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. Accumulated Other Comprehensive Income (Loss)	Tenneco Inc. Comprehensive Income (Loss)	Noncontrolling Interests Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests Comprehensive Income (Loss)	Total Accumulated Other Comprehensive Income (Loss)	Total 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