TENNECO INC
Form 10-Q
November 08, 2010

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12387

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

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

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

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

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

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

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

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

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

Common Stock, par value $0.01 per share: 59,988,725 shares outstanding as of October 29, 2010.

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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.

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

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

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

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;

the impact of the recent global economic crisis on the credit markets, which continue to be volatile and more restricted than they were previously;

our ability to source and procure needed materials, components and other products and services as the economy recovers from the recent global economic crisis;

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

changes in automotive manufacturers production rates and their actual and forecasted requirements for our products, such as the significant production cuts during 2008 and 2009 by automotive manufacturers in response to difficult economic conditions;

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

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

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 platforms);

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

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

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

costs related to product warranties;

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

operating hazards associated with our business;

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

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

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

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

customer acceptance of new products;

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

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

our ability to successfully integrate any acquisitions that we complete;

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

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

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

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

decisions by federal, state and local governments to provide (or discontinue) incentive programs related to automobile purchases;

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

potential volatility in our effective tax rate;

acts of war and/or terrorism, 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, 2009, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of September 30, 2010, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2010, and the changes in shareholders equity for the nine-month period ended September 30, 2010. 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.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
November 8, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Tenneco Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (the Company) as of September 30, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2009, and of changes in shareholders equity for the nine-month period ended September 30, 2009. 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 such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tenneco Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income (loss), cash flows, changes in shareholders equity, and comprehensive income (loss) and financial statement schedule for the year then ended (not presented herein); and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 26, 2010

TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Millions Except Share and Per Share Amounts)			
Revenues				
Net sales and operating revenues	$ 1,542	$ 1,254	$ 4,360	$ 3,327
Costs and expenses				
Cost of sales (exclusive of depreciation and amortization shown below)	1,280	1,043	3,575	2,783
Engineering, research, and development	30	27	90	72
Selling, general, and administrative	109	90	307	256
Depreciation and amortization of other intangibles	55	55	163	162
	1,474	1,215	4,135	3,273
Other expense				
Loss on sale of receivables	(1)	(2)	(3)	(6)
Other expense		(2)	(3)	(9)
	(1)	(4)	(6)	(15)
Income before interest expense, income taxes, and noncontrolling interests	67	35	219	39
Interest expense (net of interest capitalized of $1 million in each of the three months ended September 30, 2010 and 2009, respectively and $3 million in each of the nine months ended September 30, 2010 and 2009, respectively)	36	35	100	101
Income tax expense	15	4	45	18
Net income (loss)	16	(4)	74	(80)
Less: Net income attributable to noncontrolling interests	6	4	17	10
	$ 10	$ (8)	$ 57	$ (90)

Net income (loss) attributable to Tenneco Inc.								
Earnings (loss) per share								
Weighted average shares of common stock outstanding								
Basic		59,235,282		46,742,403		59,102,041		46,694,885
Diluted		61,079,919		46,742,403		60,859,093		46,694,885
Basic earnings (loss) per share of common stock	$	0.17	$	(0.17)	$	0.97	$	(1.93)
Diluted earnings (loss) per share of common stock	$	0.17	$	(0.17)	$	0.94	$	(1.93)

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

TENNECO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2010	December 31, 2009
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 184	$ 167
Receivables		
Customer notes and accounts, net	929	572
Other	40	24
Inventories		
Finished goods	219	175
Work in process	162	116
Raw materials	126	95
Materials and supplies	42	42
Deferred income taxes	48	35
Prepayments and other	167	167
Total current assets	1,917	1,393
Other assets:		
Long-term receivables, net	11	8
Goodwill	89	89
Intangibles, net	32	30
Deferred income taxes	77	100
Other	107	111
	316	338
Plant, property, and equipment, at cost	3,069	3,099
Less Accumulated depreciation and amortization	(2,032)	(1,989)
	1,037	1,110
	$ 3,270	$ 2,841
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 70	$ 75
Trade payables	1,070	766
Accrued taxes	49	36
Accrued interest	30	22

Accrued liabilities		270		257
Other		63		45
Total current liabilities		1,552		1,201
Long-term debt		1,227		1,145
Deferred income taxes		53		66
Postretirement benefits		297		331
Deferred credits and other liabilities		93		80
Commitments and contingencies				
Total liabilities		3,222		2,823
Redeemable noncontrolling interests		10		7
Tenneco Inc. shareholders equity:				
Common stock		1		1
Premium on common stock and other capital surplus		3,002		3,005
Accumulated other comprehensive loss		(240)		(212)
Retained earnings (accumulated deficit)		(2,518)		(2,575)
		245		219
Less Shares held as treasury stock, at cost		240		240
Total Tenneco Inc. shareholders equity		5		(21)
Noncontrolling interests		33		32
Total equity		38		11
Total liabilities, redeemable noncontrolling interests and equity	$	3,270	$	2,841

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

TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Millions)			
Operating Activities				
Net income (loss)	$ 16	$ (4)	$ 74	$ (80)
Adjustments to reconcile net income (loss) to cash provided by operating activities				
Depreciation and amortization of other intangibles	55	55	163	162
Deferred income taxes	(6)	(7)	(4)	(10)
Stock-based compensation	2	1	7	5
Loss on sale of assets		2	3	6
Changes in components of working capital				
(Increase) decrease in receivables	(81)	(67)	(374)	(124)
(Increase) decrease in inventories	(52)	9	(123)	76
(Increase) decrease in prepayments and other current assets	(3)	(30)	(1)	(35)
Increase (decrease) in payables	33	92	265	56
Increase (decrease) in accrued taxes	12	1	13	20
Increase (decrease) in accrued interest	7	8	8	9
Increase (decrease) in other current liabilities	15	13	34	8
Changes in long-term assets	3	2	4	8
Changes in long-term liabilities	18	3	(3)	4
Other	(2)	(1)	(2)	3
Net cash provided by operating activities	17	77	64	108
Investing Activities				
Proceeds from the sale of assets	2	1	3	3
Cash payments for plant, property, and equipment	(33)	(20)	(105)	(86)
Cash payments for software related intangible assets	(3)	(1)	(11)	(5)
Acquisition of business, net of cash acquired				1
Other	(1)	1	1	1
Net cash used by investing activities	(35)	(19)	(112)	(86)
Financing Activities				
Issuance of long-term debt	225	4	380	6
Debt issuance cost of long-term debt	(5)		(14)	(8)
Retirement of long-term debt	(246)	(7)	(383)	(15)
Increase (decrease) in bank overdrafts	10	6	12	(18)

Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		63		(51)		83		24
Distributions to noncontrolling interest partners		(3)				(14)		(10)
Net cash provided (used) by financing activities		44		(48)		64		(21)
Effect of foreign exchange rate changes on cash and cash equivalents		12		16		1		10
Increase (decrease) in cash and cash equivalents		38		26		17		11
Cash and cash equivalents, July 1 and January 1, respectively		146		111		167		126
Cash and cash equivalents, September 30 (Note)	$	184	$	137	$	184	$	137
Supplemental Cash Flow Information								
Cash paid during the period for interest	$	28	$	26	$	89	$	91
Cash paid during the period for income taxes (net of refunds)		18		20		42		32
Non-cash Investing and Financing Activities								
Period ended balance of payable for plant, property, and equipment	$	12	$	13	$	12	$	13

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

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

TENNECO INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

	Nine Months Ended September 30, 2010		2009	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	60,789,739	$ 1	48,314,490	$
Issued pursuant to benefit plans	172,022		287,704	
Stock options exercised	301,029		131,904	
Balance September 30	61,262,790	1	48,734,098	
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,005		2,809
Purchase of additional noncontrolling equity interest		(11)		
Premium on common stock issued pursuant to benefit plans		8		7
Balance September 30		3,002		2,816
Accumulated Other Comprehensive Loss				
Balance January 1		(212)		(318)
Other comprehensive income (loss)		(28)		90
Balance September 30		(240)		(228)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,575)		(2,502)
Net income (loss) attributable to Tenneco Inc.		57		(90)
Balance September 30		(2,518)		(2,592)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1 and September 30	1,294,692	240	1,294,692	240
Total Tenneco Inc. shareholders equity		$ 5		$ (244)
Noncontrolling Interests:				
Balance January 1		$ 32		$ 24
Net income		11		7
Sale of twenty percent equity interest to Tenneco Inc.		(4)		

Other comprehensive income (loss)		2		
Dividend declared		(8)		(5)
Balance September 30	$	33	$	26
Total equity	$	38	$	(218)

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

TENNECO INC.

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

	Three Months Ended September 30, 2010					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income		$ 10		$ 6		$ 16
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance July 1	$ (72)		$ 3		$ (69)	
Translation of foreign currency statements	75	75	1	1	76	76
Balance September 30	3		4		7	
Additional Liability for Pension Benefits						
Balance July 1	(246)				(246)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance September 30	(243)				(243)	
Balance September 30	$ (240)		$ 4		$ (236)	
Other Comprehensive Income (Loss)		78		1		79
Comprehensive Income (Loss)		$ 88		$ 7		$ 95

Three Months Ended September 30, 2009

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

TENNECO INC.

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

	Nine Months Ended September 30, 2010					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income		$ 57		$ 17		$ 74
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ 37		$		$ 37	
Translation of foreign currency statements	(34)	(34)	4	4	(30)	(30)
Balance September 30	3		4		7	
Additional Liability for Pension Benefits						
Balance January 1	(249)				(249)	
Additional Liability for Pension and Postretirement Benefits, net of tax	6	6			6	6
Balance September 30	(243)				(243)	
Balance September 30	$ (240)		$ 4		$ (236)	
Other Comprehensive Income (Loss)		(28)		4		(24)
Comprehensive Income (Loss)		$ 29		$ 21		$ 50

Nine Months Ended September 30, 2009

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

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

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies 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 subsequent events through the date the financial statements were issued.

(2) The carrying and estimated fair values of our financial instruments by class at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$ 1,230	$ 1,261	$ 1,151	$ 1,168
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts				2

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 their carrying amount.

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

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

TENNECO INC.

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

forward contracts, presented on a gross basis by derivative contract at September 30, 2010 and December 31, 2009, respectively, was as follows:

	Fair Value of Derivative Instruments					
	September 30, 2010			December 31, 2009		
	Asset Derivatives	Liability Derivatives	Total	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	$ 1	$ 1	$	$ 3	$ 1	$ 2

The fair value of our recurring financial assets and liabilities at September 30, 2010 and December 31, 2009, respectively, are as follows:

	September 30, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(Millions)					
Financial Assets:						
Foreign exchange forward contracts	n/a	n/a	n/a	n/a	$ 2	n/a
Financial Liabilities:						
Foreign exchange forward contracts	n/a	$	n/a	n/a	n/a	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.

The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of September 30, 2010:

		Notional Amount in Foreign Currency	Weighted Average Settlement Rates	Fair Value in U.S. Dollars
		(Millions Except Settlement Rates)		
Australian dollars	Purchase	26	0.965	$ 26
	Sell	(5)	0.964	(5)

British pounds	Purchase	29	1.572		45
	Sell	(25)	1.572		(39)
European euro	Purchase				
	Sell	(4)	1.368		(6)
South African rand	Purchase	204	0.144		29
	Sell	(51)	0.144		(7)
U.S. dollars	Purchase	3	1.003		3
	Sell	(50)	1.001		(50)
Other	Purchase	498	0.012		6
	Sell	(1)	0.972		(1)
				$	1

(3) Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries.

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On August 3, 2010 we issued $225 million of 73/4 percent senior notes due August 15, 2018 in a private offering. The net proceeds of this transaction, together with cash and available liquidity, was used to finance the redemption of our 101/4 percent senior secured notes due in 2013. We called the senior secured notes for redemption on August 3, 2010, and completed the redemption on September 2, 2010 at a price of 101.708 percent of the principal amount, plus accrued and unpaid interest. We recorded $5 million of expense related to our redemption of our 101/4 percent senior secured notes in the third quarter of 2010. The new notes are general senior obligations of Tenneco Inc. and will not be secured by assets of Tenneco Inc. or the guarantors.

On June 3, 2010 we completed an amendment and extension of our senior secured credit facility by extending the term of our revolving credit facility and replacing our $128 million term loan A with a larger and longer maturity term loan B facility. As a result of the amendment and extension, as of September 30, 2010, the senior credit facility provides us with a total revolving credit facility size of $622 million until March 16, 2012, when commitments of $66 million will expire. After March 16, 2012, the extended revolving credit facility will provide $556 million of revolving credit and will mature on May 31, 2014. The extended facility will mature earlier on December 15, 2013, if our $130 million tranche B-1 letter of credit/revolving loan facility is not refinanced by that date. Prior to maturity, funds may be borrowed, repaid and re-borrowed under the two revolving credit facilities without premium or penalty. The leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) was decreased from 5.00 to 4.50 for the second quarter of 2010; from 4.75 to 4.25 for the third quarter of 2010; and from 4.50 to 4.25 for the fourth quarter of 2010 as a result of the June 3, 2010 amendment.

As of September 30, 2010, the senior credit facility also provides a six-year, $150 million term loan B maturing in June 2016, and a seven-year $130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. The term loan B facility will mature earlier on August 16, 2014, if we do not refinance our senior subordinated notes by that date.

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

As of September 30, 2010 our outstanding debt also includes $225 million of 73/4 percent senior notes due August 15, 2018, $250 million of $8^1/_8$ percent senior notes due November 15, 2015, and $500 million of $8^5/_8$ percent senior subordinated notes due November 15, 2014. At September 30, 2010, we had unused borrowing capacity of $614 million under the $752 million amount available under the two revolving credit facilities within our senior secured credit facility with $86 million in outstanding borrowings and $52 million in letters of credit outstanding.

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The financial ratios required under the senior credit facility for the remainder of 2010 and beyond are set forth below. As of September 30, 2010, we were in compliance with all the financial covenants and operational restrictions of the senior credit facility.

Period Ending	Leverage Ratio	Interest Coverage Ratio
December 31, 2010	4.25	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

Beginning June 3, 2010 and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan B and revolving credit facility, incur interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 475 and 450 basis points, respectively, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 375 and 350 basis points, respectively, (b) the Federal Funds rate plus 50 basis points plus a margin of 375 and 350 basis points, respectively, and (c) the Eurodollar Rate plus 100 basis points plus a margin of 375 and 350 basis points, respectively. 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 2.25 for extending lenders and for the term loan B and will be further reduced by an additional 25 basis points following each fiscal quarter for which the consolidated net leverage ratio is less than 2.0 for extending lenders. The margin we pay on these borrowings for extending lenders will increase by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is greater than or equal to 4.0 and will be further increased by an additional 50 basis points following each fiscal quarter for which the consolidated net leverage ratio is greater than or equal to 5.0.

The margin we pay on borrowings under our tranche B-1 facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 500 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 400 basis points, (b) the Federal Funds rate plus 50 basis points plus a margin of 400 basis points, and (c) the Eurodollar Rate plus 100 basis points plus a margin of 400 basis points. This rate will increase by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is greater than or equal to 5.0.

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

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

- Future reversals of existing taxable temporary differences;
- Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards; and
- Tax-planning strategies.

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We reported income tax expense of $45 million in the first nine months of 2010. The tax expense recorded differs from the expense that would be recorded using a U.S. Federal statutory rate of 35 percent because the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions and charges primarily related to adjustments to prior year income tax estimates more than offset a favorable mix of tax rates in the jurisdictions we pay taxes. During the first nine months of 2010, we recorded a $52 million reduction in our valuation allowance related to the utilization of U.S. NOLs resulting from a reorganization of our European operations. The amount recorded is an estimate that can not be finalized until year end. The estimated amount recorded does not impact the tax rate. In evaluating the requirements to record a valuation allowance, accounting standards do not permit us to consider an economic recovery in the U.S. or new business we have won. Consequently, beginning in 2008, given our historical losses, we concluded that our ability to fully utilize our NOLs was limited due to projecting the continuation of the negative economic environment and the impact of the negative operating environment on our tax planning strategies. As a result of our tax planning strategies which have not yet been implemented and which do not depend upon generating future taxable income, we carry deferred tax assets in the U.S. of $90 million relating to the expected utilization of those NOLs. The federal NOLs expire beginning in tax years ending in 2020 through 2029. The state NOLs expire in various tax years ending through 2029.

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

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

(5) In addition to our senior credit facility, senior notes and senior subordinated notes, we also 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. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. The amount of outstanding third party investments in our securitized accounts receivable bank program was $0 and $62 million at September 30, 2010 and December 31, 2009, respectively. In February 2010, the North American program was amended and extended to February 18, 2011, at a maximum facility size of $100 million. As part of this renewal, the margin we pay to our banks decreased. In March 2010, the North American program was further amended to extend the revolving terms of the program to March 25, 2011, add an additional bank and increase the available financing under the facility by $10 million to a new maximum of $110 million. In addition, we added a second priority facility to the North American program, which provides up to an additional $40 million of financing against accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the existing securitization facility. This new second priority facility also expires on March 25, 2011, and is subordinated to the existing securitization facility.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, merger or consolidation 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

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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 to regional banks in Europe. The amount of outstanding third party investments in our securitized accounts receivable in Europe was $106 million and $75 million at September 30, 2010 and December 31, 2009, respectively. 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.

If we were not able to securitize receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreements 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 agreements.

We adopted the amended accounting guidance under ASC Topic 860, Accounting for Transfers of Financial Assets effective January 1, 2010. Prior to the adoption of this new guidance, we accounted for activities under our North American and European accounts receivable securitization programs as sales of financial assets to our banks. The new accounting guidance changed the conditions that must be met for the transfer of financial assets to be accounted for as a sale. The new guidance adds additional conditions that must be satisfied for transfers of financial assets to be accounted for as sales when the transferor has not transferred the entire original financial asset, including the requirement that no partial interest holder have rights in the transferred asset that are subordinate to the rights of other partial interest holders. 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, beginning January 1, 2010, we account for our North American securitization program as a secured borrowing. In our European programs we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under amended ASC Topic 860 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 $3 million in interest expense for the three month and nine month periods ended September 30, 2010, respectively, relating to our North American securitization program which effective January 1, 2010, is accounted for as a secured borrowing arrangement under the amended accounting guidance for transfers of financial assets. In addition, we recognized a loss of $1 million and $2 million for the three month periods ended September 30, 2010 and 2009, respectively, and $3 million and $6 million for the nine month periods ended September 30, 2010 and 2009, respectively, on the sale of trade accounts receivable in both the North American and 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 4 percent during 2010.

The impact of the new accounting rules on our condensed consolidated financial statements includes an increase of $1 million and $3 million in interest expense and a corresponding decrease in loss on sale of receivables on our income statement for the three month and nine month periods ended September 30, 2010, respectively. For the three and nine month periods ended September 30, 2010, there was no cash flow impact as a result of the new accounting rules. Funding levels provided by our European securitization programs continue to be reflected as a change in receivables and included in net cash provided (used) by operating activities as under the previous accounting rules. Had the new accounting rules been in effect in 2009, reported receivables and short-term debt would both have been $62 million higher as of December 31, 2009. The loss on sale of receivables would have been $1 million and $4 million lower, offset by a corresponding $1 million and $4 million increase to interest expense for the three month and nine month periods ended September 30, 2009, respectively. Additionally, our cash provided

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(used) by operations would have decreased by $19 million and $85 million with a corresponding increase in cash provided by financing activities for the same amount for the three month and nine month periods ended September 30, 2009, respectively.

(6) Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. In 2009, we incurred $21 million in restructuring and related costs, of which $16 million was recorded in cost of sales, $1 million was recorded in selling, general, administrative and engineering expense and $4 million was recorded in depreciation and amortization expense. In the third quarter of 2010, we incurred $6 million in restructuring and related costs, of which $3 million was recorded in cost of sales and $3 million was recorded in depreciation and amortization expense. In the first nine months of 2010, we incurred $15 million in restructuring and related costs, of which $10 million was recorded in cost of sales and $5 million was recorded in depreciation and amortization expense.

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

(Millions)	December 31, 2009 Restructuring Reserve	2010 Cash Payments	Impact of Exchange Rates	Reserve Adjustments	September 30, 2010 Restructuring Reserve
Severance	$ 15	(6)		(1)	$ 8

Under the terms of our amended and restated senior credit agreement that took effect on June 3, 2010, we are allowed to exclude $60 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after June 3, 2010 from the calculation of the financial covenant ratios required under our senior credit facility. As of September 30, 2010, we have excluded $5 million in cumulative allowable charges relating to restructuring initiatives against the $60 million available under the terms of the February 2010 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska. We expect the elimination of 500 positions at the Cozad plant and expect to record up to $20 million in restructuring and related expenses, of which approximately $14 million represents cash expenditures. We originally planned to have completed the closing of this facility by the end of 2010, however, as a result of the faster than expected increase in light vehicle production in North America and to better optimize the transfer of some of the manufacturing activities, we plan to continue certain production lines through the first half of 2011. We plan to hire at other facilities as we move the production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During 2009 we recorded $11 million of restructuring and related expenses related to this initiative. For the third quarter of 2010, we recorded $3 million of restructuring and related expenses related to this initiative. For the first nine months of 2010, we recorded $8 million of restructuring and related expenses related to this initiative.

(7) We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies

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cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our condensed consolidated financial statements.

As of September 30, 2010, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At September 30, 2010, our estimated share of environmental remediation costs at these sites was approximately $18 million on a discounted basis. The undiscounted value of the estimated remediation costs was $22 million. For those locations in which the liability was discounted, the weighted average discounted rate used was 2.6 percent. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability.

The $18 million noted above includes $6 million of estimated environmental remediation costs that result from the bankruptcy of Mark IV Industries in 2009. Prior to our 1996 acquisition of The Pullman Company, Pullman had sold certain assets to Mark IV. As partial consideration for the purchase of these assets, Mark IV agreed to assume Pullman s and its subsidiaries historical obligations to contribute to the environmental remediation of certain sites. Mark IV has filed a petition for insolvency under Chapter 11 of the United States Bankruptcy Code and notified Pullman that it no longer intends to continue to contribute toward the remediation of those sites. We are conducting a thorough analysis and review of these matters and it is possible that our estimate may change as additional information becomes available to us.

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

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or 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, we have become subject to an audit in 12 states of our practices with respect to the payment of unclaimed property to those states. We currently have practices in place which we believe ensure that we pay unclaimed property as required. We are in the initial stages of this audit, which could cover nearly 30 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

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

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

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

	Nine Months Ended September 30, 2010	2009
	(Millions)	
Beginning Balance January 1,	$ 32	$ 27
Accruals related to product warranties	13	10
Reductions for payments made	(12)	(9)

Ending Balance September 30,	$ 33	$ 28

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Millions Except Share and Per Share Amounts)			
Basic earnings (loss) per share				
Net income (loss) attributable to Tenneco Inc.	$ 10	$ (8)	$ 57	$ (90)
Average shares of common stock outstanding	59,235,282	46,742,403	59,102,041	46,694,885
Earnings (loss) per average share of common stock	$ 0.17	$ (0.17)	$ 0.97	$ (1.93)
Diluted earnings (loss) per share				
Net income (loss) attributable to Tenneco Inc.	$ 10	$ (8)	$ 57	$ (90)
Average shares of common stock outstanding	59,235,282	46,742,403	59,102,041	46,694,885
Effect of dilutive securities:				
Restricted stock	411,115		417,262	
Stock options	1,433,522		1,339,790	
Average shares of common stock outstanding including dilutive securities	61,079,919	46,742,403	60,859,093	46,694,885
Earnings (loss) per average share of common stock	$ 0.17	$ (0.17)	$ 0.94	$ (1.93)

The calculation of diluted earnings per share includes the dilutive effect of 1,433,522 stock options and 411,115 shares of restricted stock for the three months ended September 30, 2010 and 1,339,790 stock options and 417,262 shares of restricted stock for the nine months ended September 30, 2010. As a result of the net loss for the three months and nine months ended September 30, 2009, the calculation of diluted share excludes the dilutive effect of 1,342,994 stock options and 381,159 shares of restrictive stock for the three months ended September 30, 2009 and 907,178 stock options for the nine month period ended September 30, 2009. In addition, for the three month periods ended September 30, 2010 and 2009, options to purchase 2,006,906 and 2,336,927 shares of common stock and

162,608 and 264,354 shares of restricted stock were outstanding, respectively, but not included in the computation of dilutive earnings (loss) per share, because the options were antidilutive. For the nine month periods ended September 30, 2010 and 2009, options to purchase 2,100,638 and 2,772,743 shares of common stock and 156,461 and 645,513 shares of restricted stock were outstanding, respectively, but not included in the computation of diluted earnings (loss) per share as they were antidilutive.

(9) *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.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Millions)	
Selling, general and administrative	$ 2	$ 2
Loss before interest expense, income taxes and noncontrolling interests	(2)	(2)
Income tax benefit		
Net loss	$ (2)	$ (2)
Decrease in basic earnings per share	$ (0.04)	$ (0.05)
Decrease in diluted earnings per share	$ (0.04)	$ (0.05)

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

As of September 30, 2010, there was approximately $5 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 0.9 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs, was $8 million and $4 million for the nine months ended September 30, 2010 and 2009, respectively, and was recorded in selling, general, and administrative expense on the statement of income (loss).

Cash received from stock option exercises during the nine months ended September 30, 2010 was $2 million and stock options exercised during the first nine months of 2010 would have generated an excess tax benefit of $2 million. We did not record the excess tax benefit as we have federal and state net operating losses which are not currently being utilized.

Assumptions We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and market behavior.

Nine Months Ended September 30,

	2010	2009
Stock Options Granted		
Weighted average grant date fair value, per share	$ 11.76	$ 1.31
Weighted average assumptions used:		
Expected volatility	75.4%	82.6%
Expected lives	4.6	4.5
Risk-free interest rates	2.2%	1.48%
Dividend yields	0.0%	0.0%

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.

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

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, 2010			
	Shares Under Option	Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	Aggregate Intrinsic Value (Millions)
Outstanding Stock Options				
Outstanding, January 1, 2010	3,425,457	$ 13.21	4.6	$ 20
Granted	346,774	19.48		
Canceled	(15,000)	10.66		
Forfeited	(16,471)	19.72		
Exercised	(55,375)	6.06		1
Outstanding, March 31, 2010	3,685,385	$ 13.89	4.7	$ 30
Granted	6,398	24.27		
Canceled				
Forfeited	(1,350)	25.09		
Exercised	(32,546)	11.30		
Outstanding, June 30, 2010	3,657,887	$ 13.93	4.6	$ 37
Granted	4,540	22.58		
Canceled				