	\$ 71
Cash paid during the period for income taxes (net of refunds)	18	25	54	58
<b>Non-cash Investing and Financing Activities</b>				
Period end balance of trade payables for plant, property, and equipment	\$ 25	\$ 23	\$ 25	\$ 23

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

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

	Nine Months Ended September 30,			
	2012		2011	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
<b>Tenneco Inc. Shareholders:</b>				
<b>Common Stock</b>				
Balance January 1	62,101,335	\$ 1	61,541,760	\$ 1
Issued pursuant to benefit plans	149,497		52,394	
Stock options exercised	232,258		323,039	
Balance September 30	62,483,090	1	61,917,193	1
<b>Premium on Common Stock and Other Capital Surplus</b>				
Balance January 1		3,016		3,008
Purchase of additional noncontrolling equity interest				(2)
Premium on common stock issued pursuant to benefit plans		10		6
Balance September 30		3,026		3,012
<b>Accumulated Other Comprehensive Loss</b>				
Balance January 1		(382)		(237)
Other comprehensive income (loss)		8		(28)
Balance September 30		(374)		(265)
<b>Retained Earnings (Accumulated Deficit)</b>				
Balance January 1		(2,379)		(2,536)
Net income attributable to Tenneco Inc.		242		127
Balance September 30		(2,137)		(2,409)
<b>Less Common Stock Held as Treasury Stock, at Cost</b>				
Balance January 1	1,694,692	256	1,294,692	240
Purchase of common stock through stock repurchase program	600,000	18	400,000	16
Balance September 30	2,294,692	274	1,694,692	256
Total Tenneco Inc. shareholders equity		\$ 242		\$ 83
<b>Noncontrolling Interests:</b>				
Balance January 1		\$ 43		\$ 39
Net income		16		13
Capital contribution		3		
Other comprehensive loss				(1)
Dividends declared		(20)		(14)
Balance September 30		\$ 42		\$ 37

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**Total equity**

\$ 284

\$ 120

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

**Table of Contents****TENNECO INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**(1) Consolidation and Presentation**

As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2011.

In our opinion, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly Tenneco Inc.'s results of operations, comprehensive income, financial position, cash flows, and changes in shareholders' equity 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 in which the Company does not have a controlling interest, as equity method investments, 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 significant subsequent events for any impact on these financial statements through the date they were issued.

**(2) Financial Instruments**

The carrying and estimated fair values of our financial instruments by class at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	\$ 1,215	\$ 1,282	\$ 1,162	\$ 1,200
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts:				
Asset derivative 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 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. The fair value of our level 1 debt, as classified in the fair value hierarchy, was \$791 million and \$1,013 million at September 30, 2012 and December 31, 2011, respectively. We have classified the remaining \$491 million and \$187 million as level 2 in the fair value hierarchy at September 30, 2012 and December 31, 2011, respectively, since we utilize valuation inputs that are observable both directly and indirectly.

*Foreign Exchange Forward Contracts* We use derivative financial instruments, principally foreign currency 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 manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that

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(Unaudited)

can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments for speculative purposes. The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. 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. 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 at September 30, 2012 and December 31, 2011, respectively, was as follows:

	Fair Value of Derivative Instruments					
	September 30, 2012			December 31, 2011		
	Asset Derivatives	Liability Derivatives	Total	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	\$	\$	\$	\$ 1	\$	\$ 1

The fair value of our recurring financial assets at September 30, 2012 and December 31, 2011, respectively, are as follows:

	September 30, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(Millions)					
<b>Financial Assets:</b>						
Foreign exchange forward contracts	n/a	\$	n/a	n/a	\$ 1	n/a

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

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

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The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of September 30, 2012 (all of which mature in 2012):

		<b>Notional Amount in Foreign Currency (Millions)</b>
Australian dollars	Purchase	4
British pounds	Purchase	6
European euro	Sell	(27)
South African rand	Purchase	92
Japanese yen	Purchase	127
	Sell	(475)
U.S. dollars	Purchase	1,299
	Sell	(81)
Other	Purchase	1
	Sell	(1)

*Guarantees* 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 and our senior notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. No assets or capital stock of our direct or indirect subsidiaries secure our senior notes. For additional information, refer to Note 13 of our condensed consolidated financial statements, where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have two performance guarantee agreements in the U.K. between Tenneco Management Europe Limited ( TMEL ) and the two Walker Group Retirement Plans, the Walker Group Employee Benefit Plan and the Walker Group Executive Retirement Benefit Plan (the Walker Plans ), whereby TMEL will guarantee the payment of all current and future pension contributions in event of a payment default by the sponsoring or participating employers of the Walker Plans. As a result of our decision to enter into these performance guarantee agreements, the levy due to the U.K. Pension Protection Fund was reduced. The Walker Plans are comprised of employees from Tenneco Walker (U.K.) Limited and Futaba-Tenneco U.K. Limited, our joint venture with Futaba Industrial Co. Ltd. ( Futaba ). Employer contributions are funded by both Tenneco Walker (U.K.) Limited, as the sponsoring employer and Futaba Tenneco U.K., as a participating employer. The performance guarantee agreements are expected to remain in effect until all pension obligations for the Walker Plans sponsoring and participating employers have been satisfied. The maximum amount payable for these pension performance guarantees is approximately \$16 million as of September 30, 2012 which is determined by taking 105 percent of the liability of the Walker Plans calculated under section 179 of the U.K. Pension Act of 2004 offset by plan assets. We did not record an additional liability for this performance guarantee since Tenneco Walker (U.K.) Limited, as the sponsoring employer of the Walker Plans, already recognizes 100 percent of the pension obligation calculated based on U.S. GAAP, for all of the Walker Plans participating employers on its balance sheet, which was \$10 million and \$13 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, all pension contributions under the Walker Plans were current for all of the Walker Plans sponsoring and participating employers.

We have an indemnity agreement between TMEL and Futaba which requires Futaba to indemnify TMEL for any cost, loss or liability which TMEL may incur under the performance guarantee agreements relating to the Futaba-Tenneco joint venture. The maximum amount reimbursable by Futaba to TMEL under this indemnity

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(Unaudited)

agreement is equal to the amount incurred by TMEL under the performance guarantee agreements multiplied by Futaba's shareholder ownership percentage of the Futaba-Tenneco joint venture. At September 30, 2012 the maximum amount reimbursable by Futaba to TMEL is approximately \$3 million.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of September 30, 2012, we have guaranteed \$48 million in letters of credit to support some of our subsidiaries' insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

*Negotiable Financial Instruments* One of our European subsidiaries receives payment from one of its Original Equipment (OE) customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$1 million and \$10 million at September 30, 2012 and December 31, 2011, respectively. No negotiable financial instruments were held by our European subsidiary as of September 30, 2012 and December 31, 2011, respectively.

In certain instances, several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$14 million at both September 30, 2012 and December 31, 2011, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled less than \$1 million and \$9 million at September 30, 2012 and December 31, 2011, respectively. We classify financial instruments received from our OE customers as other current assets if issued by a financial institution of our customers or as customer notes and accounts, net if issued by our customer. We classified \$14 million and \$9 million in other current assets at September 30, 2012 and December 31, 2011, respectively. Some of our Chinese subsidiaries that issue their own negotiable financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at those Chinese subsidiaries at September 30, 2012 or December 31, 2011.

The negotiable financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are checks drawn by our OE customers and guaranteed by their banks that are payable at a future date. The use of these instruments for payment follows local commercial practice. Because negotiable financial instruments are financial obligations of our customers and are guaranteed by our customers' banks, we believe they represent a lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

**(3) Long-Term Debt and Financing Arrangements**

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.

On March 22, 2012, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity date of our revolving credit facility and adding a new Tranche A Term Facility. The amended and restated facility replaces our former \$556 million revolving credit facility, \$148 million Tranche B Term Facility and \$130 million Tranche B-1 letter of credit/revolving loan facility. The proceeds from this refinancing transaction were used to repay our \$148 million Tranche B Term Facility and to



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(Unaudited)

fund the purchase and redemption of our \$250 million 8<sup>1</sup>/<sub>8</sub> percent senior notes due in 2015. As of September 30, 2012, the senior credit facility provides us with a total revolving credit facility size of \$850 million and a \$244 million Tranche A Term Facility, both of which will mature on March 22, 2017. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. The revolving credit 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. Outstanding letters of credit reduce our availability to enter into revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of \$3.1 million beginning June 30, 2012 through March 31, 2014, \$6.3 million beginning June 30, 2014 through March 31, 2015, \$9.4 million beginning June 30, 2015 through March 31, 2016, \$12.5 million beginning June 30, 2016 through December 31, 2016 and a final payment of \$125 million is due on March 22, 2017.

On March 22, 2012, our Tranche A Term Facility and revolving credit facility bear interest at an annual rate equal to, at our option, either (i) London Interbank Offered Rate ( LIBOR ) plus a margin of 250 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 150 basis points, (b) the Federal Funds rate plus 50 basis points plus a margin of 150 basis points, and (c) the Eurodollar Rate plus 100 basis points plus a margin of 150 basis points. The margin we pay on these borrowings will be reduced by 25 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 1.50 or will be increased by 25 basis points if our consolidated net leverage ratio is greater than or equal to 2.50.

The financial ratios required under the amended and restated senior credit facility and, the actual ratios we achieved for the three quarters of 2012, are as follows:

	Quarter Ended					
	March 31, 2012		June 30, 2012		September 30, 2012	
	Req.	Act.	Req.	Act.	Req.	Act.
Leverage Ratio (maximum)	3.50	2.07	3.50	2.05	3.50	1.96
Interest Coverage Ratio (minimum)	2.55	5.82	2.55	6.40	2.55	7.18

The financial ratios required under the senior credit facility for each quarter beyond September 30, 2012 include a maximum leverage ratio of 3.50 and a minimum interest coverage ratio of 2.55 through December 31, 2013 and 2.75 thereafter, through March 22, 2017.

On March 8, 2012, we announced a cash tender offer to purchase our outstanding \$250 million 8<sup>1</sup>/<sub>8</sub> percent senior notes due in 2015 and a solicitation of consents to certain proposed amendments to the indenture governing these notes. We received tenders and consents representing \$232 million aggregate principal amount of the notes and, on March 22, 2012, we purchased the tendered notes at a price of 104.44 percent of the principal amount (which includes a consent payment of three percent of the principal amount), plus accrued and unpaid interest, and amended the related indenture. On April 6, 2012, we redeemed all remaining outstanding \$18 million aggregate principal amount of senior notes that were not purchased pursuant to the tender offer at a price of 104.06 percent of the principal amount, plus accrued and unpaid interest. The additional liquidity provided by the new \$850 million revolving credit facility and the new \$250 million Tranche A Term Facility was used to fund the total cost of the tender offer and redemption, including all related fees and expenses.

We recorded \$17 million of pre-tax charges in March 2012 related to the refinancing of our senior credit facility, the repurchase and redemption of \$232 million aggregate principal amount of our 8<sup>1</sup>/<sub>8</sub> percent senior notes due in 2015 and the write-off of deferred debt issuance costs relating to these senior notes. We recorded an additional \$1 million of pre-tax charges during the second quarter of 2012 relating to the redemption of the remaining \$18 million aggregate principal amount of our 8<sup>1</sup>/<sub>8</sub> percent senior notes which occurred in April 2012. During the first quarter of 2011, we recorded \$1 million of pre-tax charges related to the repurchase and redemption of our 8<sup>5</sup>/<sub>8</sub> percent senior subordinated notes.



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At September 30, 2012, of the \$850 million available under the revolving credit facility, we had unused borrowing capacity of \$568 million with \$233 million in outstanding borrowings and \$49 million in outstanding letters of credit. As of September 30, 2012, our outstanding debt also included \$244 million related to our Tranche A Term Facility due March 22, 2017, \$225 million of 7<sup>3</sup>/<sub>4</sub> percent senior notes due August 15, 2018, \$500 million of 6<sup>7</sup>/<sub>8</sub> percent senior notes due December 15, 2020, and \$143 million of other debt.

**(4) Income Taxes**

We reported an income tax benefit of \$42 million and expense of \$21 million in the three month periods ended September 30, 2012 and 2011, respectively, and an income tax benefit of \$3 million and expense of \$65 million in the nine month periods ended September 30, 2012 and 2011, respectively. The tax benefit recorded in 2012 differs from the benefit that would be recorded using a U.S. Federal statutory rate of 35 percent due to a net tax benefit of \$94 million primarily related to the U.S. 2012 valuation allowance release described below and U.S. taxable income with no associated tax expense, partially offset by the impact of recording a valuation allowance against the tax benefit for tax credits and losses in certain foreign jurisdictions.

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.

In 2008, given our historical losses in the U.S., we concluded that our ability to fully utilize our federal and state net operating loss carryforward ( *NOL* ) was limited. As a result, we recorded a valuation allowance against all of our U.S. deferred tax assets except for our tax planning strategies which had not yet been implemented and which did not depend upon generating future taxable income. Prior to the reversal of the valuation allowance in the third quarter of 2012, we carried a deferred tax asset in the U.S. of \$90 million relating to the expected utilization of the federal and state *NOL*. The recording of a valuation allowance did not impact the amount of the *NOL* that would be available for federal and state income tax purposes in future periods.

In the three month period ending September 30, 2012, we reversed the tax valuation allowance against our net deferred tax assets in the U.S. based on operating improvements we had made, the outlook for light and commercial vehicle production in the U.S. and the positive impact this should have on our U.S. operations. The net income impact of the tax valuation allowance release in the U.S was a tax benefit of approximately \$81 million. We now have a federal *NOL* at December 31, 2011 of \$392 million, which expires beginning in tax years ending in 2022 through 2030. The state *NOLs* expire in various tax years through 2032.

Valuation allowances have been established in certain foreign jurisdictions 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;

Tax-planning strategies; and

Taxable income in prior carryback years if carryback is permitted under the relevant tax law.

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In the three month period ending September 30, 2012, we recorded a \$21 million tax valuation allowance in Spain for tax credits that may not be utilized due to tax losses in Spain.

The valuation allowances recorded against deferred tax assets generated by taxable losses in Spain and certain other foreign jurisdictions will impact our provision for income taxes until the valuation allowances are released. Our provision for income taxes will include no tax benefit for losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated.

**(5) Accounts Receivable Securitization**

We securitize some of our accounts receivable on a limited recourse basis in North America and Europe. As servicer under these accounts receivable securitization programs, we are responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks comprised of a first priority facility and a second priority facility. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. In March 2012, the North American program was amended and extended to March 22, 2013. The first priority facility continues to provide financing of up to \$110 million and the second priority facility, which is subordinated to the first priority facility, continues to provide up to an additional \$40 million of financing. Both facilities monetize accounts receivable generated in the U.S. and Canada that meet certain eligibility requirements, and the second priority facility also monetizes certain accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the first priority securitization facility. The amendments to the North American program decreased the margin we pay to our banks. The amount of outstanding third-party investments in our securitized accounts receivable under the North American program was \$60 million at September 30, 2012 and zero at December 31, 2011.

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

We also securitize receivables in our European operations with regional banks in Europe. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year, but some may be cancelled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon 15 days, or less, notification. The amount of outstanding third-party investments in our securitized accounts receivable in Europe was \$134 million and \$121 million at September 30, 2012 and December 31, 2011, respectively.

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

In our North American accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our North American securitization program as a secured borrowing. In our European programs, we transfer

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accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, Transfers and Servicing, to report the transfer of financial assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million and less than \$1 million in interest expense in the three month periods ended September 30, 2012 and 2011, respectively, and \$2 million for each of the nine month periods ended September 30, 2012 and 2011, respectively, relating to our North American securitization program. In addition, we recognized a loss of \$1 million in each of three month periods ended September 30, 2012 and 2011, respectively, and \$3 million and \$4 million for the nine month periods ended September 30, 2012 and 2011, respectively, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately three percent during the first nine months of both 2012 and 2011.

**(6) Restructuring and Other Charges**

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. In 2011, we incurred \$8 million in restructuring and related costs, primarily related to headcount reductions in Europe and Australia and the closure of our ride control plant in Cozad, Nebraska, all of which was recorded in cost of sales. In the third quarter of 2012, we incurred \$7 million in restructuring and related costs, primarily related to non-cash asset write downs of \$4 million in Europe and headcount reductions in South America of which \$4 million was recorded in cost of sales and \$3 million was recorded in SG&A. For the first nine months of 2012 we have incurred \$10 million in restructuring and related costs, primarily related to non-cash asset write downs of \$4 million in Europe and headcount reductions in South America of which \$7 million was recorded in cost of sales and \$3 million was recorded in SG&A.

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

	December 31, 2011 Restructuring Reserve	2012 Expenses	2012 Cash Payments	September 30, 2012 Restructuring Reserve
	(Millions)			
Employee Severance and Termination Benefits	\$ 1	6	(6)	\$ 1

Under the terms of our amended and restated senior credit agreement that took effect on March 22, 2012, we are allowed to exclude \$80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 22, 2012 from the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2012, we have excluded \$10 million in cumulative allowable charges relating to restructuring initiatives against the \$80 million available under the terms of the senior credit facility.

On September 22, 2009, we announced that we were closing our original equipment ride control plant in Cozad, Nebraska. The closure of the Cozad plant eliminated approximately 500 positions. We hired at other facilities as we moved production from Cozad to those facilities, which resulted in a net decrease of approximately 60 positions. Much of the production was shifted from Cozad to our plant in Hartwell, Georgia.

During the transition of production from our Cozad facility to our Hartwell facility, several customer programs, which were planned to phase out, were reinstated and volumes increased beyond the amount in our original restructuring plan. To meet the higher volume requirements, we took a number of actions to stabilize the production environment in Hartwell including reinforcing several core processes, realigning assembly lines, upgrading equipment to increase output and accelerating our Lean manufacturing activities. Based on the higher



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volumes, we have adjusted our consolidation plan which included temporarily continuing some basic production operations in Cozad, and redirecting some programs from our Hartwell facility to our other North American facilities to better balance production. In August 2012, we completed the closure of our Cozad facility and transitioned all remaining production to other North American facilities. During 2009 and 2010, we recorded \$11 million and \$10 million, respectively, of restructuring and related expenses related to this initiative, of which approximately \$16 million represents cash expenditures. In 2011, we recorded an additional cash charge of \$2 million related to this initiative.

On September 13, 2012, we announced our intention to close our aftermarket emission control plant in Vittaryd, Sweden. We expect to complete the closure in the third quarter of 2013. We expect a smooth transition of production from the Vittaryd plant to other Tenneco emission control operations in Laval, France; Edenkoben, Germany; Valencia, Spain and Rybnik, Poland, beginning later this year. The plant closure is subject to consultation with employee works councils. We expect to take restructuring and related charges in the range of \$10 million to \$14 million. These charges include non-cash asset impairments, the cost of relocating tooling, equipment and production to other facilities, severance and retention payments to employees, and other costs related to the closure. In the third quarter of 2012, we recorded non-cash charges of \$4 million related to this initiative. We expect to record the remainder of the charges over the next four quarters.

**(7) Environmental Matters, Litigation and Product Warranties**

We are involved in environmental remediation matters, legal proceedings, claims, investigations and warranty obligations that are incidental to the conduct of our business and create the potential for contingent losses. We accrue for potential contingent losses when our review of available facts indicates that it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Each quarter we assess our loss contingencies 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 and record adjustments to these reserves as required. As an example, 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 when we evaluate our environmental remediation contingencies. Further, all of our loss contingency estimates are subject to revision in future periods based on actual costs or new information. With respect to our environmental liabilities, where future cash flows are fixed or reliably determinable, we have discounted those 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.

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. As of September 30, 2012, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At September 30, 2012, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately \$18 million, of which \$5 million is recorded in other current liabilities and \$13 million is recorded in deferred credits and other liabilities in our condensed consolidated balance sheet. For those locations where the liability was discounted, the weighted average discount rate used was 1.45 percent. The undiscounted value of the estimated remediation costs was \$21 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



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remediation required. At some sites, we expect that other parties will contribute to 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. We do not believe that any potential costs associated with our current status as a potentially responsible party in the Federal Superfund site, 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 also from time to time are involved in legal proceedings, claims or investigations. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, in the U.S. we are subject to an audit in 11 states with respect to the payment of unclaimed property to those states, spanning a period as far back as over 30 years. While we vigorously defend ourselves against all of these claims, in future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved on unfavorable terms. 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 lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The substantial majority of the remaining claims are related to alleged exposure to asbestos in our automotive products. Only a small percentage of the 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 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 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 and/or users 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 charges to earnings if any of these matters are resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolutions. 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

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(Unaudited)

on OE products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. We believe that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. The reserve is included in both current and long-term liabilities on the balance sheet.

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

	Nine Months Ended September 30, 2012      2011 (Millions)	
Beginning Balance January 1,	\$ 26	\$ 33
Accruals related to product warranties	10	7
Reductions for payments made	(13)	(13)
Ending Balance September 30,	\$ 23	\$ 27

In the fourth quarter of 2011, we encountered an issue in our North America OE ride control business involving struts supplied on one particular OE platform. As a result, we directly incurred approximately \$2 million in premium freight and overtime costs in the fourth quarter of 2011 and \$2 million in the first nine months of 2012. We are continuing to work through details with the customer to determine responsibility for any other costs associated with this issue. We cannot estimate the amount of these costs at this time, but do not believe they will be material to our annual operating results.

**(8) Earnings Per Share**

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Millions Except Share and Per Share Amounts)			
Basic earnings per share				
Net income attributable to Tenneco Inc.	\$ 125	\$ 30	\$ 242	\$ 127
Weighted Average shares of common stock outstanding	59,766,097	59,793,866	59,983,310	59,866,717
Earnings per average share of common stock	\$ 2.09	\$ 0.51	\$ 4.04	\$ 2.12

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<b>Diluted earnings per share</b>								
Net income attributable to Tenneco Inc.	\$	125	\$	30	\$	242	\$	127
<b>Weighted Average shares of common stock outstanding</b>								
		59,766,097		59,793,866		59,983,310		59,866,717
<b>Effect of dilutive securities:</b>								
Restricted stock		120,169		227,243		132,755		283,543
Stock options		1,063,366		1,520,367		1,150,059		1,652,143
<b>Weighted Average shares of common stock outstanding including dilutive securities</b>								
		60,949,632		61,541,476		61,266,124		61,802,403
Earnings per average share of common stock	\$	2.05	\$	0.49	\$	3.95	\$	2.06

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

(Unaudited)

Options to purchase 521,249 and 202,009 shares of common stock were outstanding as of September 30, 2012 and 2011, respectively, but not included in the computation of diluted earnings per share respectively, because the options were anti-dilutive.

**(9) Common Stock**

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

*Accounting Methods* We have recorded \$1 million in compensation expense in the three months ended September 30, 2012 and 2011, and \$4 million and \$2 million in compensation expense in the nine months ended September 30, 2012 and 2011, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This resulted in a decrease of \$0.02 and \$0.01 in both basic and diluted earnings per share for the three months ended September 30, 2012 and 2011, respectively, and a decrease of \$0.07 and \$0.04 in both basic and diluted earnings per share for the nine months ended September 30, 2012 and 2011, respectively.

For employees eligible to retire at the grant date, we immediately expense stock options and restricted stock. If employees become eligible to retire during the vesting period, we immediately recognize any remaining expense associated with their stock options and restricted stock.

As of September 30, 2012, there was approximately \$6 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 1.3 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs was \$3 million and \$1 million for the three months ended September 30, 2012 and 2011, respectively, and \$11 million and \$8 million for the nine months ended September 30, 2012 and 2011 respectively, and was recorded in selling, general, and administrative expense in our condensed consolidated statements of income.

Cash received from stock option exercises for the nine months ended September 30, 2012 and 2011 was \$3 million and \$4 million, respectively. Stock option exercises in the first nine months of 2012 and 2011 would have generated an excess tax benefit of \$1 million and \$3 million, respectively. We did not record the excess tax benefit as we have federal and state net operating losses which were not 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.

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Stock Options Granted</b>		
Weighted average grant date fair value, per share	\$ 17.35	\$ 26.13
<b>Weighted average assumptions used:</b>		
Expected volatility	73.5%	70.1%
Expected lives	4.7	4.8
Risk-free interest rates	0.8%	1.8%
Dividend yields	0.0%	0.0%

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

(Unaudited)

Expected volatility is calculated based on current implied volatility and historical realized volatility for the Company.

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, 2012			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
<b>Outstanding Stock Options</b>				
Outstanding, January 1, 2012	2,743,199	\$ 17.43	4.0	\$ 37
Granted	316,799	29.83		
Canceled	(22,840)	16.00		
Forfeited	(15,206)	16.68		
Exercised	(104,742)	13.99		2
<b>Outstanding, March 31, 2012</b>	<b>2,917,210</b>	<b>\$ 18.92</b>	<b>4.2</b>	<b>\$ 51</b>
Granted	8,729	38.52		
Forfeited	(4,417)	32.03		
Exercised	(10,274)	5.56		
<b>Outstanding, June 30, 2012</b>	<b>2,911,248</b>	<b>\$ 19.00</b>	<b>4.0</b>	<b>\$ 36</b>
Granted	202	28.76		
Forfeited	(15,602)	25.54		
Exercised	(117,242)	12.75		2
<b>Outstanding, September 30, 2012</b>	<b>2,778,606</b>	<b>\$ 19.23</b>	<b>3.9</b>	<b>\$ 31</b>

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2012 and 2011 was \$17.49 and \$26.11, respectively. The total fair value of shares vested was \$4 million and \$3 million for the periods ended September 30, 2012 and 2011.

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## TENNECO INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Nine Months Ended September 30, 2012	
	Shares	Weighted Avg. Grant Date Fair Value
<b>Nonvested Restricted Shares</b>		
Nonvested balance at January 1, 2012	407,751	\$ 22.64
Granted	217,225	29.83
Vested	(246,314)	15.74
Forfeited	(2,378)	9.71
Nonvested balance at March 31, 2012	376,284	\$ 31.39
Granted	5,974	38.52
Vested	(7,126)	24.32
Forfeited	(2,491)	31.79
Nonvested balance at June 30, 2012	372,641	\$ 31.64
Granted	125	28.76
Vested	(20,660)	30.63
Forfeited	(3,161)	32.12
Nonvested balance at September 30, 2012	348,945	\$ 31.69

The fair value of restricted stock grants is equal to the average of the high and low trading price of our stock on the date of grant. As of September 30, 2012, approximately \$6 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.8 years. The total fair value of restricted shares vested was \$5 million and \$2 million at September 30, 2012 and 2011, respectively.

In January 2012, our Board of Directors approved a share repurchase program, authorizing us to repurchase up to 600,000 shares of Tenneco's outstanding common stock over a 12 month period. This share repurchase program is intended to offset dilution from shares of restricted stock and stock options issued in 2012 to employees. We purchased all of the 600,000 shares during the second quarter of 2012 through open market purchases, which were funded through cash from operations, at a total cost of \$18 million, at an average price of \$29.22 per share. These repurchased shares are held as part of our treasury stock which increased to 2,294,692 shares at September 30, 2012 from 1,694,692 shares at December 31, 2011.

*Long-Term Performance Units, Restricted Stock Units and SARs* Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of September 30, 2012, \$10 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 1.8 years.

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(Unaudited)

**(10) Pension Plans, Postretirement and Other Employee Benefits**

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

	Three Months Ended September 30,					
	Pension				Postretirement	
	2012	2011		2012	2011	
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost – benefits earned during the period	\$ 1	\$ 1	\$ 1	\$ 2	\$	\$
Interest cost	5	5	5	5	2	2
Expected return on plan assets	(5)	(4)	(6)	(5)		
Net amortization:						
Actuarial loss	1	2	1	1	1	1
Prior service cost (credit)					(2)	(1)
<b>Net pension and postretirement costs</b>	<b>\$ 2</b>	<b>\$ 4</b>	<b>\$ 1</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 2</b>

	Nine Months Ended September 30,					
	Pension				Postretirement	
	2012	2011		2012	2011	
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost – benefits earned during the period	\$ 1	\$ 5	\$ 1	\$ 5	\$	\$
Interest cost	15	14	15	15	5	6
Expected return on plan assets	(16)	(15)	(17)	(15)		
Net amortization:						
Actuarial loss	5	6	3	4	4	3
Prior service cost (credit)		1		1	(5)	(4)
<b>Net pension and postretirement costs</b>	<b>\$ 5</b>	<b>\$ 11</b>	<b>\$ 2</b>	<b>\$ 10</b>	<b>\$ 4</b>	<b>\$ 5</b>

For the nine months ended September 30, 2012, we made pension contributions of \$21 million and \$16 million for our domestic and foreign pension plans, respectively. Based on current actuarial estimates, we believe we will be required to contribute approximately \$11 million for the remainder of 2012. Pension contributions beyond 2012 will be required, but those amounts will vary based upon many factors, including the performance of our pension fund investments during 2012.

We made postretirement contributions of approximately \$7 million during the first nine months of 2012. Based on current actuarial estimates, we believe we will be required to contribute approximately \$2 million for the remainder of 2012.

The assets of some of our pension plans are invested in trusts that permit commingling of the assets of more than one employee benefit plan for investment and administrative purposes. Each of the plans participating in the trust has interests in the net assets of the underlying investment pools of the trusts. The investments for all our pension plans are recorded at estimated fair value, in compliance with the accounting guidance on fair value measurement.





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

(Unaudited)

Amounts recognized for pension and postretirement benefits in other comprehensive income for the three and nine month periods ended September 30, 2012 and 2011 include the following components:

	Three Months Ended September 30,					
	2012			2011		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before- Tax Amount	Tax Benefit	Net-of-Tax Amount
(Millions)						
Defined benefit pension and postretirement plans:						
Amortization of prior service cost included in net periodic pension and postretirement cost	\$ (2)	\$	\$ (2)	\$ (1)	\$	\$ (1)
Amortization of actuarial loss included in net periodic pension and postretirement cost	4	1	5	3	2	5
Other comprehensive income pension benefits	\$ 2	\$ 1	\$ 3	\$ 2	\$ 2	\$ 4

	Nine Months Ended September 30,					
	2012			2011		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before- Tax Amount	Tax Benefit	Net-of-Tax Amount
(Millions)						
Defined benefit pension and postretirement plans:						
Amortization of prior service cost included in net periodic pension and postretirement cost	\$ (4)	\$	\$ (4)	\$ (3)	\$	\$ (3)
Amortization of actuarial loss included in net periodic pension and postretirement cost	15		15	10	1	11
Other comprehensive income pension benefits	\$ 11	\$	\$ 11	\$ 7	\$ 1	\$ 8

Effective January 1, 2012, the Tenneco Employee Stock Ownership Plan for Hourly Employees and the Tenneco Employee Stock Ownership Plan for Salaried Employees were merged into one plan called the Tenneco 401(k) Retirement Savings Plan (the Retirement Savings Plan). The Retirement Savings Plan has been designed to adopt a Safe-Harbor approach approved by the Internal Revenue Service and which will provide for increased company matching contributions at lower percentages of employee deferrals. The company matching contribution has changed from 50 percent on the first eight percent of employee contributions to 100 percent on the first three percent and 50 percent on the next two percent of employee contributions effective January 1, 2012.

**(11) New Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board ( FASB ) issued an amendment to the accounting guidance for impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing

guidance among long-lived asset categories.

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**TENNECO INC.**

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

(Unaudited)

The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with the accounting guidance for goodwill for impairment. This amendment is effective for a reporting entity's first interim or annual period beginning on or after September 15, 2012. The adoption of this amendment on October 1, 2012 did not have any impact on our condensed consolidated financial statements.

In December 2011, the FASB issued an amendment relating to the disclosure about offsetting assets and liabilities. This amendment requires disclosure to provide information to help reconcile differences in the offsetting requirements under U.S. GAAP and IFRS. A reporting entity will be required to disclose (1) the gross amount of recognized assets and liabilities, (2) the amounts offset to determine the net amounts presented in the statement of financial position, (3) the net amounts presented in the statement of financial position, (4) the amounts subject to an enforceable master netting arrangement or similar agreement not otherwise included in (2), and (5) the net amount after deducting the amounts in (4) and (3). This amendment is effective for a reporting entity's interim and annual periods beginning on or after January 1, 2013. We do not believe the adoption of this amendment relating to the disclosure about offsetting assets and liabilities on January 1, 2013 will have any material impact on our condensed consolidated financial statements.

In September 2011, the FASB issued an amendment to the accounting guidance for testing goodwill for impairment. This amendment provides a reporting entity the option to first assess qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the reporting entity's assessment after considering all events and circumstances is that it is not more likely than not that its fair value is less than its carrying amount, then performing the two-step impairment test is not required. If the reporting entity concludes that it is more likely than not that its fair value is less than its carrying amount then the first step of the two-step impairment test is required. If the carrying amount of the reporting unit exceeds its fair value, then the reporting unit is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this amendment on January 1, 2012 for testing goodwill for impairment did not have any impact on our condensed consolidated financial statements.

In June 2011, the FASB issued an amendment to the accounting guidance for the presentation on comprehensive income which must be applied retrospectively for all periods presented. This amendment removes one of the three presentation options for presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity and requires either a single continuous statement of comprehensive income or a two statement approach and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. If a reporting entity elects the two statement approach, this amendment requires consecutive presentation of the statement of net income followed by the statement of other comprehensive income. In addition, this amendment requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The FASB issued in December 2011, an amendment to defer the presentation of reclassification adjustments to allow additional time to redeliberate these new presentation requirements. In June 2012 the FASB announced their decision to indefinitely defer the presentation requirement of reclassification adjustments and issued an exposure draft requiring new footnote disclosures for reclassifications from accumulated other comprehensive income to net income. We have adopted this amendment on January 1, 2012 and have elected the two statement approach which requires us to present our condensed consolidated statements of income followed by our condensed consolidated statements of comprehensive income.

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements in United States Generally Accepted Accounting Principles ( U.S. GAAP ) and International

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**TENNECO INC.**

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

(Unaudited)

Financial Reporting Standards ( IFRS ). The amendment (1) allows the concepts of highest and best use and valuation premise when measuring the fair value of nonfinancial assets, (2) provides specific requirements for measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, (3) requires disclosure of quantitative information about unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy, (4) allows the use of a price, that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk, in measuring the fair value of financial instruments that are managed within a portfolio, (5) requires a reporting entity, in the absence of a Level 1 input, to apply premiums or discounts when market participants would do so when pricing an asset or liability and (6) requires additional disclosure about fair value measurements. This amendment is effective for a reporting entity's interim and annual periods beginning after December 15, 2011. The adoption of this amendment on January 1, 2012 did not have any impact on the measurement of our financial assets and liabilities. We have added additional disclosures, as required by this amendment, in Note 2 Financial Instruments of our notes to condensed consolidated financial statements.

In April 2011, the FASB issued an amendment to the accounting guidance for transfers of financial assets which changes the criteria that must be met to achieve sales accounting. This amendment removes from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. In addition, this amendment eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This amendment is effective for a reporting entity's first interim or annual period beginning on or after December 15, 2011. The adoption of this amendment on January 1, 2012 did not have any impact on our condensed consolidated financial statements.

**(12) Segment Information**

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

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

(Unaudited)

The following table summarizes certain Tenneco Inc. segment information:

	North America	Europe	Segment Asia Pacific (Millions)	Reclass & Elims	Consolidated
<b>For the Three Months Ended September 30, 2012</b>					
Revenues from external customers	\$ 891	\$ 659	\$ 228	\$	\$ 1,778
Intersegment revenues	4	32	7	(43)	
Earnings before interest expense, income taxes, and noncontrolling interests	77	13	21		111
<b>For the Three Months Ended September 30, 2011</b>					
Revenues from external customers	\$ 842	\$ 727	\$ 204	\$	\$ 1,773
Intersegment revenues	3	43	6	(52)	
Earnings before interest expense, income taxes, and noncontrolling interests	46	36	2 <sup>(1)</sup>		84
<b>At September 30, 2012 and for the Nine Months Then Ended</b>					
Revenues from external customers	\$ 2,873	\$ 2,101	\$ 636	\$	\$ 5,610
Intersegment revenues	14	119	23	(156)	
Earnings before interest expense, income taxes, and noncontrolling interests	234	62	48		344
Total assets	\$ 1,686	\$ 1,402	\$ 603	\$ 11	\$ 3,702
<b>At September, 2011 and for the Nine Months Then Ended</b>					
Revenues from external customers	\$ 2,567	\$ 2,285	\$ 569	\$	\$ 5,421
Intersegment revenues	9	122	19	(150)	
Earnings before interest expense, income taxes, and noncontrolling interests	170	97	24 <sup>(1)</sup>		291
Total assets	1,473	1,408	528	27	3,436

(1) Includes a goodwill impairment charge of \$11 million related to our Australian reporting unit.

**(13) Supplemental Guarantor Condensed Consolidating Financial Statements***Basis of Presentation*

Substantially all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior notes due in 2018 and 2020 on a joint and several basis. However, a subsidiary's guarantee may be released in certain customary circumstances such as a sale of the subsidiary or all or substantially all of its assets in accordance with the indenture applicable to the notes. The Guarantor Subsidiaries are combined in the presentation below.

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

*Distributions*

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

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(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Three Months Ended September 30, 2012

	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 792	\$ 986	\$	\$	\$ 1,778
Affiliated companies	43	123		(166)	
	835	1,109		(166)	1,778
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	771	889		(166)	1,494
Engineering, research, and development	14	14			28
Selling, general, and administrative	26	67	1		94
Depreciation and amortization of other intangibles	18	31			49
	829	1,001	1	(166)	1,665
<b>Other income (expense)</b>					
Loss on sale of receivables		(1)			(1)
Other income (loss)	13	(11)		(3)	(1)
	13	(12)		(3)	(2)
<b>Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	19	96	(1)	(3)	111
<b>Interest expense</b>					
External (net of interest capitalized)		1	20		21
Affiliated companies (net of interest income)	57	(21)	(36)		
<b>Earnings (loss) before income taxes, noncontrolling interests,</b>					
and equity in net income from affiliated companies	(38)	116	15	(3)	90

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Income tax expense	(77)	35			(42)
Equity in net income (loss) from affiliated companies	73		110	(183)	
<b>Net Income</b>	<b>112</b>	<b>81</b>	<b>125</b>	<b>(186)</b>	<b>132</b>
Less: Net income attributable to noncontrolling interests		7			7
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 112</b>	<b>\$ 74</b>	<b>\$ 125</b>	<b>\$ (186)</b>	<b>\$ 125</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 117</b>	<b>\$ 86</b>	<b>\$ 125</b>	<b>\$ (186)</b>	<b>\$ 142</b>



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

(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Three Months Ended September 30, 2011

	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 761	\$ 1,012	\$	\$	\$ 1,773
Affiliated companies	40	126		(166)	
	801	1,138		(166)	1,773
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	568	1,090		(166)	1,492
Goodwill impairment charge		11			11
Engineering, research, and development	14	18			32
Selling, general, and administrative	34	65	2		101
Depreciation and amortization of other intangibles	18	33			51
	634	1,217	2	(166)	1,687
<b>Other income (expense)</b>					
Loss on sale of receivables		(1)			(1)
Other income (expense)	(3)	2			(1)
	(3)	1			(2)
<b>Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	164	(78)	(2)		84
<b>Interest expense</b>					
External (net of interest capitalized)		2	25		27
Affiliated companies (net of interest income)	54	(18)	(36)		
<b>Earnings (loss) before income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	110	(62)	9		57
Income tax expense	3	18			21
Equity in net income (loss) from affiliated companies	(89)		21	68	

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Net income (loss)	18	(80)	30	68	36
Less: Net income attributable to noncontrolling interests		6			6
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 18</b>	<b>\$ (86)</b>	<b>\$ 30</b>	<b>\$ 68</b>	<b>\$ 30</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 1</b>	<b>\$ (147)</b>	<b>\$ 30</b>	<b>\$ 68</b>	<b>\$ (48)</b>

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

(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Nine Months Ended September 30, 2012

	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 2,579	\$ 3,031	\$	\$	\$ 5,610
Affiliated companies	139	420		(559)	
	2,718	3,451		(559)	5,610
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	2,389	2,866		(559)	4,696
Engineering, research, and development	42	52			94
Selling, general, and administrative	103	214	4		321
Depreciation and amortization of other intangibles	54	94			148
	2,588	3,226	4	(559)	5,259
<b>Other income (expense)</b>					
Loss on sale of receivables		(3)			(3)
Other income (loss)	59	(21)		(42)	(4)
	59	(24)		(42)	(7)
<b>Earnings (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	189	201	(4)	(42)	344
<b>Interest expense</b>					
External (net of interest capitalized)		3	81		84
Affiliated companies (net of interest income)	169	(63)	(106)		
<b>Earnings (loss) before income taxes, noncontrolling interests,</b>					
and equity in net income from affiliated companies	20	261	21	(42)	260
Income tax expense	(70)	67			(3)
Equity in net income (loss) from affiliated companies	170		221	(391)	

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Net Income	260	194	242	(433)	263
Less: Net income attributable to noncontrolling interests		21			21
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 260</b>	<b>\$ 173</b>	<b>\$ 242</b>	<b>\$ (433)</b>	<b>\$ 242</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 262</b>	<b>\$ 179</b>	<b>\$ 242</b>	<b>\$ (433)</b>	<b>\$ 250</b>

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

(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Nine Months Ended September 30, 2011

	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 2,331	\$ 3,090	\$	\$	\$ 5,421
Affiliated companies	121	383		(504)	
	2,452	3,473		(504)	5,421
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	2,013	3,014		(504)	4,523
Goodwill impairment charge		11			11
Engineering, research, and development	42	60			102
Selling, general, and administrative	106	219	3		328
Depreciation and amortization of other intangibles	55	101			156
	2,216	3,405	3	(504)	5,120
<b>Other income (expense)</b>					
Loss on sale of receivables		(4)			(4)
Other income (expense)	29			(35)	(6)
	29	(4)		(35)	(10)
<b>Earnings before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	265	64	(3)	(35)	291
<b>Interest expense</b>					
External (net of interest capitalized)		4	77		81
Affiliated companies (net of interest income)	156	(52)	(104)		
<b>Earnings before income taxes, noncontrolling interests, and equity in net income from affiliated companies</b>					
	109	112	24	(35)	210
Income tax expense	8	57			65
Equity in net income (loss) from affiliated companies	29		103	(132)	

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Net income (loss)	130	55	127	(167)	145
Less: Net income attributable to noncontrolling interests		18			18
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 130</b>	<b>\$ 37</b>	<b>\$ 127</b>	<b>\$ (167)</b>	<b>\$ 127</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 131</b>	<b>\$ 13</b>	<b>\$ 127</b>	<b>\$ (167)</b>	<b>\$ 104</b>

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

(Unaudited)

**BALANCE SHEET**

	September 30, 2012				
	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 4	\$ 203	\$	\$	\$ 207
Receivables, net	362	1,290	29	(550)	1,131
Inventories	280	392			672
Deferred income taxes	70		5	(5)	70
Prepayments and other	22	171			193
Total current assets	738	2,056	34	(555)	2,273
Other assets:					
Investment in affiliated companies	537		758	(1,295)	
Notes and advances receivable from affiliates	4,227	3,773	6,130	(14,130)	
Long-term receivables, net	2	2			4
Goodwill	22	51			73
Intangibles, net	18	19			37
Deferred income taxes	7	24	91		122
Other	31	44	30		105
	4,844	3,913	7,009	(15,425)	341
Plant, property, and equipment, at cost	1,076	2,206			3,282
Less Accumulated depreciation and amortization	(756)	(1,438)			(2,194)
	320	768			1,088
Total assets	\$ 5,902	\$ 6,737	\$ 7,043	\$ (15,980)	\$ 3,702
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$	\$ 132	\$ 2	\$	\$ 134
Short-term debt affiliated	131	266	10	(407)	
Trade payables	460	842		(114)	1,188
Accrued taxes	(91)	148			57
Other	132	190	14	(34)	302
Total current liabilities	632	1,578	26	(555)	1,681
Long-term debt non-affiliated		8	1,203		1,211

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Long-term debt - affiliated	4,833	3,767	5,530	(14,130)	
Deferred income taxes		41			41
Postretirement benefits and other liabilities	390	78		4	472
Commitments and contingencies					
Total liabilities	5,855	5,472	6,759	(14,681)	3,405
Redeemable noncontrolling interests		13			13
Tenneco Inc. shareholders' equity	47	1,210	284	(1,299)	242
Noncontrolling interests		42			42
Total equity	47	1,252	284	(1,299)	284
Total liabilities, redeemable noncontrolling interests and equity	\$ 5,902	\$ 6,737	\$ 7,043	\$ (15,980)	\$ 3,702



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

(Unaudited)

**BALANCE SHEET**

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	December 31, 2011 Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 1	\$ 213	\$ 27	\$ (716)	\$ 214
Receivables, net	455	1,214	27	(716)	980
Inventories	248	344			592
Deferred income taxes	35	31		(26)	40
Prepayments and other	21	132			153
Total current assets	760	1,934	27	(742)	1,979
Other assets:					
Investment in affiliated companies	444		681	(1,125)	
Notes and advances receivable from affiliates	4,252	1,507	6,059	(11,818)	
Long-term receivables, net	2	8			10
Goodwill	22	52			74
Intangibles, net	13	19			32
Deferred income taxes	64	25	3		92
Other	31	45	27		103
	4,828	1,656	6,770	(12,943)	311
Plant, property, and equipment, at cost	1,041	2,112			3,153
Less Accumulated depreciation and amortization	(749)	(1,357)			(2,106)
	292	755			1,047
Total assets	\$ 5,880	\$ 4,345	\$ 6,797	\$ (13,685)	\$ 3,337
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$ 203	\$ 64	\$ 2	\$ (587)	\$ 66
Short-term debt affiliated	455	374	10	(587)	1,171
Trade payables	11	825		(109)	44
Accrued taxes	118	33	39	(46)	289
Other	787	1,474	51	(742)	1,570
Total current liabilities	787	1,474	51	(742)	1,570
Long-term debt non-affiliated		9	1,149		1,158
Long-term debt affiliated	4,718	1,546	5,554	(11,818)	

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Deferred income taxes		51		51	
Postretirement benefits and other liabilities	407	92	4	503	
Commitments and contingencies					
Total liabilities	5,912	3,172	6,754	(12,556)	3,282
Redeemable noncontrolling interests		12			12
Tenneco Inc. shareholders' equity	(32)	1,118	43	(1,129)	
Noncontrolling interests		43			43
Total equity	(32)	1,161	43	(1,129)	43
Total liabilities, redeemable noncontrolling interests and equity	\$ 5,880	\$ 4,345	\$ 6,797	\$ (13,685)	\$ 3,337

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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Three Months Ended September 30, 2012				
	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 107	\$ 69	\$ (51)	\$	\$ 125
<b>Investing Activities</b>					
Proceeds from sale of assets		1			1
Cash payments for plant, property, and equipment	(32)	(38)			(70)
Cash payments for software related intangible assets	(3)				(3)
Cash payments for net assets purchased	(7)				(7)
Net cash used by investing activities	(42)	(37)			(79)
<b>Financing Activities</b>					
Retirement of long-term debt			(3)		(3)
Issuance of long-term debt					
Debt issuance cost of long-term debt					
Purchase of common stock under the share repurchase program					
Increase (decrease) in bank overdrafts		2			2
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables		(1)	(18)		(19)
Net increase (decrease) in short-term borrowings secured by accounts receivables					
Intercompany dividends and net increase (decrease) in intercompany obligations	(61)	(11)	72		
Capital contribution from noncontrolling interest partners		4			4
Distributions to noncontrolling interest partners		(9)			(9)
Net cash provided (used) by financing activities	(61)	(15)	51		(25)
Effect of foreign exchange rate changes on cash and cash equivalents		5			5
Increase (decrease) in cash and cash equivalents	4	22			26
Cash and cash equivalents, July 1		181			181

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Cash and cash equivalents, September 30 (Note)	\$	4	\$	203	\$		\$	207
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**Note:** Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Three Months Ended September 30, 2011				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 74	\$ 57	\$ (51)	\$	\$ 80
<b>Investing Activities</b>					
Cash payments for plant, property, and equipment	(14)	(36)			(50)
Cash payments for software related intangible assets	(1)	(3)			(4)
Net cash used by investing activities	(15)	(39)			(54)
<b>Financing Activities</b>					
Issuance of long-term debt		1			1
Increase (decrease) in bank overdrafts		(5)			(5)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		8	12		20
Intercompany dividends and net increase (decrease) in intercompany obligations	(57)	13	44		
Purchase of additional noncontrolling equity interest		(4)			(4)
Distributions to noncontrolling interest partners		(10)			(10)
Purchase of common stock under the share repurchase program			(5)		(5)
Net cash provided (used) by financing activities	(57)	3	51		(3)
Effect of foreign exchange rate changes on cash and cash equivalents		(21)			(21)
Increase (decrease) in cash and cash equivalents	2				2
Cash and cash equivalents, July 1		161			161
Cash and cash equivalents, September 30 (Note)	\$ 2	\$ 161	\$	\$	\$ 163

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

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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Nine Months Ended September 30, 2012				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 231	\$ 72	\$ (177)	\$	\$ 126
<b>Investing Activities</b>					
Proceeds from sale of assets		2			2
Cash payments for plant, property, and equipment	(79)	(116)			(195)
Cash payments for software related intangible assets	(5)	(5)			(10)
Cash payments for net assets purchased	(7)				(7)
Net cash used by investing activities	(91)	(119)			(210)
<b>Financing Activities</b>					
Retirement of long-term debt		(1)	(405)		(406)
Issuance of long-term debt			250		250
Debt issuance cost of long-term debt			(13)		(13)
Purchase of common stock under the share repurchase program			(18)		(18)
Increase (decrease) in bank overdrafts		2			2
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables		67	150		217
Net increase (decrease) in short-term borrowings secured by accounts receivables			60		60
Intercompany dividends and net increase (decrease) in intercompany obligations	(137)	(16)	153		
Capital contribution from noncontrolling interest partners		5			5
Distributions to noncontrolling interest partners		(27)			(27)
Net cash provided (used) by financing activities	(137)	30	177		70
Effect of foreign exchange rate changes on cash and cash equivalents		7			7
Increase (decrease) in cash and cash equivalents	3	(10)			(7)
Cash and cash equivalents, January 1	1	213			214

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Cash and cash equivalents, September 30 (Note)	\$	4	\$	203	\$		\$		\$	207
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**Note:** Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Nine Months Ended September 30, 2011				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 226	\$ (13)	\$ (169)	\$	\$ 44
<b>Investing Activities</b>					
Proceeds from sale of assets	3	1			4
Cash payments for plant, property, and equipment	(44)	(101)			(145)
Cash payments for software related intangible assets	(3)	(7)			(10)
Net cash used by investing activities	(44)	(107)			(151)
<b>Financing Activities</b>					
Issuance of long-term debt		5			5
Debt issuance cost of long-term debt			(1)		(1)
Retirement of long-term debt		(1)	(22)		(23)
Increase (decrease) in bank overdrafts		3			3
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		11	97		108
Intercompany dividends and net increase (decrease) in intercompany obligations	(180)	69	111		
Capital contribution from noncontrolling interest partner		1			1
Purchase of additional noncontrolling equity interest		(4)			(4)
Distribution to noncontrolling interest partners		(20)			(20)
Purchase of common stock under the share repurchase program			(16)		(16)
Net cash provided (used) by financing activities	(180)	64	169		53
Effect of foreign exchange rate changes on cash and cash equivalents		(16)			(16)
Increase (decrease) in cash and cash equivalents	2	(72)			(70)
Cash and cash equivalents, January 1		233			233
Cash and cash equivalents, September 30 (Note)	\$ 2	\$ 161	\$	\$	\$ 163



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

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

As you read the following review of our financial condition and results of operations, you should also read our condensed consolidated financial statements and related notes beginning on page 6.

**Executive Summary**

We are one of the world's leading manufacturers of emission control and ride control products and systems for light, commercial and specialty vehicle applications. We serve both original equipment (OE) vehicle designers and manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe®, Rancho®, Clevite® Elastomers, Marzocchi®, Axios®, Kinetic® and Fric-Rot® ride control products and Walker®, Fonos®, DynoMa®, Thrush® and Lukey® emission control products. We serve more than 64 different original equipment manufacturers and commercial vehicle engine manufacturers, and our products are included on nine of the top 10 car models produced for sale in Europe and nine of the top 10 light truck models produced for sale in North America for 2011. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. As of December 31, 2011, we operated 87 manufacturing facilities worldwide and employed approximately 24,000 people to service our customers' demands.

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

For the third quarter of 2012, light vehicle production was up 14 percent in North America, seven percent in Australia, six percent in China, and two percent in South America. Light vehicle production was down in the third quarter of 2012 when compared to the third quarter of 2011 by six percent in Europe and three percent in India.

We have a substantial amount of indebtedness. As such, our ability to generate cash—both to fund operations and service our debt—is also a significant area of focus for our Company. See "Liquidity and Capital Resources" below for further discussion of cash flows and Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Total revenues for the third quarter of 2012 were \$1,778 million slightly up from \$1,773 million in the third quarter of 2011. Excluding the impact of currency and substrate sales, revenue was up \$89 million, or 6 percent, from \$1,373 million to \$1,462 million, driven primarily by strong OE light vehicle production volumes in North America and China and incremental commercial vehicle business revenues globally.

Cost of sales: Cost of sales for the third quarter of 2012 was \$1,494 million, or 84.0 percent of sales, compared to \$1,492 million, or 84.2 percent of sales in the third quarter of 2011. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Quarter ended September 30, 2011	\$ 1,492
Volume and mix	71
Material	(12)
Currency exchange rates	(73)
Other Costs	16
Quarter ended September 30, 2012	\$ 1,494

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The increase in cost of sales was due primarily to the year-over-year increase in production volumes, other costs, mainly manufacturing, partially offset by lower material costs and the impact of foreign currency exchange rates.

Gross margin: Revenue less cost of sales for the third quarter of 2012 was \$284 million, or 16.0 percent, versus \$281 million, or 15.8 percent in the third quarter of 2011. The effects on gross margin resulting from higher volumes and material cost management were partially offset by a higher mix of OE revenues, negative currency and higher manufacturing costs.

Engineering, research and development: Engineering, research and development expense was \$28 million and \$32 million in the third quarters of 2012 and 2011, respectively. Increased engineering cost recoveries and a stronger U.S. dollar drove the decrease in expense year-over-year.

Selling, general and administrative: Selling, general and administrative expense was down \$7 million in the third quarter of 2012, at \$94 million, compared to \$101 million in the third quarter of 2011. A \$5 million benefit from property recoveries related to transactions originated by The Pullman Company before being acquired by Tenneco in 1996 and the stronger U.S. dollar primarily drove the decrease in expense year-over-year.

Depreciation and amortization: Depreciation and amortization expense in the third quarter of 2012 was \$49 million, compared to \$51 million in the third quarter of 2011 primarily due to a stronger U.S. dollar.

Goodwill impairment: There were no goodwill impairment charges in the third quarter of 2012. In August 2011, we performed an impairment evaluation of our Australian reporting unit's goodwill balance as a result of continued deterioration of that reporting unit's financial performance driven primarily by significant declines in industry production volumes in that region. As a result of our impairment evaluation, we concluded that the remaining amount of goodwill related to our Australian reporting unit was impaired and accordingly, we recorded a goodwill impairment charge of \$11 million during the third quarter of 2011.

Earnings before interest expense, taxes and noncontrolling interests ( EBIT ) were \$111 million for the third quarter of 2012, an improvement of \$27 million when compared to \$84 million in the third quarter of the prior year. Stronger light vehicle production volumes in North America and China, the related fixed manufacturing cost absorption, incremental commercial vehicle business, effective operational cost control, which included decreased material costs net of recoveries partially offset by increased manufacturing costs, a benefit of \$5 million from property recoveries related to transactions originated by The Pullman Company before being acquired by Tenneco in 1996, higher engineering cost recoveries, and no goodwill impairment charges drove the year-over-year increase to EBIT. Partially offsetting the increase were higher restructuring and related expenses and \$2 million of negative currency.

Total revenues for the first nine months of 2012 were up three percent to \$5,610 million from \$5,421 million for the first nine months of 2011. Excluding the impact of currency and substrate sales, revenue was up \$385 million, from \$4,163 million to \$4,548 million, driven by higher year-over-year OE vehicle production levels, incremental commercial vehicle revenue and higher North American aftermarket sales.

Cost of sales: Cost of sales for the first nine months of 2012 was \$4,696 million, or 83.7 percent of sales, compared to \$4,523 million, or 83.4 percent of sales in the first nine months of 2011. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Nine months ended September 30, 2011	\$ 4,523
Volume and mix	348
Material	(10)
Currency exchange rates	(210)
Other Costs	45
Nine months ended September 30, 2012	\$ 4,696

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The increase in cost of sales was due primarily to the year-over-year increase in production volumes, and other costs, mainly manufacturing, partially offset by lower material costs and the impact of foreign currency exchange rates.

Gross margin: Revenue less cost of sales for the first nine months of 2012 was \$914 million, or 16.3 percent, versus \$898 million, or 16.6 percent in the first nine months of 2011. The effect on gross margin resulting from higher volumes and material cost management were more than offset by a higher mix of OE revenues, negative currency and higher manufacturing costs.

Engineering, research and development: Engineering, research and development expense was \$94 million and \$102 million in the first nine months of 2012 and 2011, respectively. Increased spending to support customer programs, technology applications, and growth in emerging markets were more than offset by increased engineering cost recoveries and a strong U.S. dollar which drove the decrease in expense year-over-year.

Selling, general and administrative: Selling, general and administrative expense was \$321 million and \$328 million in the first nine months of 2012 and 2011, respectively. Increased costs due to investments in new facilities in China and Thailand were more than offset by reduced stock-indexed compensation, lower aftermarket changeover costs, and a \$5 million benefit from property recoveries related to transactions originated by The Pullman Company before being acquired by Tenneco in 1996.

Depreciation and amortization: Depreciation and amortization expense in the first nine months of 2012 was \$148 million, compared to \$156 million in the first nine months of 2011 primarily due to a stronger U.S. dollar.

Goodwill impairment: There were no goodwill impairment charges in the first nine months of 2012. We recorded a goodwill impairment charge of \$11 million during the first nine months of 2011.

EBIT was \$344 million for the first nine months of 2012, an improvement of \$53 million, when compared to \$291 million in the first nine months of 2011. Higher light vehicle OE production volumes, the related fixed manufacturing cost absorption, incremental commercial vehicle business, higher North American aftermarket sales, a \$5 million benefit from property recoveries related to transactions originated by The Pullman Company before being acquired by Tenneco in 1996, increased engineering cost recoveries and no goodwill impairment charges drove the year-over-year increase to EBIT. Partially offsetting the increase were higher costs due to investments in new facilities in China and Thailand, unfavorable pricing, primarily related to contractual price reductions, higher restructuring and related expenses, increased manufacturing and freight expenses and negative currency of \$19 million.

## **Results from Operations**

### ***Net Sales and Operating Revenues for the Three Months Ended September 30, 2012 and 2011***

The following tables reflect our revenues for 2012 and 2011. We present these reconciliations of revenues in order to reflect the trend in our sales in various product lines and geographic regions separately from the effects of doing business in currencies other than the U.S. dollar. We have not reflected any currency impact in the 2011 table since this is the base period for measuring the effects of currency during 2012 on our operations. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

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

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

We present these substrate sales separately in the following table because we believe investors utilize this information to understand the impact of this portion of our revenues on our overall business and because it removes the impact of potentially volatile precious metals pricing from our revenues. While our original equipment customers generally assume the risk of precious metals pricing volatility, it impacts our reported revenues. Excluding substrate catalytic converter and diesel particulate filter sales removes this impact.

	Three Months Ended September 30, 2012				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
<b>North America Original Equipment</b>					
Ride Control	\$ 160	\$	\$ 160	\$	\$ 160
Emission Control	537		537	227	310
<b>Total North America Original Equipment</b>	<b>697</b>		<b>697</b>	<b>227</b>	<b>470</b>
<b>North America Aftermarket</b>					
Ride Control	139	1	138		138
Emission Control	55		55		55
<b>Total North America Aftermarket</b>	<b>194</b>	<b>1</b>	<b>193</b>		<b>193</b>
<b>Total North America</b>	<b>891</b>	<b>1</b>	<b>890</b>	<b>227</b>	<b>663</b>
<b>Europe Original Equipment</b>					
Ride Control	112	(13)	125		125
Emission Control	328	(38)	366	131	235
<b>Total Europe Original Equipment</b>	<b>440</b>	<b>(51)</b>	<b>491</b>	<b>131</b>	<b>360</b>
<b>Europe Aftermarket</b>					
Ride Control	50	(6)	56		56
Emission Control	29	(3)	32		32
<b>Total Europe Aftermarket</b>	<b>79</b>	<b>(9)</b>	<b>88</b>		<b>88</b>
South America & India	140	(28)	168	24	144
<b>Total Europe, South America &amp; India</b>	<b>659</b>	<b>(88)</b>	<b>747</b>	<b>155</b>	<b>592</b>
Asia	186	2	184	17	167
Australia	42	(1)	43	3	40
<b>Total Asia Pacific</b>	<b>228</b>	<b>1</b>	<b>227</b>	<b>20</b>	<b>207</b>
<b>Total Tenneco</b>	<b>\$ 1,778</b>	<b>\$ (86)</b>	<b>\$ 1,864</b>	<b>\$ 402</b>	<b>\$ 1,462</b>

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	Three Months Ended September 30, 2011				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
<b>North America Original Equipment</b>					
Ride Control	\$ 149	\$	\$ 149	\$	\$ 149
Emission Control	500		500	225	275
<b>Total North America Original Equipment</b>	<b>649</b>		<b>649</b>	<b>225</b>	<b>424</b>
<b>North America Aftermarket</b>					
Ride Control	133		133		133
Emission Control	60		60		60
<b>Total North America Aftermarket</b>	<b>193</b>		<b>193</b>		<b>193</b>
<b>Total North America</b>	<b>842</b>		<b>842</b>	<b>225</b>	<b>617</b>
<b>Europe Original Equipment</b>					
Ride Control	138		138		138
Emission Control	335		335	117	218
<b>Total Europe Original Equipment</b>	<b>473</b>		<b>473</b>	<b>117</b>	<b>356</b>
<b>Europe Aftermarket</b>					
Ride Control	57		57		57
Emission Control	35		35		35
<b>Total Europe Aftermarket</b>	<b>92</b>		<b>92</b>		<b>92</b>
South America & India	162		162	26	136
<b>Total Europe, South America &amp; India</b>	<b>727</b>		<b>727</b>	<b>143</b>	<b>584</b>
Asia	159		159	28	131
Australia	45		45	4	41
<b>Total Asia Pacific</b>	<b>204</b>		<b>204</b>	<b>32</b>	<b>172</b>
<b>Total Tenneco</b>	<b>\$ 1,773</b>	<b>\$</b>	<b>\$ 1,773</b>	<b>\$ 400</b>	<b>\$ 1,373</b>

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	<b>Three Months Ended September 30, 2012 Versus Three Months Ended September 30, 2011 Dollar and Percent Increase (Decrease)</b>			
	<b>Revenues</b>		<b>Revenues Excluding Currency and Substrate Sales</b>	
	<b>Revenues</b>	<b>Percent</b>	<b>Revenues</b>	<b>Percent</b>
	<b>(Millions Except Percent Amounts)</b>			
<b>North America Original Equipment</b>				
Ride Control	\$ 11	7%	\$ 11	7%
Emission Control	37	7%	35	13%
<b>Total North America Original Equipment</b>	<b>48</b>	<b>7%</b>	<b>46</b>	<b>11%</b>
<b>North America Aftermarket</b>				
Ride Control	6	5%	5	4%
Emission Control	(5)	(8)%	(5)	(8)%
<b>Total North America Aftermarket</b>	<b>1</b>	<b>1%</b>		
<b>Total North America</b>	<b>49</b>	<b>6%</b>	<b>46</b>	<b>7%</b>
<b>Europe Original Equipment</b>				
Ride Control	(26)	(20)%	(13)	(10)%
Emission Control	(7)	(2)%	17	8%
<b>Total Europe Original Equipment</b>	<b>(33)</b>	<b>(7)%</b>	<b>4</b>	<b>1%</b>
<b>Europe Aftermarket</b>				
Ride Control	(7)	(9)%	(1)	(2)%
Emission Control	(6)	(19)%	(3)	(12)%
<b>Total Europe Aftermarket</b>	<b>(13)</b>	<b>(13)%</b>	<b>(4)</b>	<b>(3)%</b>
<b>South America &amp; India</b>	<b>(22)</b>	<b>(14)%</b>	<b>8</b>	<b>5%</b>
<b>Total Europe, South America &amp; India</b>	<b>(68)</b>			