

TENNECO INC
Form 10-K
February 27, 2009

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

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-12387
TENNECO INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**500 North Field Drive
Lake Forest, IL**

(Address of principal executive offices)

76-0515284

(I.R.S. Employer
Identification No.)

60045

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
7.45% Debentures due 2025;	New York Stock Exchange
8.125% Debentures due 2015;	New York Stock Exchange
9.20% Debentures due 2012;	New York Stock Exchange
Common Stock, par value \$.01 per share	New York and Chicago Stock Exchanges

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Class of Common Equity and Number of Shares held by Non-affiliates at June 30, 2008

Market Value held by Non-affiliates*

Common Stock, 45,001,634 shares

\$608,600,599

* Based upon the closing sale price on the New York Stock Exchange Composite Tape for the Common Stock on June 30, 2008.

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE. Common Stock, par value \$.01 per share, 46,905,261 shares outstanding as of February 23, 2009.

Documents Incorporated by Reference:

Document	Part of the Form 10-K into which incorporated
Portions of Tenneco Inc.'s Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 13, 2009	Part III

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

This Annual 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 7 of this report. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and similar (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

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

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

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

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the recent significant shift in consumer preferences from light trucks, which tend to be higher margin products for our customers and us, to other vehicles in light of higher fuel cost and the impact of the current global economic crisis, and other factors impacting the cyclical nature 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 recent and significant production cuts by automotive manufacturers in response to difficult economic conditions;

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

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

labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers' other suppliers (such as the 2008 strike at American Axle, which disrupted

our supply of products for significant General Motors platforms);

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

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

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

costs related to product warranties;

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

operating hazards associated with our business;

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

the negative impact of higher fuel prices such as during the first half of 2008 and overall market weakness on discretionary purchases of aftermarket products by consumers;

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

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

customer acceptance of new products;

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

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

our inability to successfully integrate any acquisitions that we complete;

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

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

the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, environmental liabilities in excess of the amount reserved and the adoption of the current mandated timelines for worldwide emission regulation;

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

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

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

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PART I

ITEM 1. BUSINESS.

TENNECO INC.

General

Our company, Tenneco Inc., is one of the world's largest producers of automotive emission control and ride control products and systems. Our company serves both original equipment vehicle manufacturers (OEMs) and the repair and replacement markets, or aftermarket, worldwide. As used herein, the term "Tenneco," "we," "us," "our," or the "Company" refers to Tenneco Inc. and its consolidated subsidiaries.

Tenneco was incorporated in Delaware in 1996. In 2005, we changed our name from Tenneco Automotive Inc. back to Tenneco Inc. The name Tenneco better represents the expanding number of markets we serve through our commercial and specialty vehicle businesses. Building a stronger presence in these markets complements our core businesses of supplying ride control and emission control products and systems for light vehicles to automotive original equipment and aftermarket customers worldwide. Our common stock is traded on the New York Stock Exchange under the symbol "TEN".

Corporate Governance and Available Information

We have established a comprehensive corporate governance plan for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. As part of its annual review process, the Board of Directors monitors developments in the area of corporate governance. Listed below are some of the key elements of our corporate governance plan.

For more information about these matters, see our definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 13, 2009.

Independence of Directors

Eight of our nine directors are independent under the New York Stock Exchange (NYSE) listing standards.

Independent directors are scheduled to meet separately in executive session after every regularly scheduled Board of Directors meeting.

We have a lead independent director, Mr. Paul T. Stecko.

Audit Committee

All members meet the independence standards for audit committee membership under the NYSE listing standards and applicable Securities and Exchange Commission (SEC) rules.

Two members of the Audit Committee, Messrs. Charles Cramb and Dennis Letham, have been designated by the Board as audit committee financial experts, as defined in the SEC rules, and the remaining members of the Audit Committee satisfy the NYSE's financial literacy requirements.

The Audit Committee operates under a written charter which governs its duties and responsibilities, including its sole authority to appoint, review, evaluate and replace our independent auditors.

The Audit Committee has adopted policies and procedures governing the pre-approval of all audit, audit-related, tax and other services provided by our independent auditors.

Compensation/Nominating/Governance Committee

All members meet the independence standards for compensation and nominating committee membership under the NYSE listing standards.

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The Compensation/Nominating/Governance Committee operates under a written charter that governs its duties and responsibilities, including the responsibility for executive compensation.

In December 2005, an Executive Compensation Subcommittee was formed which has the responsibility to consider and approve equity based compensation for our executive officers which is intended to qualify as performance based compensation under Section 162(m) of the Internal Revenue Code.

Corporate Governance Principles

We have adopted Corporate Governance Principles, including qualification and independence standards for directors.

Stock Ownership Guidelines

We have adopted Stock Ownership Guidelines to align the interests of our executives with the interests of stockholders and promote our commitment to sound corporate governance.

The Stock Ownership Guidelines apply to the independent directors, the Chairman and Chief Executive Officer, all Executive Vice Presidents and all Senior Vice Presidents.

Communication with Directors

The Audit Committee has established a process for confidential and anonymous submission by our employees, as well as submissions by other interested parties, regarding questionable accounting or auditing matters.

Additionally, the Board of Directors has established a process for stockholders to communicate with the Board of Directors, as a whole, or any independent director.

Codes of Business Conduct and Ethics

We have adopted a Code of Ethical Conduct for Financial Managers, which applies to our Chief Executive Officer, Chief Financial Officer, Controller and other key financial managers. This code is filed as Exhibit 14 to this report.

We also operate under a Statement of Business Principles that applies to all directors, officers and employees and includes provisions ranging from restrictions on gifts to conflicts of interests. All salaried employees are required to affirm annually in writing their acceptance of, and compliance with, these principles.

Related Party Transactions Policy

We have adopted a Policy and Procedure for Transactions With Related Persons, under which our Audit Committee must generally pre-approve transactions involving more than \$120,000 with our directors, executive officers, five percent or greater stockholders and their immediate family members.

Equity Award Policy

We have adopted a written policy to be followed for all issuances by our company of compensatory awards in the form of our common stock or any derivative of the common stock.

Personal Loans to Executive Officers and Directors

We comply with and operate in a manner consistent with the legislation outlawing extensions of credit in the form of a personal loan to or for our directors or executive officers.

Our Internet address is *www.tenneco.com*. We make our proxy statements, annual report to stockholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as filed with or furnished to the SEC, available free of charge on our Internet website as soon as

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reasonably practicable after submission to the SEC. Securities ownership reports on Forms 3, 4 and 5 are also available free of charge on our website as soon as reasonably practicable after submission to the SEC. The contents of our website are not, however, a part of this report.

Our Audit Committee, Compensation/Nominating/Governance Committee and Executive Compensation Subcommittee Charters, Corporate Governance Principles, Stock Ownership Guidelines, Audit Committee policy regarding accounting complaints, Code of Ethical Conduct for Financial Managers, Statement of Business Principles, Policy and Procedures for Transactions with Related Persons, Equity Award Policy, policy for communicating with the Board of Directors and Audit Committee policy regarding the pre-approval of audit, non-audit, tax and other services are available free of charge on our website at www.tenneco.com. In addition, we will make a copy of any of these documents available to any person, without charge, upon written request to Tenneco Inc., 500 North Field Drive, Lake Forest, Illinois 60045, Attn: General Counsel. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K and applicable NYSE rules regarding amendments to, or waivers of, our Code of Ethical Conduct for Financial Managers and Statement of Business Principles by posting this information on our website at www.tenneco.com.

CEO and CFO Certifications

In 2008, our Chief Executive Officer provided to the NYSE and the Chicago Stock Exchange the annual CEO certification regarding our compliance with the corporate governance listing standards of those exchanges. In addition, our Chief Executive Officer and Chief Financial Officer filed with the Securities and Exchange Commission all required certifications regarding the quality of our disclosures in our fiscal 2008 SEC reports. There were no qualifications to these certifications.

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For information concerning our operating segments, geographic areas and major products or groups of products, see Note 12 to the consolidated financial statements of Tenneco Inc. included in Item 8. The following tables summarize for each of our operating segments for the periods indicated: (i) net sales and operating revenues; (ii) earnings before interest expense, income taxes and minority interest (EBIT); and (iii) expenditures for plant, property and equipment. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 for information about certain costs and charges included in our results.

Net Sales and Operating Revenues:

	2008		2007		2006	
	(Dollar Amounts in Millions)					
North America	\$ 2,641	45%	\$ 2,910	47%	\$ 1,963	42%
Europe, South America and India	2,983	50	3,135	51	2,387	51
Asia Pacific	543	9	560	9	436	9
Intergroup sales	(251)	(4)	(421)	(7)	(104)	(2)
Total	\$ 5,916	100%	\$ 6,184	100%	\$ 4,682	100%

EBIT:

	2008		2007		2006	
	(Dollar Amounts in Millions)					
North America	\$ (107)	NM	\$ 120	48%	\$ 103	53%
Europe, South America and India	85	NM	99	39	81	41
Asia Pacific	19	NM	33	13	12	6
Total	\$ (3)		\$ 252	100%	\$ 196	100%

Expenditures for plant, property and equipment:

	2008		2007		2006	
	(Dollar Amounts in Millions)					
North America	\$ 108	49%	\$ 106	54%	\$ 100	59%
Europe, South America and India	89	40	74	37	51	30
Asia Pacific	24	11	18	9	19	11
Total	\$ 221	100%	\$ 198	100%	\$ 170	100%

Interest expense, income taxes, and minority interest that were not allocated to our operating segments are:

	2008	2007	2006
		(Millions)	
Interest expense (net of interest capitalized)	\$ 113	\$ 164	\$ 136
Income tax expense	289	83	5
Minority interest	10	10	6

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DESCRIPTION OF OUR BUSINESS

We design, manufacture and sell automotive emission control and ride control systems and products, with 2008 revenues of \$5.9 billion. We serve both original equipment manufacturers (OEMs) and replacement markets worldwide through leading brands, including Monroe®, Rancho®, Clevite® Elastomers, and Fric Rot™ ride control products and Walker®, Fonos™, and Gillet™ emission control products.

As a parts supplier, we produce individual component parts for vehicles as well as groups of components that are combined as modules or systems within vehicles. These parts, modules and systems are sold globally to most leading OEMs and throughout all aftermarket distribution channels.

Overview of Automotive Parts Industry and Adjacent Markets

The automotive parts industry is generally separated into two categories: (1) original equipment or OE sales, in which parts are sold in large quantities directly for use by OEMs; and (2) aftermarket sales, in which parts are sold as replacement parts in varying quantities to a wide range of wholesalers, retailers and installers. In the OE market, parts suppliers are generally divided into tiers Tier 1 suppliers, that provide their products directly to OEMs, and Tier 2 or Tier 3 suppliers, that sell their products principally to other suppliers for combination into the other suppliers own product offerings.

Demand for automotive parts in the OE market is generally a function of the number of new vehicles produced, which in turn is a function of prevailing economic conditions and consumer preferences. In 2008, the number of light vehicles produced was 12.7 million in North America, 28.8 million in Europe, South America and India and 26.6 million in Asia Pacific. The term light vehicles is comprised of two groups: (1) passenger cars and (2) light trucks. When we refer to light trucks, we are including sport-utility vehicles (SUV), crossover vehicles (CUV), pick-up trucks, vans and multi-purpose passenger vehicles. Worldwide new light vehicle production is forecasted to decrease to 59.8 million units in 2009 from approximately 68.1 million units in 2008. Although OE demand is tied to planned vehicle production, parts suppliers also have the opportunity to grow through increasing their product content per vehicle, by further penetrating business with existing customers and by gaining new customers and markets. Companies with global presence and advanced technology, engineering, manufacturing and support capabilities, such as our company, are, we believe, better positioned to take advantage of these opportunities.

These same competitive advantages have enabled suppliers such as us to serve customers beyond the light vehicle market. Certain automotive parts suppliers now find themselves being asked to develop and produce components and integrated systems for the commercial market of medium- and heavy-duty trucks, buses, and non-road equipment as well as the recreational segment for two-wheelers and all-terrain vehicles. Tenneco foresees this market diversification as a source of future growth.

Demand for aftermarket products is driven by general economic conditions, the quality of OE parts, the number of vehicles in operation, the age of the vehicle fleet, vehicle usage and the average useful life of vehicle parts. Although more vehicles are on the road than ever before, the aftermarket has experienced longer replacement cycles due to the improved quality of OE parts and increases in average useful lives of automotive parts as a result of technological innovation. In addition, the current global economic crisis has negatively impacted aftermarket sales. Suppliers are increasingly being required to deliver innovative aftermarket products that upgrade the performance or safety of a vehicle s original components to drive aftermarket demand.

Industry Trends

Currently, we believe several significant existing and emerging trends are dramatically impacting the automotive industry and the other markets we serve. As the dynamics of the automotive industry and our other

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markets change, so do the roles, responsibilities and relationships of its participants. Key trends that we believe are affecting parts suppliers include:

General Economic Factors and Production Levels

The current global financial crisis has materially and negatively impacted our business and our customers' businesses in the U.S. and globally. These disruptions in financial markets and recent restrictions on liquidity are adversely impacting the availability and cost of incremental credit for many companies.

Overall negative economic conditions, including the deterioration of global financial markets, downturns in the real estate and mortgage markets and a weakening job market, have led to slowed economic growth in the U.S., and more recently Europe and the rest of the world. Such conditions have negatively impacted consumer confidence, resulting in delayed purchases of durable consumer goods such as automobiles. Purchases of our customers' products have been further limited by their customers' inability to obtain adequate financing for such purchases. There has also been a shift in the North American market away from light trucks, which tend to be higher margin products for our customers and us, to more fuel-efficient passenger cars. These changes have negatively impacted our product sales and profitability.

A number of companies in the automotive industry are, and over the last several years have been, facing severe financial difficulties. General Motors, Ford and Chrysler have all announced significant restructuring actions in an effort to improve profitability and remain solvent. The North American automotive manufacturers are burdened with substantial structural and embedded costs, such as facility overhead as well as pension and healthcare costs, that have caused them to seek government financing and even risk bankruptcy. Automakers in other markets in the world are also experiencing financial difficulties from a weakened economy, tightening credit markets, and reduced demand for their products. The automotive supply base in turn has also been faced with severe cash flow problems as a result of the significantly lower production levels of light vehicles, increases in certain raw material, commodity and energy costs and restricted access to additional liquidity through the capital markets.

Increasing Environmental Standards

OE manufacturers and their parts suppliers are designing products and developing materials to respond to increasingly stringent environmental requirements, a growing diesel market and the demand for better fuel economy. Government regulations adopted over the past decade require substantial reductions in vehicle tailpipe emissions, longer warranties on parts of a vehicle's pollution control equipment and additional equipment to control fuel vapor emissions. Some of these regulations also mandate more frequent emission inspections for the existing fleet of vehicles. Manufacturers have responded by focusing their efforts towards technological development to minimize pollution. As a leading supplier of emission control systems with strong technical capabilities, we believe we are well positioned operationally to benefit from more rigorous environmental standards. For example, we developed the diesel particulate filter to meet stricter air quality regulations in Europe. Our diesel particulate filters are produced in both Europe on the Mercedes Benz Sprinter and E-class and North America on the GM Duramax, Ford Super Duty, Dodge Ram and International Truck and Engine Corporation (Navistar) medium duty. Our particulate filter and De-NOx converter can reduce particulate emissions by up to 90 percent and nitrogen oxide emissions by up to 85 percent. We also have numerous development contracts with North American, European and Asian light and medium-duty truck manufacturers for our selective catalytic reduction (SCR) systems. In addition, we are actively working on development of a non-road emission aftertreatment system for multiple manufacturers, in order to meet Tier 4 environmental regulations. In China, we have development contracts for complete turnkey SCR systems, including the ELIM-NOx[™] urea dosing technology which we acquired in 2007. Several customers have also purchased prototypes of our hydrocarbon injector, acquired with the ELIM-NOx[™] technology, for the purpose of actively regenerating diesel particulate filters and Lean NOx Traps through hydrocarbon injection directly into the exhaust system.

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Increasing Technologically Sophisticated Content

As consumers continue to demand competitively priced vehicles with increased performance and functionality, the number of sophisticated components utilized in vehicles is increasing. By replacing mechanical functions with electronics and by integrating mechanical and electronic functions within a vehicle, OE manufacturers are achieving improved emission control, improved safety and more sophisticated features at lower costs.

OEMs are increasingly demanding technological innovation from suppliers to address more stringent emission and other regulatory standards and to improve vehicle performance. To develop innovative products, systems and modules, we have invested \$127 million for 2008, \$114 million for 2007 and \$88 million for 2006, net of customer reimbursements, into engineering, research and development and we continuously seek to take advantage of our technology investments and brand strength by extending our products into new markets and categories. For example, we were the first supplier to develop and commercialize a diesel particulate filter that can virtually eliminate carbon and hydrocarbon emissions with minimal impact on engine performance.

We have expanded our competence in diesel particulate filters in Europe and are winning business in North America on these same applications. In addition, we supply Volvo, Audi, Ford and Mercedes Benz with a computerized electronic suspension system that we co-developed with öhlins Racing AB. As other examples, we are sponsoring funded University Research for advanced technologies for both emission control and ride control, and we are participating in the HyTRAN consortium in Europe for the development of practical fuel cell reformers and auxiliary power units.

Our customers reimburse us for engineering, research, and development costs on some platforms when we prepare prototypes and incur costs before platform awards. Our engineering, research and development expense for 2008, 2007, and 2006 has been reduced by \$120 million, \$72 million, and \$61 million, respectively, for these reimbursements.

Enhanced Vehicle Safety

Vehicle safety continues to gain increased industry attention and play a critical role in consumer purchasing decisions. As such, OEMs are seeking out suppliers with new technologies, capabilities and products that have the ability to advance vehicle safety. Continued research and development by select automotive suppliers in roll-over protection systems, smart airbag systems, braking electronics and safer, more durable materials has dramatically advanced the market for safety products and its evolving functional demands. Those suppliers that are able to enhance vehicle safety through innovative products and technologies have a distinct competitive advantage with the consumer, and thus their OEM customers. In the Aftermarket, Tenneco has promoted the Safety Triangle of Steering-Stopping-Stability to educate consumers of the detrimental effect of worn shock absorbers on vehicle steering and stopping distances. We further strengthened this message with the introduction of Monroe® branded brakes as an Aftermarket product offering during 2007. Also during 2007, the new Federal Motor Vehicle Safety Standard (FMVSS) 126 was introduced for electronic stability control (ESC) systems, making those systems mandatory by 2012. We believe that this legislation will encourage more vehicle manufacturers to specify products like Continuously Controlled Electronic Suspension (CES) and Kinetic.

Outsourcing and Demand for Systems and Modules

OEMs have been steadily moving towards outsourcing automotive parts and systems to simplify the vehicle assembly process, lower costs and reduce vehicle development time. Outsourcing allows OEMs to take advantage of the lower cost structure of the parts suppliers and to benefit from multiple suppliers engaging in simultaneous development efforts. Furthermore, development of advanced electronics has enabled formerly independent vehicle components to

become interactive, leading to a shift in demand from individual parts to

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fully integrated systems. As a result, automotive parts suppliers offer OEMs component products individually, as well as in a variety of integrated forms such as modules and systems:

Modules are groups of component parts arranged in close physical proximity to each other within a vehicle. Modules are often assembled by the supplier and shipped to the OEM for installation in a vehicle as a unit. Integrated shock and spring units, seats, instrument panels, axles and door panels are examples.

Systems are groups of component parts located throughout a vehicle which operate together to provide a specific vehicle functionality. Emission control systems, anti-lock braking systems, safety restraint systems, roll control systems and powertrain systems are examples.

This shift in demand towards fully integrated systems has created the role of the Tier 1 systems integrator. These systems integrators increasingly have the responsibility to execute a number of activities, such as design, product development, engineering, testing of component systems and purchasing from Tier 2 suppliers. We are an established Tier 1 supplier with many years of product integration experience. We have modules or systems for various vehicle platforms in production worldwide and modules or systems for additional platforms under development. For example, we supply ride control modules for the GM Chevy Silverado, GM Sierra and the VW Transporter and emission control systems for the Ford Super Duty, Toyota Tundra, Chrysler Dodge Ram, Ford Focus, and the GM Acadia, Enclave and Outlook.

Global Reach of OE Customers

OEMs are increasingly requesting suppliers to provide parts on a global basis to support global vehicle platforms. Also, as the customer base of OEMs has consolidated and emerging markets have become more important to achieving growth, suppliers must be prepared to provide products any place in the world.

Growing Importance of Emerging Markets: Because the North American and Western European automotive markets are relatively mature, OEMs are increasingly focusing on emerging markets for growth opportunities, particularly the so-called BRIC economies of Brazil, Russia, India, and China, and Eastern Europe. This increased OE focus has, in turn, increased the growth opportunities in the aftermarkets in these regions.

Governmental Tariffs and Local Parts Requirements: Many governments around the world require vehicles sold within their country to contain specified percentages of locally produced parts. Additionally, some governments place high tariffs on imported parts.

Location of Production Closer to End Markets: OEMs and parts suppliers have relocated production globally on an onsite basis that is closer to end markets. This international expansion allows suppliers to pursue sales in developing markets and take advantage of relatively lower labor costs.

With facilities around the world, including the key regions of North America, South America, Europe and Asia, we can supply our customers on a global basis.

Global Rationalization of OE Vehicle Platforms

OEMs are increasingly designing global platforms. A global platform is a basic mechanical structure of a vehicle that can accommodate different features and is in production and/or development in more than one region. Thus, OEMs can design one platform for a number of similar vehicle models. This allows manufacturers to realize significant economies of scale through limiting variations across items such as steering columns, brake systems, transmissions, axles, exhaust systems, support structures and power window and door lock mechanisms. We believe that this shift

towards standardization will have a large impact on automotive parts suppliers, who should experience a reduction in production costs as OEMs reduce variations in components. We also expect parts suppliers, once the market recovers, to benefit from higher production volumes per platform and greater economies of scale, as well as reduced total investment costs for molds, dies and prototype development. Light vehicle platforms of over one million units are expected to grow from 35 percent to 49 percent of global OE production from 2008 to 2013.

Table of Contents***Extended Product Life of Automotive Parts***

The average useful life of automotive parts both OE and replacement has been steadily increasing in recent years due to innovations in products and technologies. The longer product lives allow vehicle owners to replace parts of their vehicles less often. As a result, although more vehicles are on the road than ever before, the global aftermarket has not grown as fast as the number of vehicles on the road. Accordingly, a supplier's future viability in the aftermarket will depend, in part, on its ability to reduce costs and leverage its advanced technology and recognized brand names to maintain or achieve additional sales. As a Tier 1 OE supplier, we believe we are well positioned operationally to leverage our products and technology into the aftermarket.

Changing Aftermarket Distribution Channels

From 1998 to 2008, the number of retail automotive parts stores increased significantly while the number of jobber stores declined more than 14 percent in North America. Major automotive aftermarket retailers, such as AutoZone and Advance Auto Parts, are attempting to increase their commercial sales by selling directly to automotive parts installers in addition to individual consumers. These installers have historically purchased from their local warehouse distributors and jobbers, who are our more traditional customers. This enables the retailers to offer the option of a premium brand, which is often preferred by their commercial customers, or a standard product, which is often preferred by their retail customers. We believe we are well positioned to respond to this trend in the aftermarket because of our focus on cost reduction and high-quality, premium brands.

Contracting Supplier Base

Over the past few years, automotive suppliers have been consolidating in an effort to become more global, have a broad integrated product and service offering, and gain economies of scale in order to remain competitive amidst growing pricing pressures and increased outsourcing opportunities from the OEMs. One industry consultant projected in 2007 that the number of automotive supplier companies will decrease from 5,600 in 2000 to 2,800 by 2015. We believe that this industry trend will be accelerated by the current economic crisis which is putting additional pressure on automotive suppliers that do not have the size or breadth of operations or the financial profile to survive the severe downturn. A supplier's viability in this market will depend, in part, on its ability to maintain and increase operating efficiencies and provide value-added services.

Analysis of Revenues

The table below provides, for each of the years 2008 through 2006, information relating to our net sales and operating revenues, by primary product lines and customer categories.

	Net Sales		
	Year Ended December 31,		
	2008	2007	2006
	(Millions)		
Emission Control Systems & Products			
Aftermarket	\$ 358	\$ 370	\$ 384
Original Equipment market			
OE Value-add	2,128	2,288	1,665
OE Substrate(1)	1,492	1,673	927

	3,620	3,961	2,592
	3,978	4,331	2,976
Ride Control Systems & Products			
Aftermarket	761	734	690
Original Equipment market	1,177	1,119	1,016
	1,938	1,853	1,706
Total Revenues	\$ 5,916	\$ 6,184	\$ 4,682

(1) See Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 for a discussion of substrate sales.

Table of Contents**Brands**

In each of our operating segments, we manufacture and market leading brand names. Monroe® ride control products and Walker® exhaust products are two of the most recognized brand names in the automotive parts industry. We emphasize product value differentiation with these and other key brands such as Monroe Sensa-Trac® and Reflex® (shock absorbers and struts), Quiet-Flow® (mufflers), DynoMax® (performance exhaust products), Rancho® (ride control products for the high performance light truck market), Clevite® Elastomers (elastomeric vibration control components), Marzocchi™ (forks and suspensions for the two-wheeler market) and Lukey (performance exhaust and filters). In Europe, our Gillet™ brand is recognized as a leader in developing highly engineered exhaust systems for OE customers.

Customers

We have developed long-standing business relationships with our customers around the world. In each of our operating segments, we work together with our customers in all stages of production, including design, development, component sourcing, quality assurance, manufacturing and delivery. With a diverse mix of OE and aftermarket products and facilities in major markets worldwide, we believe we are well-positioned to meet customer needs. We believe we have a strong, established reputation with customers for providing high-quality products at competitive prices, as well as for timely delivery and customer service.

Worldwide we serve more than 37 different OEMs, and our products or systems are included on eight of the top 10 passenger car models produced for sale in Europe and eight of the top 10 light truck models produced for sale in North America for 2008. During 2008, our OE customers included:

North America

AM General
CAMI Automotive
Caterpillar
Chrysler
Club Car
Daimler AG
E-Z Go Golf Car
Ford Motor
General Motors
Harley-Davidson
Honda Motor
John Deere
Navistar International
Nissan Motor
Paccar
Toyota Motor
Volkswagen Group
Volvo Truck

Europe

BMW
Daimler AG
Fiat
Ford Motor
General Motors
Harley-Davidson
Mazda Motor
Nissan Motor
Paccar
Porsche
PSA Peugeot Citroen
Renault
Scania
Suzuki
Tata Motors
Toyota Motor
Volkswagen Group
Volvo Truck

Asia

BMW
Brilliance JinBei Automobile
Changan Automobile
Chrysler LLC
First Auto Works
Ford Motor
General Motors
Great Wall Motor Co.
Isuzu Motors
Jiangling Motors
Mazda Motor
Mitsubishi
Nissan Motor
PSA Peugeot Citroen
SAIC Motor Corp.
Toyota Motor
Volkswagen Group

Australia

Club Car
Fiat

South America

Daimler AG
Fiat

India

Club Car
E-Z Go Golf Car

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Ford Motor
General Motors
Mazda Motor
Mitsubishi Motors
Toyota Motor

Ford Motor
General Motors
Navistar (ITEC)
PSA Peugeot Citroen
Renault
Scania
Toyota Motor
Volkswagen Group

Ford Motor
General Motors
Mahindra & Mahindra
Suzuki
Tata Motors
TVS Motors

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The following customers accounted for 10 percent or more of our net sales in any of the last three years.

Customer	2008	2007	2006
General Motors	20%	20%	14%
Ford	11%	13%	10%
Volkswagen Group	8%	9%	10%
DaimlerChrysler(1)			11%

(1) In 2007, DaimlerChrysler sold approximately 80 percent of its interest in its U.S. unit, Chrysler Group, to Cerberus Capital Management L.P. Daimler AG accounted for approximately 7 percent and 8 percent of our 2008 and 2007 net sales, respectively. The Chrysler Group accounted for approximately 2 percent of our net sales in both 2008 and 2007.

As of December 31, 2008, we had net receivables due from General Motors, Ford and Chrysler in North America that totaled \$142 million. Of this amount, \$26 million was sold by our U.S. securitization program.

During 2008, our aftermarket customers were comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. These customers included such wholesalers and retailers as National Auto Parts Association (NAPA), Advance Auto Parts, Uni-Select and O Reilly Automotive in North America and Temot, Group Auto Union, Mekonomen Grossist and Auto Distribution International in Europe. We believe we have a balanced mix of aftermarket customers, with our aftermarket sales accounting for 19 percent of our net sales for 2008. During 2008, our top 10 aftermarket customers accounted for 41 percent of our net aftermarket sales.

Competition

We operate in highly competitive markets. Customer loyalty is a key element of competition in these markets and is developed through long-standing relationships, customer service, high quality value-added products and timely delivery. Product pricing and services provided are other important competitive factors.

In both the OE market and aftermarket, we compete with the vehicle manufacturers, some of which are also customers of ours, and numerous independent suppliers. In the OE market, we believe that we rank among the top two suppliers in the world for both emission control and ride control products and systems for light vehicles. In the aftermarket, we believe that we are the market share leader in the supply of both emission control and ride control products for light vehicles in the markets we serve throughout the world.

Seasonality

Our business is somewhat seasonal. OE manufacturers' production requirements have historically been higher in the first two quarters of the year as compared to the last two quarters. Production requirements tend to decrease in the third quarter due to plant shutdowns for model changeovers. In addition, we believe this seasonality is due, in part, to consumer demand for new vehicles softening during the holiday season and as a result of the winter months in North America and Europe. Also, the major North American OEMs generally close their production facilities for the last two weeks of the year. Our aftermarket business also experiences seasonality. Demand for aftermarket products increases during the Spring as drivers prepare for the Summer driving season. Although seasonality does impact our business, actual results may vary from the above trends due to global and local economic dynamics as well as the timing of platform launches and other production related events.

Traditionally, during recessionary times such as these, OE sales decline due to reduced consumer demand for automobiles and other capital goods; and aftermarket sales increase as consumers forego purchases and choose instead to keep their vehicles longer, spending on repair and maintenance services. By participating in both the OE and aftermarket segments, we are insulated from these cycles to some extent. However, because of the severe economic downturn we are seeing now, the counter-cyclical nature of our aftermarket business is not yielding the same benefits as in the past. More so than in previous recessions, customers have decreased their spending, impacting not just our OE business but also our aftermarket business.

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Emission Control Systems

Vehicle emission control products and systems play a critical role in safely conveying noxious exhaust gases away from the passenger compartment and reducing the level of pollutants and engine exhaust noise to an acceptable level. Precise engineering of the exhaust system from the manifold that connects an engine's exhaust ports to an exhaust pipe, to the catalytic converter that eliminates pollutants from the exhaust, to the muffler leads to a pleasant, tuned engine sound, reduced pollutants and optimized engine performance.

We design, manufacture and distribute a variety of products and systems designed to reduce pollution and optimize engine performance, acoustic tuning and weight, including the following:

Catalytic converters and diesel oxidation catalysts Devices consisting of a substrate coated with precious metals enclosed in a steel casing used to reduce harmful gaseous emissions, such as carbon monoxide;

Diesel Particulate Filters (DPFs) Devices to eliminate particulate matter emitted from diesel engines;

Burner systems Devices which actively combust fuel and air inside the exhaust system to create extra heat for DPF regeneration, or for improved efficiency of SCR systems;

Hydrocarbon vaporizers and injectors Devices to add fuel to a diesel exhaust system in order to regenerate diesel particulate filters or Lean NOx traps;

Lean NOx traps Devices which reduce Nitrogen Oxide (NOx) emissions from diesel powertrains using capture and store technology;

Selective Catalytic Reduction (SCR) systems Devices which reduce NOx emissions from diesel powertrains using injected reductants such as AdBlue™ or Diesel Exhaust Fuel (DEF);

Mufflers and resonators Devices to provide noise elimination and acoustic tuning;

Exhaust manifolds Components that collect gases from individual cylinders of a vehicle's engine and direct them into a single exhaust pipe;

Pipes Utilized to connect various parts of both the hot and cold ends of an exhaust system;

Hydroformed assemblies Forms in various geometric shapes, such as Y-pipes or T-pipes, which provide optimization in both design and installation as compared to conventional pipes; and

Hangers and isolators Used for system installation and noise and vibration elimination.

We entered the emission control product line in 1967 with the acquisition of Walker Manufacturing Company, which was founded in 1888. With the acquisition of Heinrich Gillet GmbH & Co. in 1994, we also became one of Europe's leading OE emission control systems suppliers. When the term Walker is used in this document, it refers to our subsidiaries and affiliates that produce emission control products and systems.

We supply our emission control offerings to over 41 vehicle-makers for use on over 180 vehicle models, including 7 of the top 10 passenger cars produced for sale in Europe and 6 of the top 10 light trucks produced for sale in North America in 2008. We also supply OE EC products to heavy-duty and specialty vehicle manufacturers including Harley-Davidson, BMW Motorcycle, Daimler Trucks, and International Truck and Engine (Navistar).

With respect to catalytic converters, we buy the substrate coated with precious metals, or sometimes the completed catalytic converter, from a third party or directly from the OEM, use them in our manufacturing process and sell them as part of the completed system. This often occurs at the direction of the OEMs. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for more information on our sales of these products.

In the aftermarket, we manufacture, market and distribute replacement mufflers for virtually all North American, European, and Asian makes of light vehicles under brand names including Quiet-Flow®, TruFit® and Aluminox Pro™, in addition to offering a variety of other related products such as pipes and

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catalytic converters (Walker Perfection®). We also serve the specialty exhaust aftermarket, where our key offerings include Mega-Flow™ exhaust products for heavy-duty vehicle applications and DynoMax® high performance exhaust products. We continue to emphasize product value differentiation with other aftermarket brands such as Thrush® and Fonos™.

The following table provides, for each of the years 2008 through 2006, information relating to our sales of emission control products and systems for certain geographic areas:

	Percentage of Net Sales		
	Year Ended December 31,		
	2008	2007	2006
United States			
Aftermarket	12%	10%	19%
OE market	88	90	81
	100%	100%	100%
Foreign Sales			
Aftermarket	8%	8%	10%
OE market	92	92	90
	100%	100%	100%
Total Sales by Geographic Area			
United States	32%	34%	29%
Foreign	68	66	71
	100%	100%	100%

Ride Control Systems

Superior ride control is governed by a vehicle's suspension system, including its shock absorbers and struts. Shock absorbers and struts help maintain vertical loads placed on a vehicle's tires to help keep the tires in contact with the road. A vehicle's ability to steer, brake and accelerate depends on the contact between the vehicle's tires and the road. Worn shocks and struts can allow excess weight transfer from side to side, which is called roll, from front to rear, which is called pitch, and up and down, which is called bounce. Variations in tire-to-road contact can affect a vehicle's handling and braking performance and the safe operation of a vehicle. Shock absorbers are designed to control vertical loads placed on tires by providing resistance to vehicle roll, pitch and bounce. Thus, by maintaining the tire to road contact, ride control products are designed to function as safety components of a vehicle, in addition to providing a comfortable ride.

We design, manufacture and distribute a variety of ride control products and systems. Our ride control offerings include:

Shock absorbers A broad range of mechanical shock absorbers and related components for light- and heavy-duty vehicles. We supply both twin-tube and monotube shock absorbers to vehicle manufacturers and

the aftermarket;

Struts A complete line of struts and strut assemblies for light vehicles;

Vibration control components (Clevite® Elastomers) Generally rubber-to-metal bushings and mountings to reduce vibration between metal parts of a vehicle. Our offerings include a broad range of suspension arms, rods and links for light- and heavy-duty vehicles;

Kinetic® Suspension Technology A suite of roll control, near equal wheel loading systems ranging from simple mechanical systems to complex hydraulic systems featuring proprietary and patented technology. The Kinetic® Suspension Technology was incorporated on the Citroen World Rally Car that was featured in the World Rally Championship 2003, 2004 and 2005. Additionally, the Kinetic® Suspension Technology was incorporated on the Lexus GX 470 sport utility vehicle which resulted in our winning the PACE Award;

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Advanced suspension systems Electronically adjustable shock absorbers and suspension systems that change performance based on vehicle inputs such as steering and braking; and

Other We also offer other ride control products such as load assist products, springs, steering stabilizers, adjustable suspension systems, suspension kits and modular assemblies.

We supply our ride control offerings to over 38 vehicle-makers for use on over 145 vehicle models, including 6 of the top 10 passenger cars produced for sale in Europe and 7 of the top 10 light truck models produced for sale in North America for 2008. We also supply OE ride control products and systems to a range of heavy-duty and specialty vehicle manufacturers including Volvo Truck, Scania, International Truck and Engine (Navistar), and PACCAR.

In the ride control aftermarket, we manufacture, market and distribute replacement shock absorbers for virtually all North American, European and Asian makes of light vehicles under several brand names including Gas Matic[®], Sensa-Trac[®], Monroe Reflex[®] and Monroe Adventure[®], as well as Clevite[®] Elastomers for elastomeric vibration control components. We also sell ride control offerings for the heavy-duty, off-road and specialty aftermarket, such as our Gas-Magnum[®] shock absorbers for the North American heavy-duty category.

We entered the ride control product line in 1977 with the acquisition of Monroe Auto Equipment Company, which was founded in 1916, and introduced the world's first modern tubular shock absorber in 1930. When the term Monroe is used in this document it refers to our subsidiaries and affiliates that produce ride control products and systems.

The following table provides, for each of the years 2008 through 2006, information relating to our sales of ride control equipment for certain geographic areas:

	Percentage of Net Sales		
	Year Ended		
	December 31,		
	2008	2007	2006
United States			
Aftermarket	53%	58%	53%
OE market	47	42	47
	100%	100%	100%
Foreign Sales			
Aftermarket	32%	31%	33%
OE market	68	69	67
	100%	100%	100%
Total Sales by Geographic Area			
United States	34%	32%	38%
Foreign	66	68	62
	100%	100%	100%

Financial Information About Geographic Areas

Refer to Note 12 of the consolidated financial statements of Tenneco Inc. included in Item 8 of this report for financial information about geographic areas.

Sales, Marketing and Distribution

We have separate and distinct sales and marketing efforts for our OE and aftermarket businesses.

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For OE sales, our sales and marketing team is an integrated group of professionals, including skilled engineers and program managers, who are organized by customer and product type (e.g., ride control and emission control). Our sales and marketing team provides the appropriate mix of operational and technical expertise needed to interface successfully with the OEMs. Our new business capture process involves working closely with the OEM platform engineering and purchasing teams. Bidding on OE automotive platforms typically encompasses many months of engineering and business development activity. Throughout the process, our sales team, program managers and product engineers assist the OE customer in defining the project's technical and business requirements. A normal part of the process includes our engineering and sales personnel working on customers' integrated product teams, and assisting with the development of component/system specifications and test procedures. Given that the OE business involves long-term production contracts awarded on a platform-by-platform basis, our strategy is to leverage our engineering expertise and strong customer relationships to obtain platform awards and increase operating margins.

For aftermarket sales and marketing, our sales force is generally organized by customer and region and covers multiple product lines. We sell aftermarket products through four primary channels of distribution: (1) the traditional three-step distribution system of full-line warehouse distributors, jobbers and installers; (2) the specialty two-step distribution system of specialty warehouse distributors that carry only specified automotive product groups and installers; (3) direct sales to retailers; and (4) direct sales to installer chains. Our aftermarket sales and marketing representatives cover all levels of the distribution channel, stimulating interest in our products and helping our products move through the distribution system. Also, to generate demand for our products from end-users, we run print and television advertisements and offer pricing promotions. We were one of the first parts manufacturers to offer business-to-business services to customers with TA-Direct, an on-line order entry and customer service tool. In addition, we maintain detailed web sites for each of Walker[®], Monroe[®], Rancho[®], DynoMax[®], Monroe brake brands and our heavy-duty products.

Manufacturing and Engineering

We focus on achieving superior product quality at the lowest operating costs possible and generally use state-of-the-art manufacturing processes to achieve that goal. Our manufacturing strategy centers on a lean production system designed to reduce overall costs, while maintaining quality standards and reducing manufacturing cycle time. In addition, we have implemented Six Sigma in our processes to minimize product defects and improve operational efficiencies. We deploy new technology to differentiate our products from our competitors and to achieve higher quality and productivity. We continue to adapt our capacity to customer demand, both expanding capabilities in growth areas as well as reallocating capacity away from demand segments in decline.

Emission Control

Our consolidated businesses operate 11 emission control manufacturing facilities in the U.S. and 41 emission control manufacturing facilities outside of the U.S. We operate 12 of these international manufacturing facilities through joint ventures in which we own a controlling interest. We operate five emission control engineering and technical facilities worldwide and share two other such facilities with our ride control operations. In addition, three joint ventures in which we hold a non-controlling interest operate a total of three manufacturing facilities outside the U.S.

Within each of our emission control manufacturing facilities, operations are organized by component (e.g., muffler, catalytic converter, pipe, resonator and manifold). Our manufacturing systems incorporate cell-based designs, allowing work-in-process to move through the operation with greater speed and flexibility. We continue to invest in plant and equipment to stay competitive in the industry. For instance, in our Smithville, Tennessee, OE manufacturing facility, we have developed a muffler assembly cell that utilizes laser welding. This allows for quicker change-over times in the process as well as less material used and less weight for the product. There is also a reduced cycle time compared to traditional joining and increased manufacturing precision for superior durability and performance. In

2007, we introduced the Measured and Matched Converter technique in North America. This allows us to maintain the optimum GBD (Gap Bulk Density) in our converter manufacturing operations with Tenneco proprietary processing. This process, coupled with cold

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spinning of the converter body, versus traditional cone to can welding, allows for more effective use of material through reduced welding, lower cost, and better performance of the product.

In an effort to further improve our OE customer service and position ourselves as a Tier-1 OE systems supplier, we have been developing some of our emission control manufacturing operations into just-in-time or JIT systems. In this system, a JIT facility located close to our OE customer's manufacturing plant receives product components from both our manufacturing operations and independent suppliers, and then assembles and ships products to the OEMs on an as-needed basis. To manage the JIT functions and material flow, we have advanced computerized material requirements planning systems linked with our customers' and supplier partners' resource management systems. We have three emission control JIT assembly facilities in the United States and 21 throughout the rest of the world.

Our engineering capabilities include advanced predictive design tools, advanced prototyping processes and state-of-the-art testing equipment. These technological capabilities make us a full system integrator to the OEMs, supplying complete emission control systems from the manifold to the tailpipe, to provide full emission and noise control. We have expanded our engineering capabilities with the acquisition of Combustion Component Associates's ELIM-NOxtm mobile emission technology that includes urea and hydrocarbon injection, and electronic controls and software for selective catalytic reduction. We have also developed advanced predictive engineering tools, including KBM&E (Knowledge Based Manufacturing & Engineering). The innovation of our KBM&E (which we call TEN-KBM&E) is a modular toolbox set of CAD embedded applications for manufacturing and engineering compliant design. The encapsulated TEN-KBM&E content is driven by an analytical method which continuously captures and updates the knowledge of our main manufacturing and engineering processes.

Ride Control

Our consolidated businesses operate eight ride control manufacturing facilities in the U.S. and 23 ride control manufacturing facilities outside the U.S. We operate two of these international facilities through joint ventures in which we own a controlling interest. We operate seven engineering and technical facilities worldwide and share two other such facilities with our emission control operations.

Within each of our ride control manufacturing facilities, operations are organized by product (e.g., shocks, struts and vibration control products) and include computer numerically controlled and conventional machine centers; tube milling and drawn-over-mandrel manufacturing equipment; metal inert gas and resistance welding; powdered metal pressing and sintering; chrome plating; stamping; and assembly/test capabilities. Our manufacturing systems incorporate cell-based designs, allowing work-in-process to move through the operation with greater speed and flexibility.

As in the emission control business, in an effort to further improve our OE customer service and position us as a Tier 1 OE module supplier, we have been developing some of our manufacturing operations into JIT systems. We have three JIT ride control facilities outside the U.S.

In designing our shock absorbers and struts, we use advanced engineering and test capabilities to provide product reliability, endurance and performance. Our engineering capabilities feature advanced computer-aided design equipment and testing facilities. Our dedication to innovative solutions has led to such technological advances as:

Adaptive damping systems – adapt to the vehicle's motion to better control undesirable vehicle motions;

Electronically adjustable suspensions – change suspension performance based on a variety of inputs such as steering, braking, vehicle height, and velocity; and

Air leveling systems manually or automatically adjust the height of the vehicle.

Conventional shock absorbers and struts generally compromise either ride comfort or vehicle control. Our innovative grooved-tube, gas-charged shock absorbers and struts provide both ride comfort and vehicle control, resulting in improved handling, reduced vibration and a wider range of vehicle control. This technology can

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be found in our premium quality Sensa-Trac® shock absorbers. We further enhanced this technology by adding the SafeTech™ fluon banded piston, which improves shock absorber performance and durability. We introduced the Monroe Reflex® shock absorber, which incorporates our Impact Sensor™ device. This technology permits the shock absorber to automatically switch in milliseconds between firm and soft compression damping when the vehicle encounters rough road conditions, thus maintaining better tire-to-road contact and improving handling and safety. We have also developed an innovative computerized electronic suspension system, which features dampers developed by Tenneco and electronic valves designed by öhlins Racing AB. The continuously controlled electronic suspension (CES) ride control system is featured on Audi, Volvo, Ford and Mercedes Benz vehicles.

Quality Control

Quality control is an important part of our production process. Our quality engineers establish performance and reliability standards in the product's design stage, and use prototypes to confirm that the component/system can be manufactured to specifications. Quality control is also integrated into the manufacturing process, with shop operators being responsible for quality control of their specific work product. In addition, our inspectors test work-in-progress at various stages to ensure components are being fabricated to meet customers' requirements.

We believe our commitment to quality control and sound management practices and policies is demonstrated by our successful participation in the International Standards Organization/Technical Specifications certification process (ISO/TS). ISO/TS certifications are semi-annual or annual audits that certify that a company's facilities meet stringent quality and business systems requirements. Without ISO or TS certification, we would not be able to supply our products for the aftermarket or the OE market, respectively, either locally or globally. Of those manufacturing facilities where we have determined that TS certification is required to service our customers or would provide us with an advantage in securing additional business, 96 percent have achieved TS 16949:2002 certification. For strategic reasons, we have no immediate plans to certify the remaining plants. Of those manufacturing facilities where we have determined that ISO 9000 certification is required or would provide us with an advantage in securing additional business, all have achieved ISO 9000 certification.

Business Strategy

We strive to strengthen our global market position by designing, manufacturing, delivering and marketing technologically innovative emission control and ride control products and systems for OEMs and the aftermarket. We work toward achieving a balanced mix of products, markets and customers by capitalizing on emerging economic trends, specific regional preferences and changing customer requirements. We target both mature and developing markets for not just light vehicles, but also for commercial and specialty vehicles. We further enhance our operations by focusing on operational excellence in all functional areas.

The key components of our business strategy are described below:

Sharply Reduce Costs to Help Counteract the Current Global Economic Crisis

We are aggressively responding to the current global economic crisis and the resulting significantly reduced production levels by executing comprehensive global restructuring and cost-reduction initiatives. In the fourth quarter of 2008, we launched a global restructuring program that we estimate will generate annual savings of about \$58 million once fully implemented by the end of 2009. The restructuring program, which has a payback period of less than one year, includes actions to permanently reduce our fixed cost base and actions to flex our costs in the current economic environment, such as:

Permanently eliminating 1,100 jobs worldwide, which is in addition to 1,150 jobs previously eliminated in 2008;

Closing three North American manufacturing plants and an engineering facility in Australia;

Suspending matching contributions to employee 401 (k) programs; and

Cutting spending on information technology, sales and marketing programs.

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We are also flexing our operations to address these market conditions, implementing temporary layoffs of hourly workers at our plants worldwide that are impacted by customers' plant shutdowns. In North America, where customer production cuts have been the greatest, we have also initiated salaried employee furloughs. In Europe, we have eliminated all temporary positions and are working successfully with various works councils to pursue similar cost reduction efforts including reduced work hours. In addition, we have frozen 2009 salaries at 2008 levels, and implemented other salary control actions, and we have cut total compensation for our top 50 executives by more than 60% on average.

In addition, we are strategically reducing capital expenditures and engineering investments where possible without compromising our long-term growth prospects. We are eliminating or deferring regional expansion projects, cutting spending tied to delayed customer launches, redeploying assets where feasible, and eliminating all discretionary capital spending. We are focusing on developing technologies and capabilities tied to business launching within the next two to three years, except in those instances where the customer is paying upfront for engineering and advance technology developments on programs launching in 2012 and beyond. This has allowed us to continue all programs critical to our growth with limited near-term cash impact.

We are also focusing on generating cash flow through working capital improvements, particularly by reducing inventories and strengthening our management of payables and receivables.

Development and Commercialization of Advanced Technologies

We continue to identify and target new, fast-growing niche markets and commercialize new technologies for these markets as well as our existing markets. We focus on commercializing innovative, value-added products with an emphasis on highly engineered systems and complex assemblies and modules. By anticipating customer needs and preferences, we are continually capturing global market opportunities with our advanced technologies, and increasing our content per vehicle. As a result of increasing emissions standards requiring advanced aftertreatment products and systems, we believe available emission control content per light and commercial vehicles will continue to rise over the next several years. With our ELIM-NO_xtm technology, we offer an integrated Selective Catalytic Reduction (SCR) system to meet the increasingly stringent emissions regulations being introduced around the world. We also believe that consumers' greater emphasis on automotive comfort, handling and safety could allow available ride control content per light vehicle to rise. We are selling Continuously Controlled Electronic Suspension (CES) shock absorbers to Volvo, Audi, Mercedes, VW, and Ford, among others, and engineered elastomers to manufacturers with unique needs.

Growth in Adjacent Markets

One of our goals is to apply our existing design, engineering and manufacturing capabilities to penetrate a variety of adjacent markets and to achieve growth in higher-margin businesses. For example, we are aggressively leveraging our technology and engineering leadership in emission and ride control into adjacent markets, such as the heavy-duty market for trucks, buses, agricultural equipment, construction machinery and other commercial vehicles. As an established leading supplier of heavy-duty ride control and elastomer products, we are already serving customers like Volvo Truck, Navistar (International Truck and Engine), Freightliner and PACCAR. We also see tremendous opportunity to expand our presence with our emission control products and systems in the heavy-duty market beyond North America and Europe into China and elsewhere. Also, we recently added the ride control products and technologies of Gruppo Marzocchi to our existing exhaust systems for two-wheelers obtained from the Gabilan Manufacturing acquisition. With our newly-formed relationship with Caterpillar as its global diesel emission control system integration supplier, we demonstrate our commitment to penetrate the market for off-road equipment.

Growth in Developing Economies

We continue to adjust our global footprint to follow our customers into growth regions around the world and capture our fair share of new business. Recently, we built or expanded several facilities in India, opened a second emissions control facility in St. Petersburg, Russia, and opened a new manufacturing plant in Korea. As OEMs have entered the fast-growing economies of Brazil, Russia, India, China, and Thailand, we have

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followed, building the capability to engineer and produce locally cutting-edge technologies and products and thus allowing us to capture new business in these markets.

Leverage Global Engineering and Advanced System Capabilities

Given the current economic crisis, we are strategically managing engineering investments without compromising our long-term growth prospects, by focusing on developing technologies and capabilities tied to business launching within the next two to three years. An exception to that are those instances where the customer is paying upfront for engineering and advance technology developments on programs launching in 2012 and beyond. This strategy allows us to continue all programs critical to our growth with minimal near-term cash impact. We continue our long tradition of developing highly engineered systems and complex assemblies and modules designed to provide value-added solutions to customers and increase vehicle content generally and thus, generate higher profit margins than individualized components. Integrating electronically many of our engineering and manufacturing facilities globally, we believe, has helped us to maintain our presence on top-selling vehicles. In addition, our just-in-time and in-line sequencing manufacturing and distribution capabilities have enabled us to be more responsive to our customers' needs.

Expand Our Aftermarket Business

We manufacture and market leading, brand-name products to a diversified global aftermarket customer base. Monroe® ride control products and Walker® emission control products, which have been offered to consumers since the 1930s, are two of the most recognized brand-name products in the automotive parts industry. We believe our brand equity in the aftermarket is a key asset especially as customers consolidate and channels of distribution converge.

Additionally, we seek to strengthen our competitive position with OEMs. Our market knowledge, coupled with our leading aftermarket presence, strengthens our ties with our OE customer base and drives acceptance of our aftermarket products and technologies for use in original equipment vehicle manufacturing.

We continue to emphasize product value differentiation with our brands, including the: Monroe Reflex® and Monroe Sensa-Trac® lines of shock absorbers, Walker's Quiet-Flow® muffler, Rancho® ride control products, DynoMax® exhaust products, Walker Ultra™ catalytic converters, Monroe® Dynamics and Ceramics brakes, and in European markets, Walker™ and Aluminox Pro™ mufflers.

Our plans to grow and gain market share in the aftermarket business call for: adding new products, increasing the coverage to current brands, and offering our brands to, and increasing our aftermarket penetration of, new product segments. To this end, we introduced in North America a ride control line extension, the Quick Strut which is a complete module incorporating the spring and upper mount. This product results in a much easier and quicker installation that even do-it-yourself consumers and body-shop technicians can perform without the special tools and skills required previously. In addition, Monroe® Dynamics and Ceramic Disc brake pads were introduced in the United States in 2006. A number of other opportunities are being explored to extend our existing well-known brands, such as Monroe®, and our product line generally to segments not previously served.

Execute Focused Transactions

In the past, we have successfully identified and capitalized on strategic acquisitions and alliances to achieve growth. Through these acquisitions and alliances, we have (1) expanded our product portfolio with complementary technologies; (2) realized incremental business from existing customers; (3) gained access to new customers; and (4) achieved leadership positions in geographic markets outside North America.

We signed exclusive licensing agreements for burner systems used in the regeneration of Diesel Particulate Filters (DPFs) with Woodward Governor Company and for vaporizer technologies with another company. These technologies, which complemented our array of existing emissions control products, enabled us to provide integrated aftertreatment systems as demanded by commercial vehicle manufacturers and others.

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We developed a strategic alliance with Futaba, a leading exhaust manufacturer in Japan, and formed a joint venture based in Burnley, England. We also created an alliance with Hitachi (as successor to Tokico Ltd. following its acquisition of Tokico), a leading Japanese ride control manufacturer. These alliances help us grow our business with Japan-based OEMs by leveraging the geographical reach of each partner to serve global vehicle platforms of these OEMs.

We established a presence in Thailand through a joint venture that supplies exhaust components for GM and Isuzu. Our joint venture operations in Dalian and Shanghai positioned us as a leading exhaust supplier in the rapidly growing Chinese market. Also, we increased our China footprint and OEM coverage on emission control products and systems through two joint ventures, partnering with Eberspächer International GmbH to source luxury cars produced by BMW and Audi, and with Chengdu Lingchuan Mechanical Plant to supply various Ford platforms.

Our operations in China are being expanded through investments in both manufacturing and engineering facilities. We opened our first wholly-owned operation in China, an elastomer manufacturing facility in Suzhou. In addition, through an extension of our joint venture with Shanghai Tractor and Engine Company, a subsidiary of Shanghai Automotive Industry Corp., we established a local engineering center to develop automotive exhaust products. Finally, we increased our ownership stake in the Tenneco (Beijing) Ride Control System Company Limited (a joint venture with Beijing Automotive Industry Corp.) from 51 percent to 65 percent in 2006.

In September 2007, we acquired the mobile emissions business of Combustion Components Associates, Inc., a manufacturer of air pollution control technologies. The acquisition augmented Tenneco's system integration capabilities and offerings related to Selective Catalyst Reduction (SCR) technologies designed to meet future, more stringent diesel emissions regulations for passenger cars, trucks, and other vehicles.

In May 2008, we acquired from Delphi Automotive System LLC certain ride control assets at Delphi's Kettering, Ohio facility to allow us to grow our OE ride control business globally. This acquisition should allow us to diversify our ride control business in North America and elsewhere.

In September 2008, we acquired the suspension business of Gruppo Marzocchi, an Italy-based worldwide leading supplier of suspension technology for the two-wheeler market. This acquisition diversifies our business beyond light vehicles and brings us strong brands, leading products and advanced technology capabilities.

In February 2009, we signed a joint agreement with GE Transportation, a unit of General Electric Company, to develop a proprietary SCR and aftertreatment technology designed to reduce and control diesel engine emissions for various transportation and other applications. We will collaborate with GE Transportation on the development and production of GE's Hydrocarbon-Selective Catalytic Reduction catalyst technology (HC-SCR), a diesel aftertreatment innovation aimed at reducing harmful nitrogen oxide (NOx) emissions as effectively as urea-based SCR systems. Additionally, we will work with GE Transportation to further develop and integrate the HC-SCR technology into complete aftertreatment systems for both locomotive and off-highway vehicle markets. Once fully developed, this technology will also be offered to customers in the on-road, marine and stationary power markets.

We intend to continue to pursue strategic alliances, joint ventures, acquisitions and other transactions that complement or enhance our existing products, technology, systems development efforts, customer base and/or global presence. We will align with companies that have proven products, proprietary technology, advanced research capabilities, broad geographic reach, and/or strong market positions to further strengthen our product leadership, technological edge, international reach or customer relationships.

Operational Excellence

We will continue to strive for operational excellence by optimizing our manufacturing and engineering footprint, enhancing our Six Sigma processes and Lean productivity tools, managing the complexities of our global supply chain to realize purchasing economies of scale while satisfying diverse and global requirements, and supporting our businesses with robust information technology systems. We will make investments in our operations and infrastructure as required to achieve our strategic goals. We will be mindful of the changing

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market conditions that might necessitate adjustments to our resources and manufacturing capacity around the world. We will remain committed to protecting the environment as well as the health and safety of our employees.

Environmental Matters

We estimate that we and our subsidiaries will make expenditures for plant, property and equipment for environmental matters of approximately \$2 million in both 2009 and 2010.

For additional information regarding environmental matters, see Item 3, Legal Proceedings, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental and Other Matters, and Note 13 to the consolidated financial statements of Tenneco Inc. included in Item 8.

Employees

As of December 31, 2008, we had approximately 21,000 employees of which approximately 53 percent were covered by collective bargaining agreements. European works councils cover 22 percent of our total employees, a majority of whom are also included under collective bargaining agreements. Several of our existing labor agreements in the United States and Mexico are scheduled for renegotiation in 2009. In addition, agreements are expiring in 2009 in Europe and South America covering plants in France, Portugal, the United Kingdom and Brazil. We regard our employee relations as satisfactory.

Other

The principal raw material that we use is steel. We obtain steel from a number of sources pursuant to various contractual and other arrangements. We believe that an adequate supply of steel can presently be obtained from a number of different domestic and foreign suppliers. For the past several years, we have experienced higher steel prices which we have addressed by evaluating alternative materials and processes, reviewing material substitution opportunities, increasing component and assembly outsourcing to low cost countries and aggressively negotiating with our customers to allow us to recover these higher costs from them. While the global economic crisis has reduced the pressure on raw material prices, market prices remain volatile.

We hold a number of domestic and foreign patents and trademarks relating to our products and businesses. We manufacture and distribute our products primarily under the Walker® and Monroe® brand names, which are well-recognized in the marketplace and are registered trademarks. The patents, trademarks and other intellectual property owned by or licensed to us are important in the manufacturing, marketing and distribution of our products.

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ITEM 1A. RISK FACTORS.

The recent unprecedented deterioration in the global economy, global credit markets and the financial services industry has severely and negatively affected the automotive industry and our business, financial position and liquidity.

The current economic crisis arising out of the subprime mortgage market collapse and the resulting worldwide financial industry turmoil has resulted in a severe and global tightening of credit and liquidity crisis. As a result, nearly every major economy in the world now faces a widespread reduction of business activity, seized-up credit markets and rising unemployment. These conditions have led to a dramatic decline in the housing markets in the United States and Western Europe and low consumer confidence, which has resulted in delayed and reduced purchases of durable consumer goods such as automobiles. As a result, our OEM customers significantly reduced their production schedules during 2008, particularly in the second half of the year. OE production schedules for 2009 are projected to be at their lowest levels in decades and the outlook for 2009 is uncertain.

We face several additional or increased risks as a result of the current economic crisis and its significant impact on the automotive industry, including the following:

Disruptions in the financial markets are adversely impacting the availability and cost of credit which could materially and negatively affect our company. The recent global financial crisis has materially and negatively impacted our business and our customers' businesses in the U.S. and globally. Longer term disruptions in the capital and credit markets could further adversely affect our customers' and our ability to access the liquidity that is necessary to fund our operations. These disruptions are also adversely affecting the U.S. and world economy, further negatively impacting consumer spending patterns in the automotive industry. Purchases of our customers' products may be limited by their customers' inability to obtain adequate financing for such purchases. In addition, as our customers and suppliers respond to rapidly changing consumer preferences, they may require access to additional capital. If that capital is not available or its cost is prohibitively high, their businesses would be negatively impacted which could result in further restructuring or even reorganization under bankruptcy laws. Any such negative impact, in turn, could materially and negatively affect our company either through loss of sales to any of our customers so affected or through inability to meet our commitments (or inability to meet them without excess expense) because of loss of supplies from any of our suppliers so affected. There are no assurances that government responses to these disruptions will restore consumer confidence or improve the liquidity of the financial markets.

In addition, lending institutions, including the lenders under our revolving credit facility, have suffered and may continue to suffer losses due to their lending and other financial relationships, especially because of the general weakening of the global economy and increased financial instability of many borrowers. As a result, lenders may become insolvent, which could affect the actual availability of credit under our revolving credit facility, or our ability to obtain other financing on satisfactory terms and in adequate amounts, if at all. If this were to occur, our sources of liquidity may prove to be insufficient, and our financial condition or results of operations could be materially and adversely affected.

Financial difficulties facing other automotive companies may have a material and adverse impact on us. A number of companies in the automotive industry are, and over the last several years have been, facing severe financial difficulties. General Motors, Ford and Chrysler have all announced significant restructuring actions in an effort to improve profitability and remain solvent. The North American automotive manufacturers are burdened with substantial structural and embedded costs, such as facility overhead as well as pension and healthcare costs, that have caused them to seek government financing and even discuss the possibility of bankruptcy. Automakers in other markets in the world are also experiencing difficulties from a weakened economy, tightening credit markets and reduced demand for their products. The automotive supply base in turn has also been faced with severe cash flow

problems as a result of the significantly lower production levels of light vehicles, increases in certain raw material, commodity and energy costs and restricted access to additional liquidity through the credit markets. Several suppliers have filed for bankruptcy protection or ceased operations.

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Severe financial difficulties, including bankruptcy, of any automotive manufacturer or significant automotive supplier would have a significant disruptive effect on the entire automotive industry, leading to supply chain disruptions and labor unrest, among other things. For example, if a parts supplier were to cease operations, it could force the automotive manufacturers to whom the supplier provides parts to shut down their operations. This, in turn, could force other suppliers, including us, to shut down production at plants that are producing products for these automotive manufacturers. Severe financial difficulties at any of our major suppliers could have a material adverse effect on us if we are unable to obtain on a timely basis the quantity and quality of components we require to produce our products.

Financial difficulties at any of our major customers could have a material adverse impact on us if such customer were unable to pay for the products we provide or we experience a loss of, or material reduction in, business from such customer. If any of our major customers cannot fund their operations or file for bankruptcy, we may incur significant write offs of accounts receivable, incur impairment charges or require additional restructuring actions beyond our current global restructuring plans. In addition, a bankruptcy filing by General Motors, Ford or a few of our other large customers could result in a default under our U.S. securitization agreement. Our inability to collect receivables in a timely manner or to sell receivables under our U.S. securitization program may have a material adverse effect on our liquidity.

Our failure to comply with the covenants contained in our senior credit facility or the indentures for our other debt instruments, including as a result of events beyond our control, could result in an event of default, which could materially and adversely affect our operating results and our financial condition. Our senior credit facility and receivables securitization program in the U.S. require us to maintain certain financial ratios. Our senior credit facility and our other debt instruments require us to comply with various operational and other covenants. If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated, upon an event of default, or that, we would be able to refinance or restructure the payments on those debt securities.

For example, in February 2009, we sought an amendment to our senior credit facility to revise the financial ratios we are required to maintain thereunder. The revised financial ratios were based on a set of projections that we shared with our lenders. If, in the future, we are required to obtain similar amendments as a result of our inability to meet the financial ratios in those projections, there can be no assurance that those amendments will be available on commercially reasonable terms or at all. If, as or when required, we are unable to repay, refinance or restructure our indebtedness under our senior credit facility, or amend the covenants contained therein, the lenders under our senior credit facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets. Under such circumstances, we could be forced into bankruptcy or liquidation. In addition, any event of default or declaration of acceleration under one of our debt instruments could also result in an event of default under one or more of our other financing agreements, including our other debt instruments and/or the agreements under which we sell certain of our accounts receivable. This would have a material adverse impact on our liquidity, financial position and results of operations.

Our working capital requirements may negatively affect our liquidity and capital resources. Our working capital requirements can vary significantly, depending in part on the level, variability and timing of our customers' worldwide vehicle production and the payment terms with our customers and suppliers. Our liquidity could also be adversely impacted if our suppliers were to suspend normal trade credit terms and require payment in advance or payment on delivery of purchases. If our working capital needs exceed our cash flows from operations, we would look to our cash balances and availability for borrowings under our borrowing arrangements to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

Any further continuation of the global economic downturn or other factors that reduce consumer demand for our products or reduce prices could materially and adversely impact our financial condition and results of operations. Demand for and pricing of our products are subject to economic conditions and other factors

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present in the various domestic and international markets where the products are sold. Demand for our OE products is subject to the level of consumer demand for new vehicles that are equipped with our parts. The level of new light vehicle purchases is cyclical, affected by such factors as general economic conditions, interest rates, consumer confidence, consumer preferences, patterns of consumer spending, fuel cost and the automobile replacement cycle.

As described above, the recent unprecedented deterioration in the global economy, global credit markets and the financial services industry has negatively impacted our operations, including by leading to a rapid decline in light vehicle purchases. In 2008, North American light vehicle production decreased 16 percent from 2007. European production was particularly impacted by the economic crisis and deteriorating industry conditions during the fourth quarter of 2008, when light vehicle production declined 27 percent as compared to the fourth quarter of 2007. In addition, significant increases in gasoline prices in the United States, particularly during the first half of 2008, accelerated the shift in the North American market away from light trucks, which tend to be higher margin products for OEMs and suppliers, to more fuel-efficient passenger cars. During 2008, SUV and pick-up truck business accounted for 54 percent of our North American OE revenues, down from 72 percent in 2007. A further decline in automotive sales and production would likely cause a decline in our sales to vehicle manufacturers, and could result in a decline in our results of operations and financial condition.

Demand for our aftermarket, or replacement, products varies based upon such factors as general economic conditions, the level of new vehicle purchases, which initially displaces demand for aftermarket products, the severity of winter weather, which increases the demand for certain aftermarket products, and other factors, including the average useful life of parts and number of miles driven.

The highly cyclical nature of the automotive industry presents a risk that is outside our control and that cannot be accurately predicted. For example, many predict that the current global economic crisis will continue well into 2009 and possibly 2010 and we cannot assure you that we would be able to maintain or improve our results of operations in a stagnant or recessionary economic environment. Further decreases in demand for automobiles and automotive products generally, or in the demand for our products in particular, could materially and adversely impact our financial condition and results of operations.

Our significant amount of debt makes us more sensitive to the effects of the global economic crisis; our level of indebtedness and provisions in our debt agreements could limit our ability to react to changes in the economy or our industry. Our significant amount of debt makes us more vulnerable to changes in our results of operations because a substantial portion of our cash flow from operations is dedicated to servicing our indebtedness and is not available for other purposes. Our level of indebtedness could have other negative consequences to us, including the following:

limiting our ability to borrow money or sell stock for our working capital, capital expenditures, debt service requirements or other general corporate purposes;

limiting our flexibility in planning for, or reacting to, changes in our operations, our business or the industry in which we compete;

our leverage may place us at a competitive disadvantage by limiting our ability to invest in the business or in further research and development;

making us more vulnerable to downturns in our business or the economy; and

there would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed.

Our ability to make payments on our indebtedness depends on our ability to generate cash in the future. If we do not generate sufficient cash flow to meet our debt service and working capital requirements, we may need to seek additional financing or sell assets. This may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Without any such financing, we could be forced to sell assets to make up for any shortfall in our payment obligations under unfavorable circumstances.

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As a result of the global credit market crisis, conditions for asset sales have become very difficult as tight global credit conditions have adversely affected the ability of potential buyers to finance such asset purchases. In addition, our senior credit agreement and our other debt agreements contain covenants which limit our ability to sell assets and also restrict the use of proceeds from any asset sale. Moreover, our senior credit facility is secured on a first priority basis by, among other things, substantially all of our and our subsidiary guarantors' tangible and intangible domestic assets. If necessary, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations.

In addition, our senior credit agreement and our other debt agreements contain other restrictive covenants that limit our flexibility in planning for or reacting to changes in our business and our industry, including limitations on incurring additional indebtedness, making investments, granting liens and merging or consolidating with other companies. Our senior credit facility also requires us to maintain certain financial ratios. Complying with these restrictive covenants and financial ratios may impair our ability to finance our future operations or capital needs or to engage in other favorable business activities.

Declines in the price of our common stock could have an adverse effect on its liquidity. Our common stock is currently listed on the NYSE. The NYSE maintains continued listing requirements relating to, among other things, market capitalization and minimum stock price (including that the average closing price of common stock be not less than \$1.00 for 30 consecutive trading days). On February 26, 2009, the NYSE notified issuers that it had submitted to the SEC an immediately effective rule that would suspend the \$1.00 minimum price requirement and other capitalization standards on a temporary basis initially through June 30, 2009. Although we are currently in compliance with NYSE listing requirements, our stock price declined severely during 2008. If in the future we are unable to satisfy the NYSE criteria for continued listing, we would be notified by the NYSE and given an opportunity to take corrective action. If we are not brought into compliance after the cure period (generally six months), our stock could be subject to delisting. A delisting of common stock could negatively impact us by reducing the liquidity and market price of our common stock and reducing the number of investors willing to hold or acquire our common stock. This could negatively impact our ability to raise additional funds through equity financing, which in turn could materially and adversely affect our business, financial condition and results of operations.

We are dependent on large customers for future revenue. The loss of any of these customers or the loss of market share by these customers could have a material adverse impact on us.

We depend on major vehicle manufacturers for a substantial portion of our net sales. For example, during 2008, General Motors, Ford, Volkswagen, and Daimler AG accounted for 20 percent, 11 percent, 8 percent, and 7 percent of our net sales, respectively. The loss of all or a substantial portion of our sales to any of our large-volume customers could have a material adverse effect on our financial condition and results of operations by reducing cash flows and our ability to spread costs over a larger revenue base. We may make fewer sales to these customers for a variety of reasons, including but not limited to: (1) loss of awarded business; (2) reduced or delayed customer requirements; (3) strikes or other work stoppages affecting production by the customers; or (4) reduced demand for our customers' products.

During the past several years, General Motors and Ford have lost market share particularly in the United States, primarily to Asian competitors. While we are actively targeting Japanese, Chinese and Korean automakers, any further market share loss by these North American-based and European-based automakers could, if we are unable to achieve increased sales to the Asian OE manufacturers, have a material adverse effect on our business.

We may be unable to realize sales represented by our awarded business, which could materially and adversely impact our financial condition and results of operations.

The realization of future sales from awarded business is inherently subject to a number of important risks and uncertainties, including the number of vehicles that our OE customers will actually produce, the timing of that production and the mix of options that our OE customers and consumers may choose. Prior to 2008, substantially all of our North American vehicle manufacturing customers had slowed or maintained at

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relatively flat levels new vehicle production for several years. More recently, new vehicle production has decreased dramatically as a result of the global economic crisis. We believe that production volumes for 2009 will decline in most regions of the world due to the global economic crisis, current OE manufacturers' inventory levels and uncertainty regarding the willingness or ability of OEMs to continue to support vehicle sales. In addition, our customers generally have the right to replace us with another supplier at any time for a variety of reasons and have demanded price decreases over the life of awarded business. Accordingly, we cannot assure you that we will in fact realize any or all of the future sales represented by our awarded business. Any failure to realize these sales could have a material adverse effect on our financial condition, results of operations, and liquidity.

In many cases, we must commit substantial resources in preparation for production under awarded OE business well in advance of the customer's production start date. In certain instances, the terms of our OE customer arrangements permit us to recover these pre-production costs if the customer cancels the business through no fault of our company. Although we have been successful in recovering these costs under appropriate circumstances in the past, we can give no assurance that our results of operations will not be materially impacted in the future if we are unable to recover these types of pre-production costs related to OE cancellation of awarded business.

The hourly workforce in the automotive industry is highly unionized and our business could be adversely affected by labor disruptions.

Although we consider our current relations with our employees to be satisfactory, if major work disruptions were to occur, our business could be adversely affected by, for instance, a loss of revenues, increased costs or reduced profitability. We have not experienced a material labor disruption in our workforce in the last ten years, but there can be no assurance that we will not experience a material labor disruption at one of our facilities in the future in the course of renegotiation of our labor arrangements or otherwise. In addition, substantially all of the hourly employees of North American vehicle manufacturers and many of their other suppliers are represented by the United Automobile, Aerospace and Agricultural Implement Workers of America under collective bargaining agreements. Vehicle manufacturers and such suppliers and their employees in other countries are also subject to labor agreements. A work stoppage or strike at our production facilities, at those of a significant customer, or at a significant supplier of ours or any of our customers, such as the 2008 strike at American Axle which resulted in 30 General Motors' facilities in North America being idled for several months, could have an adverse impact on us by disrupting demand for our products and/or our ability to manufacture our products.

We have experienced significant increases in raw materials pricing, and further changes in the prices of raw materials could have a material adverse impact on us.

Significant increases in the cost of certain raw materials used in our products, to the extent they are not timely reflected in the price we charge our customers or otherwise mitigated, could materially and adversely impact our results. For example, since 2004, we have experienced significant increases in processed metal and steel prices. While the global economic crisis has reduced the pressure on raw material prices, market prices remain volatile. We addressed these increases in 2006, 2007 and 2008 by evaluating alternative materials and processes, reviewing material substitution opportunities, increasing component and assembly outsourcing to low cost countries and aggressively negotiating with our customers to allow us to recover these higher costs from them. In addition to these actions, we continue to pursue productivity initiatives and review opportunities to reduce costs through restructuring activities. We cannot assure you, however, that these actions will be effective in containing margin pressures from any further raw material price increases.

We may be unable to realize our business strategy of improving operating performance, growing our business and generating savings and improvements.

We regularly implement strategic and other initiatives designed to improve our operating performance and grow our business. The failure to achieve the goals of these initiatives could have a material adverse effect on our business, particularly since we rely on these initiatives to offset pricing pressures from our suppliers and

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our customers, as described above, as well as to manage the impacts of production cuts such as the significant production decreases we are experiencing as a result of the global economic crisis. Furthermore, the terms of our senior credit agreement may restrict the types of initiatives we undertake, as the agreement restricts our uses of cash, requires us to maintain financial ratios and otherwise prohibits us from undertaking certain activities. In the past we have been successful in obtaining the consent of our senior lenders where appropriate in connection with our initiatives. We cannot assure you, however, that we will be able to pursue, successfully implement or realize the expected benefits of any initiative or that we will be able to sustain improvements made to date.

In addition, we believe that increasingly stringent environmental standards for emissions have presented and will continue to present an important opportunity for us to grow our emissions control business. We cannot assure you, however, that environmental standards for emissions will continue to become more stringent or that the adoption of any new standards will not be delayed beyond our expectations.

We may incur material costs related to product warranties, environmental and regulatory matters and other claims, which could have a material adverse impact on our financial condition and results of operations.

From time to time, we receive product warranty claims from our customers, pursuant to which we may be required to bear costs of repair or replacement of certain of our products. Vehicle manufacturers are increasingly requiring their outside suppliers to guarantee or warrant their products and to be responsible for the operation of these component products in new vehicles sold to consumers. Warranty claims may range from individual customer claims to full recalls of all products in the field. We cannot assure you that costs associated with providing product warranties will not be material, or that those costs will not exceed any amounts reserved in our consolidated financial statements. For a description of our accounting policies regarding warranty reserves, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies included in Item 7.

Additionally, we are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. Soil and groundwater remediation activities are being conducted at certain of our current and former real properties. We record liabilities for these activities when environmental assessments indicate that the remedial efforts are probable and the costs can be reasonably estimated. On this basis, we have established reserves that we believe are adequate for the remediation activities at our current and former real properties for which we could be held responsible. Although we believe our estimates of remediation costs are reasonable and are based on the latest available information, the cleanup costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. In future periods, we could be subject to cash or non-cash charges to earnings if we are required to undertake material additional remediation efforts based on the results of our ongoing analyses of the environmental status of our properties, as more information becomes available to us.

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, intellectual property matters, personal injury claims, taxes, employment matters or commercial or contractual disputes. For example, 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. Many of these cases involve significant numbers of individual claimants. Many of these cases also involve numerous defendants, with the number of defendants in some cases exceeding 200 defendants from a variety of industries. As major asbestos manufacturers or other companies that used asbestos in their manufacturing processes continue to go out of business, we may experience an increased number of these claims.

We vigorously defend ourselves in connection with all of the matters described above. We cannot, however, assure you that the costs, charges and liabilities associated with these matters will not be material, or that those costs, charges and liabilities will not exceed any amounts reserved for them in our consolidated financial statements. 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. See Management's Discussion and Analysis of Financial

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Condition and Results of Operations Environmental and Other Matters, included in Item 7 for further description.

We may have difficulty competing favorably in the highly competitive automotive parts industry.

The automotive parts industry is highly competitive. Although the overall number of competitors has decreased due to ongoing industry consolidation, we face significant competition within each of our major product areas, including from new competitors entering the markets which we serve. The principal competitive factors include price, quality, service, product performance, design and engineering capabilities, new product innovation, global presence and timely delivery. As a result, many suppliers have established or are establishing themselves in emerging, low-cost markets to reduce their costs of production and be more conveniently located for customers. Although we are also pursuing a low-cost country production strategy and otherwise continue to seek process improvements to reduce costs, we cannot assure you that we will be able to continue to compete favorably in this competitive market or that increased competition will not have a material adverse effect on our business by reducing our ability to increase or maintain sales or profit margins.

The decreasing number of automotive parts customers and suppliers could make it more difficult for us to compete favorably.

Our financial condition and results of operations could be adversely affected because the customer base for automotive parts is decreasing in both the original equipment market and aftermarket. As a result, we are competing for business from fewer customers. Due to the cost focus of these major customers, we have been, and expect to continue to be, requested to reduce prices as part of our initial business quotations and over the life of vehicle platforms we have been awarded. We cannot be certain that we will be able to generate cost savings and operational improvements in the future that are sufficient to offset price reductions requested by existing customers and necessary to win additional business.

Furthermore, the trend toward consolidation and bankruptcies among automotive parts suppliers is resulting in fewer, larger suppliers who benefit from purchasing and distribution economies of scale. If we cannot achieve cost savings and operational improvements sufficient to allow us to compete favorably in the future with these larger companies, our financial condition and results of operations could be adversely affected due to a reduction of, or inability to increase, sales.

We may not be able to successfully respond to the changing distribution channels for aftermarket products.

Major automotive aftermarket retailers, such as AutoZone and Advance Auto Parts, are attempting to increase their commercial sales by selling directly to automotive parts installers in addition to individual consumers. These installers have historically purchased from their local warehouse distributors and jobbers, who are our more traditional customers. We cannot assure you that we will be able to maintain or increase aftermarket sales through increasing our sales to retailers. Furthermore, because of the cost focus of major retailers, we have occasionally been requested to offer price concessions to them. Our failure to maintain or increase aftermarket sales, or to offset the impact of any reduced sales or pricing through cost improvements, could have an adverse impact on our business and operating results.

Longer product lives of automotive parts are adversely affecting aftermarket demand for some of our products.

The average useful life of automotive parts has steadily increased in recent years due to innovations in products and technologies. The longer product lives allow vehicle owners to replace parts of their vehicles less often. As a result, a portion of sales in the aftermarket has been displaced. This has adversely impacted, and could continue to adversely impact, our aftermarket sales. Also, any additional increases in the average useful lives of automotive parts would

further adversely affect the demand for our aftermarket products. Recently, we have experienced relative stabilization in our aftermarket business due to our ability to win new customers and recover steel price increases through selling price increases. However, there can be no assurance that we will

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be able to maintain this stabilization. Aftermarket sales represented approximately 19 percent and 18 percent of our net sales in 2008 and 2007, respectively.

Any acquisitions we make could disrupt our business and seriously harm our financial condition.

We may, from time to time, consider acquisitions of complementary companies, products or technologies. Acquisitions involve numerous risks, including difficulties in the assimilation of the acquired businesses, the diversion of our management's attention from other business concerns and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions could involve the incurrence of substantial additional indebtedness. We cannot assure you that we will be able to successfully integrate any acquisitions that we pursue or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Any such failure could seriously harm our business, financial condition and results of operations.

We are subject to risks related to our international operations.

We have manufacturing and distribution facilities in many regions and countries, including Australia, China, India, North America, Europe and South America, and sell our products worldwide. For 2008, approximately 56 percent of our net sales were derived from operations outside North America. International operations are subject to various risks which could have a material adverse effect on those operations or our business as a whole, including:

exposure to local economic conditions;

exposure to local political conditions, including the risk of seizure of assets by a foreign government;

exposure to local social unrest, including any resultant acts of war, terrorism or similar events;

exposure to local public health issues and the resultant impact on economic and political conditions;

currency exchange rate fluctuations;

hyperinflation in certain foreign countries;

controls on the repatriation of cash, including imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries; and

export and import restrictions.

Exchange rate fluctuations could cause a decline in our financial condition and results of operations.

As a result of our international operations, we generate a significant portion of our net sales and incur a significant portion of our expenses in currencies other than the U.S. dollar. To the extent we are unable to match revenues received in foreign currencies with costs paid in the same currency, exchange rate fluctuations in that currency could have a material adverse effect on our business. For example, where we have significantly more costs than revenues generated in a foreign currency, we are subject to risk if the foreign currency in which our costs are paid appreciates against the currency in which we generate revenue because the appreciation effectively increases our cost in that country.

The financial condition and results of operations of some of our operating entities are reported in foreign currencies and then translated into U.S. dollars at the applicable exchange rate for inclusion in our consolidated financial statements. As a result, appreciation of the U.S. dollar against these foreign currencies generally will have a negative impact on our reported revenues and operating profit while depreciation of the U.S. dollar against these foreign currencies will generally have a positive effect on reported revenues and operating profit. For example, our European operations were positively impacted in 2007 and 2006 due to the strengthening of the Euro against the U.S. dollar. However, in 2008, the dollar strengthened against the Euro which had a negative effect on our results of operations. Our South American operations were negatively impacted by the devaluation in 2000 of the Brazilian currency as well as by the devaluation of the Argentine

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currency in 2002. We do not generally seek to mitigate this translation effect through the use of derivative financial instruments.

Entering new markets poses new competitive threats and commercial risks.

As we have expanded into markets beyond light vehicles, we expect to diversify our product sales by leveraging technologies being developed for the light vehicle segment. Such diversification requires investments and resources which may not be available as needed. We cannot guarantee that we will be successful in leveraging our capabilities into new markets and thus, in meeting the needs of these new customers and competing favorably in these new markets. If those customers experience reduced demand for their products or financial difficulties, our future prospects will be negatively affected as well.

Impairment in the carrying value of long-lived assets and goodwill could negatively affect our operating results.

We have a significant amount of long-lived assets and goodwill on our consolidated balance sheet. Under generally accepted accounting principles, long-lived assets, excluding goodwill, are required to be reviewed for impairment whenever adverse events or changes in circumstances indicate a possible impairment. If business conditions or other factors cause profitability and cash flows to decline, we may be required to record non-cash impairment charges. Goodwill must be evaluated for impairment annually or more frequently if events indicate it is warranted. If the carrying value of our reporting units exceeds their current fair value as determined based on the discounted future cash flows of the related business, the goodwill is considered impaired and is reduced to fair value by a non-cash charge to earnings. Events and conditions that could result in impairment in the value of our long-lived assets and goodwill include changes in the industries in which we operate, particularly the impact of the current downturn in the global economy, as well as competition and advances in technology, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or profitability. For example, during 2008 we were required to record a \$114 million asset impairment charge to write-off the remaining goodwill related to our 1996 acquisition of Clevite Industries.

The value of our deferred tax assets could become impaired, which could materially and adversely affect our operating results.

As of December 31, 2008, we had approximately \$45 million in net deferred tax assets. These deferred tax assets include net operating loss carryovers that can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. We periodically determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. For example, we were required to record charges during 2008 for a valuation allowance against our U.S. deferred tax assets. These charges were attributable to the significant decline in production which resulted from the current global economic crisis and the accounting requirement to project that the current negative operating environment will continue through the expiration of the net operating loss carry-forward periods. If we determine in the future that there is not sufficient positive evidence to support the valuation of these assets, due to the risk factors described herein or other factors, we may be required to further adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in material non-cash expenses in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations.

Our expected annual effective tax rate could be volatile and materially change as a result of changes in mix of earnings and other factors.

Our overall effective tax rate is equal to our total tax expense as a percentage of our total profit or loss before tax. However, tax expenses and benefits are determined separately for each tax paying entity or group of entities that is consolidated for tax purposes in each jurisdiction. Losses in certain jurisdictions may provide no current financial statement tax benefit. As a result, changes in the mix of projected profits and losses between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We lease our principal executive offices, which are located at 500 North Field Drive, Lake Forest, Illinois, 60045.

Walker's consolidated businesses operate 11 manufacturing facilities in the U.S. and 41 manufacturing facilities outside of the U.S., operate five engineering and technical facilities worldwide and share two other such facilities with Monroe. Twenty-one of these manufacturing plants are JIT facilities. In addition, three joint ventures in which we hold a noncontrolling interest operate a total of three manufacturing facilities outside the U.S., two of which are JIT facilities.

Monroe's consolidated businesses operate eight manufacturing facilities in the U.S. and 23 manufacturing facilities outside the U.S., operate seven engineering and technical facilities worldwide and share two other such facilities with Walker. Three of these manufacturing plants are JIT facilities.

The above-described manufacturing locations outside of the U.S. are located in Argentina, Australia, Belgium, Brazil, Canada, China, the Czech Republic, France, Germany, India, Italy, Korea, Mexico, New Zealand, Poland, Portugal, Russia, Spain, South Africa, Sweden, Thailand and the United Kingdom. We also have sales offices located in Algeria, Croatia, Greece, Hungary, Japan, Lithuania, Singapore, Taiwan, Turkey and the Ukraine.

We own approximately one-half of the properties described above and lease the other half. We hold 14 of the above-described international manufacturing facilities through seven joint ventures in which we own a controlling interest. In addition, three joint ventures in which we hold a noncontrolling interest operate a total of three manufacturing facilities outside the U.S. We also have distribution facilities at our manufacturing sites and at a few offsite locations, substantially all of which we lease.

We believe that substantially all of our plants and equipment are, in general, well maintained and in good operating condition. They are considered adequate for present needs and, as supplemented by planned construction, are expected to remain adequate for the near future.

We also believe that we have generally satisfactory title to the properties owned and used in our respective businesses.

ITEM 3. LEGAL PROCEEDINGS.

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

assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.

As of December 31, 2008, we were designated as a potentially responsible party in one Superfund site. Including the Superfund site, we may have the obligation to remediate current or former facilities, and we estimate our share of environmental remediation costs at these facilities to be approximately \$11 million. For

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the Superfund site and the current and former facilities, we have established reserves that we believe are adequate for these costs. Although we believe our estimates of remediation costs are reasonable and are based on the latest available information, the cleanup costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute to the remediation costs. In addition, at the Superfund site, the Comprehensive Environmental Response, Compensation and Liability Act provides that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at the Superfund site, and of other liable parties at our current and former facilities, has been considered, where appropriate, in our determination of our estimated liability. We believe that any potential costs associated with our current status as a potentially responsible party in the Superfund site, or as a liable party at our current or former facilities, will not be material to our consolidated results of operations, financial position or cash flows.

From time to time we are subject to product warranty claims whereby we are required to bear costs of repair or replacement of certain of our products. Warranty claims may range from individual customer claims to full recalls of all products in the field. We believe that our warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates requiring adjustments to the reserve. The reserve is included in current and long-term liabilities on the balance sheet. See Note 13 to the consolidated financial statements of Tenneco Inc. and Consolidated Subsidiaries included in Item 8 for information regarding our warranty reserves.

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warnings issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentina 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. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. A small percentage of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. Nearly all of the claims are related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 200 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. During 2008, voluntary dismissals were initiated

on behalf of 635 plaintiffs and are in process; we were dismissed from an additional 74 cases.

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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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to the vote of security holders during the fourth quarter of 2008.

ITEM 4.1. EXECUTIVE OFFICERS OF THE REGISTRANT.

The following provides information concerning the persons who serve as our executive officers as of February 28, 2009.

Name (and Age at December 31, 2008)	Offices Held
Gregg M. Sherrill (55)	Chairman and Chief Executive Officer
Hari N. Nair (48)	Executive Vice President and President International
Kenneth R. Trammell (48)	Executive Vice President and Chief Financial Officer
Neal A. Yanos (46)	Executive Vice President, North America
Brent J. Bauer (53)	Senior Vice President and General Manager North American Original Equipment Emission Control
Timothy E. Jackson (51)	Senior Vice President and Chief Technology Officer
Richard P. Schneider (61)	Senior Vice President Global Administration
David A. Wardell (54)	Senior Vice President, General Counsel and Corporate Secretary
Michael J. Charlton (50)	Vice President, Global Supply Chain Management and Manufacturing
Paul D. Novas (50)	Vice President and Controller

Gregg M. Sherrill Mr. Sherrill was named the Chairman and Chief Executive Officer of Tenneco in January 2007. Mr. Sherrill joined us from Johnson Controls Inc., where he served since 1998, most recently as President, Power Solutions. From 2002 to 2003, Mr. Sherrill served as the Vice President and Managing Director of Europe, South Africa and South America for Johnson Controls Automotive Systems Group. Prior to joining Johnson Controls, Mr. Sherrill held various engineering and manufacturing assignments over a 22-year span at Ford Motor Company, including Plant Manager of Ford's Dearborn, Michigan engine plant and Director of Supplier Technical Assistance. Mr. Sherrill became a director of our company in January 2007.

Hari N. Nair Mr. Nair was named our Executive Vice President and President International effective March 2007. Previously, Mr. Nair served as Executive Vice President and Managing Director of our business in Europe, South America and India. Before that, he was Senior Vice President and Managing Director International. Prior to December 2000, Mr. Nair was the Vice President and Managing Director Emerging Markets. Previously, Mr. Nair was the Managing Director for Tenneco Automotive Asia, based in Singapore and responsible for all operations and development projects in Asia. He began his career with the former Tenneco Inc. in 1987, holding various positions in strategic planning, marketing, business development, quality and finance. Prior to joining Tenneco, Mr. Nair was a senior financial analyst at General Motors Corporation focusing on European operations.

Kenneth R. Trammell Mr. Trammell has served as our Executive Vice President and Chief Financial Officer since January 2006. Mr. Trammell was named our Senior Vice President and Chief Financial Officer in September 2003, having served as our Vice President and Controller since September 1999. From April 1997 to November 1999, he

served as Corporate Controller of Tenneco Inc. He joined Tenneco Inc. in May 1996 as Assistant Controller. Before joining Tenneco Inc., Mr. Trammell spent 12 years with the international public accounting firm of Arthur Andersen LLP, last serving as a senior manager.

Neal A. Yanos Mr. Yanos was named Executive Vice President, North America in July 2008. Prior to that, he served as our Senior Vice President and General Manager North American Original Equipment

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Ride Control and North American Aftermarket since May 2003. He joined our Monroe ride control division as a process engineer in 1988 and since that time has served in a broad range of assignments including product engineering, strategic planning, business development, finance, program management and marketing, including Director of our North American original equipment GM/VW business unit and most recently as our Vice President and General Manager North American Original Equipment Ride Control from December 2000. Before joining our company, Mr. Yanos was employed in various engineering positions by Sheller Globe Inc. from 1985 to 1988.

Brent J. Bauer Mr. Bauer joined Tenneco Automotive in August 1996 as a Plant Manager and was named Vice President and General Manager European Original Equipment Emission Control in September 1999. Mr. Bauer was named Vice President and General Manager European and North American Original Equipment Emission Control in July 2001. Currently, Mr. Bauer serves as the Senior Vice President and General Manager North American Original Equipment Emission Control. Prior to joining Tenneco, he was employed at AeroquipVickers Corporation for 20 years in positions of increasing responsibility serving most recently as Director of Operations.

Timothy E. Jackson Mr. Jackson joined us as Senior Vice President and General Manager North American Original Equipment and Worldwide Program Management in June 1999. He served in this position until August 2000, at which time he was named Senior Vice President Global Technology. From 2002 to 2005, Mr. Jackson served as Senior Vice President Manufacturing, Engineering and Global Technology. In July 2005, Mr. Jackson was named Senior Vice President Global Technology and General Manager, Asia Pacific. In March 2007, he was named our Chief Technology Officer. Mr. Jackson joined us from ITT Industries where he was President of that company's Fluid Handling Systems Division. With over 20 years of management experience, 14 within the automotive industry, he was also Chief Executive Officer for HiSAN, a joint venture between ITT Industries and Sanoh Industrial Company. Mr. Jackson has also served in senior management positions at BF Goodrich Aerospace and General Motors Corporation.

Richard P. Schneider Mr. Schneider was named as our Senior Vice President Global Administration in 1999 and is responsible for the development and implementation of human resources programs and policies and employee communications activities for our worldwide operations. Prior to 1999, Mr. Schneider served as our Vice President Human Resources. He joined us in 1994 from International Paper Company where, during his 20 year tenure, he held key positions in labor relations, management development, personnel administration and equal employment opportunity.

David A. Wardell Mr. Wardell joined Tenneco in May 2007 as Senior Vice President, General Counsel and Corporate Secretary. He is responsible for managing the company's worldwide legal affairs including corporate governance. Prior to joining Tenneco, Mr. Wardell was associated with Abbott Laboratories where he held several positions of increasing responsibility, most recently being named Associate General Counsel, Pharmaceutical Products Group Legal Operations in 2005. Before joining Abbott Laboratories, Mr. Wardell spent over ten years in the legal department of Bristol-Myers Squibb Company, where he spent six years living and working in London, England providing legal support to various business units in Europe, the Middle East and Africa. Mr. Wardell started his legal career as a New York County Assistant District Attorney.

Michael J. Charlton Mr. Charlton was named our Vice President, Global Supply Chain Management and Manufacturing in November 2008. Mr. Charlton served as Tenneco's Managing Director for India from January 2008 until November 2008. Prior to that, he served as the operations director for the Company's emission control business in Europe since 2005. Prior to joining Tenneco in 2005, Mr. Charlton held a variety of positions of increasing responsibility at TRW Automotive, the most recent being Lead Director, European Purchasing and Operations for the United Kingdom.

Paul D. Novas Mr. Novas was named our Vice President and Controller in July 2006. Mr. Novas served as Vice President, Finance and Administration for Tenneco Europe from January 2004 until July 2006 and as Vice President and Treasurer of Tenneco from November 1999 until January 2004. Mr. Novas joined Tenneco in 1996 as assistant treasurer responsible for corporate finance and North American treasury

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operations. Prior to joining Tenneco, Mr. Novas worked in the treasurer's office of General Motors Corporation for ten years.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our outstanding shares of common stock, par value \$.01 per share, are listed on the New York and Chicago Stock Exchanges. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock on the New York Stock Exchange Composite Transactions Tape.

Quarter	Sales Prices	
	High	Low
2008		
1st	\$ 29.41	\$ 20.18
2nd	30.41	13.52
3rd	16.92	9.58
4th	10.63	1.31
2007		
1st	\$ 27.34	\$ 23.04
2nd	35.81	25.49
3rd	37.73	28.11
4th	33.46	24.16

As of February 23, 2009, there were approximately 21,403 holders of record of our common stock, including brokers and other nominees.

The declaration of dividends on our common stock is at the discretion of our Board of Directors. The Board has not adopted a dividend policy as such; subject to legal and contractual restrictions, its decisions regarding dividends are based on all considerations that in its business judgment are relevant at the time. These considerations may include past and projected earnings, cash flows, economic, business and securities market conditions and anticipated developments concerning our business and operations.

We are highly leveraged and restricted with respect to the payment of dividends under the terms of our financing arrangements. On January 10, 2001, we announced that our Board of Directors eliminated the regular quarterly dividend on the Company's common stock. The Board took this action in response to then-current industry conditions, primarily greater than anticipated production volume reductions by OEMs in North America and continued softness in the global aftermarket. We have not paid dividends on our common stock since the fourth quarter of 2000. There are no current plans to reinstate a dividend on our common stock, as the Board of Directors intends to retain any earnings for use in our business for the foreseeable future. For additional information concerning our payment of dividends, see Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7.

See Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters included in Item 12 for information regarding securities authorized for issuance under our equity compensation plans.

Table of Contents***Purchase of equity securities by the issuer and affiliated purchasers***

The following table provides information relating to our purchase of shares of our common stock in the fourth quarter of 2008. All of these purchases reflect shares withheld upon vesting of restricted stock to satisfy minimum tax withholding obligations.

Period	Total Number of Shares Purchased	Average Price Paid
October 2008	1,506	\$ 3.18
November 2008		
December 2008	983	2.91
Total	2,489	\$ 3.07

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

Recent Sales of Unregistered Securities

None.

Table of Contents***Share Performance***

The following graph shows a five year comparison of the cumulative total stockholder return on Tenneco's common stock as compared to the cumulative total return of two other indexes: a custom composite index (Peer Group) and the Standard & Poor's 500 Composite Stock Price Index. The companies included in the Peer Group are: ArvinMeritor Inc., American Axle & Manufacturing Co., Borg Warner Inc., Cummins Inc., Johnson Controls Inc., Lear Corp., Magna International Inc. and TRW Automotive Holdings Corp. (beginning in the second quarter of 2004). These comparisons assume an initial investment of \$100 and the reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Tenneco, Inc., The S&P 500 Index
And A Peer Group

* \$100 invested on 12/31/03 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Tenneco Inc.	100.00	257.70	293.12	369.51	389.69	44.10
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Peer Group	100.00	110.56	108.17	125.10	164.30	69.61

The graph and other information furnished in the section titled *Share Performance* under this Part II, Item 5 of this Form 10-K shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA.****TENNECO INC. AND CONSOLIDATED SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA**

	Year Ended December 31,									
	2008		2007		2006		2005		2004(a)(b)	
	(Millions Except Share and Per Share Amounts)									
Statements of Income (Loss)										
Data:										
Net sales and operating revenues										
North America	\$	2,641	\$	2,910	\$	1,963	\$	2,033	\$	1,966
Europe, South America and India		2,983		3,135		2,387		2,110		1,940
Asia Pacific		543		560		436		371		380
Intergroup sales		(251)		(421)		(104)		(74)		(73)
	\$	5,916	\$	6,184	\$	4,682	\$	4,440	\$	4,213
Income (loss) before interest expense, income taxes, and minority interest										
North America	\$	(107)	\$	120	\$	103	\$	148	\$	131
Europe, South America and India		85		99		81		53		19
Asia Pacific		19		33		12		16		20
Total		(3)		252		196		217		170
Interest expense (net of interest capitalized)		113		164		136		133		178
Income tax expense (benefit)		289		83		5		26		(21)
Minority interest		10		10		6		2		4
Net income (loss)	\$	(415)	\$	(5)	\$	49	\$	56	\$	9
Average number of shares of common stock outstanding										
Basic		46,406,095		45,809,730		44,625,220		43,088,558		41,534,810
Diluted		46,406,095		45,809,730		46,755,573		45,321,225		44,180,460
Basic earnings (loss) per share of common stock	\$	(8.95)	\$	(0.11)	\$	1.11	\$	1.30	\$	0.22
Diluted earnings (loss) per share of common stock	\$	(8.95)	\$	(0.11)	\$	1.05	\$	1.24	\$	0.21

Years Ended December 31,

2008 2007 2006 2005 2004(a)(b)
(Millions Except Ratio and Percent Amounts)

Balance Sheet Data:

Total assets	\$ 2,828	\$ 3,590	\$ 3,274	\$ 2,945	\$ 3,134
Short-term debt	49	46	28	22	19
Long-term debt	1,402	1,328	1,357	1,361	1,402
Minority interest	31	31	28	24	24
Shareholders' equity	(251)	400	226	137	170

Statement of Cash Flows Data:

Net cash provided by operating activities	\$ 160	\$ 158	\$ 203	\$ 123	\$ 218
Net cash used by investing activities	(261)	(202)	(172)	(164)	(131)
Net cash provided (used) by financing activities	58	(10)	12	(28)	(15)
Cash payments for plant, property and equipment	(233)	(177)	(177)	(140)	(132)

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	Years Ended December 31,				
	2008	2007	2006	2005	2004(a)(b)
	(Millions Except Ratio and Percent Amounts)				
Other Data:					
EBITDA including minority interest(c)	\$ 219	\$ 457	\$ 380	\$ 394	\$ 347
Ratio of EBITDA including minority interest to interest expense	1.94	2.79	2.79	2.96	1.95
Ratio of total debt to EBITDA including minority interest	6.63	3.01	3.64	3.51	4.10
Ratio of earnings to fixed charges(d)		1.46	1.35	1.55	

NOTE: Our consolidated financial statements for the three years ended December 31, 2008, which are discussed in the following notes, are included in this Form 10-K under Item 8.

- (a) Prior to the first quarter of 2005, inventories in the U.S. based operations (17 percent of our total consolidated inventories at December 31, 2004) were valued using the last-in, first-out (LIFO) method and all other inventories were valued using the first-in, first-out (FIFO) or average cost methods at the lower of cost or market value. Effective January 1, 2005, we changed our accounting method for valuing inventory for our U.S. based operations from the LIFO method to the FIFO method. As a result, all U.S. inventories are now stated at the lower of cost, determined on a FIFO basis, or market. We elected to change to the FIFO method as we believe it is preferable for the following reasons: 1) the change provides better matching of revenue and expenditures and 2) the change achieves greater consistency in valuing our global inventory. Additionally, we initially adopted LIFO as it provided certain U.S. tax benefits which we no longer realize due to our U.S. net operating losses (when applied for tax purposes, tax laws require that LIFO be applied for accounting principles generally accepted in the United States of America (GAAP) as well). In accordance with GAAP, the change in inventory accounting has been applied by restating prior years consolidated financial statements.
- (b) In October 2004 and July 2005, we announced a change in the structure of our organization which changed the components of our reportable segments. The European segment now includes our South American and Indian operations. While this has no impact on our consolidated results, it changes our segment results.
- (c) EBITDA including minority interest is a non-GAAP measure defined as net income before extraordinary items, cumulative effect of changes in accounting principle, interest expense, income taxes, depreciation and amortization and minority interest. We use EBITDA including minority interest, together with GAAP measures, to evaluate and compare our operating performance on a consistent basis between time periods and with other companies that compete in our markets but which may have different capital structures and tax positions, which can have an impact on the comparability of interest expense, minority interest and tax expense. We also believe that using this measure allows us to understand and compare operating performance both with and without depreciation expense, which can vary based on several factors. We believe EBITDA including minority interest is useful to our investors and other parties for these same reasons.

EBITDA including minority interest should not be used as a substitute for net income or for net cash provided by operating activities prepared in accordance with GAAP. It should also be noted that EBITDA including minority interest may not be comparable to similarly titled measures used by other companies and, furthermore, that it excludes expenditures for debt financing, taxes and future capital requirements that are essential to our ongoing business operations. For these reasons, EBITDA including minority interest is of value to management and

investors only as a supplement to, and not in lieu of, GAAP results. EBITDA including minority interest is derived from the statements of income (loss) as follows:

	2008	Year Ended December 31,			2004(a)
		2007	2006	2005	
		(Millions)			
Net income (loss)	\$ (415)	\$ (5)	\$ 49	\$ 56	\$ 9
Minority interest	10	10	6	2	4
Income tax expense (benefit)	289	83	5	26	(21)
Interest expense, net of interest capitalized	113	164	136	133	178
Depreciation and amortization of other intangibles	222	205	184	177	177
Total EBITDA including minority interest	\$ 219	\$ 457	\$ 380	\$ 394	\$ 347

(d) For purposes of computing this ratio, earnings generally consist of income before income taxes and fixed charges excluding capitalized interest. Fixed charges consist of interest expense, the portion of rental expense considered representative of the interest factor and capitalized interest. Earnings were insufficient to cover fixed charges by \$121 million for the year ended December 31, 2008 and by \$9 million for the year ended December 31, 2004. See Exhibit 12 to this Form 10-K for the calculation of this ratio.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

As you read the following review of our financial condition and results of operations, you should also read our consolidated financial statements and related notes beginning on page 69.

Executive Summary

We are one of the world's leading manufacturers of automotive emission control and ride control products and systems. We serve both original equipment (OE) vehicle designers and manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe[®], Rancho[®], Clevite[®] Elastomers and Fric Rot[™] ride control products and Walker[®], Fonos[™], and Gillet[™] emission control products. Worldwide we serve more than 37 different original equipment manufacturers, and our products or systems are included on eight of the top 10 passenger car models produced for sale in Europe and eight of the top 10 light truck models produced for sale in North America for 2008. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. We operate 83 manufacturing facilities worldwide and employ approximately 21,000 people to service our customers' demands.

The recent unprecedented deterioration in the global economy and global credit markets has negatively impacted global business activity in general, and specifically the automotive industry in which we operate. The market turmoil and tightening of credit, as well as the recent and dramatic decline in the housing market in the United States and Western Europe, have led to a lack of consumer confidence evidenced by a rapid decline in light vehicle purchases in 2008. Light vehicle production decreased by 16 percent in North America and five percent in Europe in 2008 from 2007 levels. General Motors, Ford and Chrysler in particular are burdened with substantial structural cost, such as pension and healthcare, that have impacted their profitability, and may ultimately result in severe financial difficulty, including bankruptcy.

In response to current economic conditions, some of our customers are expected to eliminate certain light vehicle models in order to remain financially viable. Changes in the models produced by our customers may have an adverse effect on our market share. Additionally, while we expect that light vehicle production volumes will recover in future years, continued declines in consumer demand may have an adverse effect on the financial condition of our OE customers, and on our future results of operations.

General Motors, Ford and Chrysler represented 20%, 11% and 2%, respectively, of our 2008 net sales and operating revenues. As of December 31, 2008, we had net receivables due from General Motors, Ford and Chrysler in North America that totaled \$142 million. Financial difficulties at any of our major customers could have an adverse impact on the level of our future revenues and collection of our receivables if such customers were unable to pay for the products we provide or we experience a loss of, or significant reduction in, business from such customers. In addition, a bankruptcy filing by a significant customer could result in a condition of default under our U.S. accounts receivables securitization agreement, which would have an adverse effect on our liquidity.

Continued deterioration in the industry, or the bankruptcy or one or more of our major customers, may have an impact on our ability to meet future financial covenants which would require us to enter into negotiations with our senior credit lenders to request additional covenant relief. Such conditions and events may also result in incremental charges related to impairment of goodwill, intangible assets and long-lived assets, and in charges to record an additional valuation allowance against our deferred tax assets.

In the event that such financial difficulties or the bankruptcy of one of our major customers diminishes our future revenues or collection of receivables, we would pursue a range of actions to meet our cash flow needs. Such actions

include additional restructuring initiatives and other cost reductions, sales of assets, reductions to working capital and capital spending, issuance of equity and other alternatives to enhance our financial and operating position.

Factors that continue to be critical to our success include winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business

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needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes, fixing or eliminating unprofitable businesses and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, changing aftermarket distribution channels, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to economic challenges such as increases in the cost of raw materials and our ability to successfully reduce the impact of any such cost increases through material substitutions, cost reduction initiatives and other methods.

We have a substantial amount of indebtedness. As such, our ability to generate cash both to fund operations and service our debt is also a significant area of focus for our company. See *Liquidity and Capital Resources* below for further discussion of cash flows and *Risk Factors* included in Item 1A.

Total revenues for 2008 were \$5.9 billion, a four percent decrease compared to 2007. Excluding the impact of currency and substrate sales, revenue was down \$177 million, or four percent, driven primarily by lower OE production in North America, Europe and China and lower European aftermarket sales. Partially offsetting these declines were increased North American aftermarket sales and higher sales in South America and India.

Gross margin for 2008 was 14.4 percent, down 1.4 percentage points from 15.8 percent in 2007. Lower OE production volumes, the vehicle mix shift away from light trucks, manufacturing fixed cost absorption and currency losses negatively impacted overall gross margin. Partially offsetting these declines were the contributions from our new platform launches and lower restructuring charges.

Selling, general and administrative expense was down \$7 million in 2008, at \$392 million, including \$22 million in restructuring and restructuring-related expense and \$7 million in aftermarket changeover costs, compared to \$399 million in 2007 which included \$3 million in restructuring and restructuring-related expense and \$5 million in aftermarket changeover costs. Lower administrative costs and intense efforts to cut discretionary spending drove the improvement. Engineering expense was \$127 million and \$114 million in 2008 and 2007, respectively, as we continued to make strategic investments in preparation for new platform launches and in the technology necessary for capturing future growth opportunities. In total, we reported selling, general, administrative and engineering expenses in 2008 at 8.8 percent of revenues, as compared to 8.3 percent of revenues in 2007.

Earnings before interest expense, taxes and minority interest (EBIT) was a loss of \$3 million for 2008 compared to earnings of \$252 million in 2007. Lower OE production, manufacturing fixed cost absorption, higher depreciation, restructuring and aftermarket changeover costs, the impact of the goodwill impairment charge and the negative impact of currency more than accounted for the year-over-year decline. Partially offsetting the decline were the contributions from our new platform launches, lower selling, general and administrative costs, and savings from our restructuring activities.

Results from Operations

Net Sales and Operating Revenues for Years 2008 and 2007

The following tables reflect our revenues for the years of 2008 and 2007. We present these reconciliations of revenues in order to reflect the trend in our sales in various product lines and geographic regions separately from the effects of doing business in currencies other than the U.S. dollar. We have not reflected any currency impact in the 2007 table since this is the base period for measuring the effects of currency during 2008 on our operations. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

Additionally, we show the component of our revenue represented by substrate sales in the following table. While we generally have primary design, engineering and manufacturing responsibility for OE emission control systems, we do not manufacture substrates. Substrates are porous ceramic filters coated with a catalyst precious metals such as platinum, palladium and rhodium. These are supplied to us by Tier 2 suppliers and directed by our OE customers. We generally earn a small margin on these components of the

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system. As the need for more sophisticated emission control solutions increases to meet more stringent environmental regulations, and as we capture more diesel aftertreatment business, these substrate components have been increasing as a percentage of our revenue. While these substrates dilute our gross margin percentage, they are a necessary component of an emission control system. We view the growth of substrates as a key indicator that our value-add content in an emission control system is moving toward the higher technology hot-end gas and diesel business.

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

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

Year Ended December 31, 2008

	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 493	\$ (5)	\$ 498	\$	\$ 498
Emission Control	1,591	(2)	1,593	773	820
Total North America Original Equipment	2,084	(7)	2,091	773	1,318
North America Aftermarket					
Ride Control	390		390		390
Emission Control	156		156		156
Total North America Aftermarket	546		546		546
Total North America	2,630	(7)	2,637	773	1,864
Europe Original Equipment					
Ride Control	479	27	452		452
Emission Control	1,487	54	1,433	498	935
Total Europe Original Equipment	1,966	81	1,885	498	1,387
Europe Aftermarket					
Ride Control	213	10	203		203
Emission Control	190	7	183		183

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Total Europe Aftermarket	403	17	386		386
South America & India	389	17	372	52	320
Total Europe, South America & India	2,758	115	2,643	550	2,093
Asia	342	29	313	101	212
Australia	186	6	180	15	165
Total Asia Pacific	528	35	493	116	377
Total Tenneco	\$ 5,916	\$ 143	\$ 5,773	\$ 1,439	\$ 4,334

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	Year Ended December 31, 2007				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 514	\$	\$ 514	\$	\$ 514
Emission Control	1,850		1,850	924	926
Total North America Original Equipment	2,364		2,364	924	1,440
North America Aftermarket					
Ride Control	385		385		385
Emission Control	152		152		152
Total North America Aftermarket	537		537		537
Total North America	2,901		2,901	924	1,977
Europe Original Equipment					
Ride Control	427		427		427
Emission Control	1,569		1,569	556	1,013
Total Europe Original Equipment	1,996		1,996	556	1,440
Europe Aftermarket					
Ride Control	201		201		201
Emission Control	207		207		207
Total Europe Aftermarket	408		408		408
South America & India	333		333	41	292
Total Europe, South America and India	2,737		2,737	597	2,140
Asia	352		352	125	227
Australia	194		194	27	167
Total Asia Pacific	546		546	152	394
Total Tenneco	\$ 6,184	\$	\$ 6,184	\$ 1,673	\$ 4,511

Revenues from our North American operations decreased \$271 million in 2008 compared to 2007. Higher aftermarket sales were more than offset by lower North American OE revenues. North American OE emission control revenues were down \$259 million in 2008. Excluding substrate sales and currency, revenues were down \$106 million compared to last year. This decrease was primarily due to a 16% year-over-year decline in industry production volumes, including a temporary stop of production on the Toyota Tundra, as well as significant reduction in customer light truck production which included the Ford Super Duty and F150, GMT 900 and the Chevrolet Trailblazer and GMC Envoy. North American OE ride control revenues for 2008 were down \$21 million from the prior year or down \$16 million excluding unfavorable currency. Revenues of \$84 million from our recently acquired Kettering, Ohio

ride-control operations helped offset the significantly lower light truck production. Our total North American OE revenues, excluding substrate sales and currency, decreased nine percent in 2008 compared to 2007. The North American light truck production rate decreased 25 percent while production rates for passenger cars decreased three percent. Aftermarket revenues for North America were \$546 million in 2008, an increase of \$9 million compared to the prior year, driven by higher volumes in both product lines as well as higher pricing to offset material cost increases. Aftermarket ride control revenues increased one percent in 2008 while aftermarket emission control revenues increased three percent in 2008.

Our European, South American and Indian segment's revenues increased \$21 million or one percent in 2008 compared to last year. Total Europe OE revenues were \$1,966 million, down one percent from last year. Excluding favorable currency and substrate sales, total European OE revenue was down four percent while total light vehicle production for Europe was down five percent. Europe OE emission control revenues decreased five percent to \$1,487 million from \$1,569 million in the prior year. Excluding substrate sales and a favorable impact of \$54 million due to currency, Europe OE emission control revenues decreased eight percent from 2007, primarily

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due to lower volumes on the Opel Astra and Vectra, the BMW 3 Series and Volvo. Improved volumes on the BMW 1 series, VW Golf, the new Jaguar XF, and the Ford Mondea and C-Max helped partially offset the emission control decrease. Europe OE ride control revenues of \$479 million in 2008 were up 12 percent year-over-year. Excluding currency, revenues increased by six percent in 2008 due to favorable volumes on the Suzuki Splash, VW Passat and Transporter, Ford Focus, the new Mazda 2 and Mercedes C-class. Also benefiting 2008 Europe OE ride control revenues were \$18 million from our recently acquired suspension business of Gruppo Marzocchi. European aftermarket revenues decreased \$5 million in 2008 compared to last year. When adjusted for currency, aftermarket revenues were down \$22 million year-over-year. Excluding the \$10 million favorable impact of currency, ride control aftermarket revenues were \$2 million better when compared to prior year. Emission control aftermarket revenues were down \$24 million, excluding \$7 million in currency benefit, due to overall market declines. South American and Indian revenues were \$389 million during 2008, compared to \$333 million in the prior year. Stronger OE and aftermarket sales and currency appreciation drove this increase.

Revenues from our Asia Pacific segment decreased \$18 million to \$528 million in 2008 compared to \$546 million in 2007. Excluding the impact of substrate sales and currency, revenues decreased to \$377 million from \$394 million in the prior year. Asian revenues for 2008 were \$342 million, down three percent from last year. Although overall China OE production was up slightly, GM, Volkswagen, Ford and Brilliance, our largest customers in this region, all took unplanned downtime during the year. Revenues for Australia were down \$8 million, to \$186 million in 2008 compared to \$194 million in the prior year. Excluding substrate sales and favorable currency of \$6 million, Australian revenue was down \$2 million versus 2007.

Net Sales and Operating Revenues for Years 2007 and 2006

The following tables reflect our revenues for the years of 2007 and 2006. See *Net Sales and Operating Revenues for Years 2008 and 2007* for a description of why we present these reconciliations of revenue.

Year Ended December 31, 2007

	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 514	\$	\$ 514	\$	\$ 514
Emission Control	1,850	5	1,845	924	921
Total North America Original Equipment	2,364	5	2,359	924	1,435
North America Aftermarket					
Ride Control	385		385		385
Emission Control	152		152		152
Total North America Aftermarket	537		537		537
Total North America	2,901	5	2,896	924	1,972
Europe Original Equipment					
Ride Control	427	37	390		390

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Emission Control	1,569	120	1,449	511	938
Total Europe Original Equipment	1,996	157	1,839	511	1,328
Europe Aftermarket					
Ride Control	201	15	186		186
Emission Control	207	16	191		191
Total Europe Aftermarket	408	31	377		377
South America & India	333	24	309	39	270
Total Europe, South America & India	2,737	212	2,525	550	1,975
Asia	352	15	337	123	214
Australia	194	23	171	25	146
Total Asia Pacific	546	38	508	148	360
Total Tenneco	\$ 6,184	\$ 255	\$ 5,929	\$ 1,622	\$ 4,307

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	Year Ended December 31, 2006				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 483	\$	\$ 483	\$	\$ 483
Emission Control	928		928	272	656
Total North America Original Equipment	1,411		1,411	272	1,139
North America Aftermarket					
Ride Control	383		383		383
Emission Control	162		162		162
Total North America Aftermarket	545		545		545
Total North America	1,956		1,956	272	1,684
Europe Original Equipment					
Ride Control	380		380		380
Emission Control	1,264		1,264	519	745
Total Europe Original Equipment	1,644		1,644	519	1,125
Europe Aftermarket					
Ride Control	178		178		178
Emission Control	211		211		211
Total Europe Aftermarket	389		389		389
South America & India	272		272	32	240
Total Europe, South America and India	2,305		2,305	551	1,754
Asia	246		246	85	161
Australia	175		175	19	156
Total Asia Pacific	421		421	104	317
Total Tenneco	\$ 4,682	\$	\$ 4,682	\$ 927	\$ 3,755

Revenues from our North American operations increased \$945 million in 2007 compared to 2006. Higher sales from new North American OE platform launches more than offset lower aftermarket revenues. Total North American OE revenues increased 68 percent to \$2,364 million in 2007 from \$1,411 million in 2006. North American OE emission control revenues were up 99 percent to \$1,850 million, from \$928 million in 2006. Substrate emission control sales excluding currency increased 239 percent to \$924 million, from \$272 million in 2006. Excluding substrate sales and currency impact, OE emission control sales increased 41 percent from 2006. This increase was primarily due to significant new OE platform launches which included GM's Lambda crossover, the Ford Super Duty gas and diesel pick-up trucks, GM's light duty pick-up trucks and vans with Duramax diesel engines, Toyota's Tundra gasoline

pick-up truck, the International Truck and Engine medium duty diesel platform, GM's three-quarter ton gasoline powered pick-up trucks, and the Dodge Ram three-quarter ton diesel pick-up truck. North American OE ride control revenues for 2007 increased seven percent from 2006. Expanded ride-control content on the GMT900 platform, the launch of the GMT360 platform, and strong sales of Chrysler's Jeep Wrangler, and Ford Ranger and Superduty, was partially offset by lower ride-control commercial vehicle sales. Total North American light vehicle production fell by two percent in 2007 with a seven percent production decrease in passenger cars being partially offset by a three percent increase in light truck production. Aftermarket revenues for North America were \$537 million in 2007, representing a decrease of \$8 million compared to 2006. Volume decreases on our continuing business were partially offset by new customer wins and price increases to recover steel costs.

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Aftermarket ride control revenues were \$385 million in 2007, an increase of \$2 million from 2006. Aftermarket emission control revenues were \$152 million in 2007, down \$10 million from 2006.

Our European, South American and Indian segment's revenues increased \$432 million or 19 percent in 2007 compared to 2006. Total Europe OE revenues were \$1,996 million, up 21 percent from 2006. Excluding favorable currency and substrate sales, total European OE revenue was up 18 percent while total light vehicle production for Europe was up six percent. Europe OE emission control revenues increased 24 percent to \$1,569 million from \$1,264 million in 2006. Excluding the impact of \$120 million of favorable currency and \$511 million in substrate sales, OE emission control revenues increased 26 percent from 2006 due to a growing position on the hot-end of exhaust platforms, new launches and higher OE volumes on the BMW 1 and 3-Series, Daimler's Sprinter, C-Class, and Smart, Volvo's V50 and V70, PSA's Picasso and Ford's Mondeo. Europe OE ride control revenues increased by \$47 million in 2007, up 12 percent from \$380 million in 2006. Excluding currency, revenues increased by three percent in 2007 due to improved volumes on the Ford Focus, Ford Galaxy and Mondeo with electronic shocks, Dacia Logan, VW Transporter, Mazda 2, and Mercedes C-Class with electronic shocks, partially offset with lower volumes on the Audi A4 and a shift in some production for the Audi A6 to our Chinese operations. European aftermarket sales were \$408 million in 2007 compared to \$389 million in 2006. Excluding \$31 million of favorable currency, European aftermarket revenues declined three percent in 2007 compared to 2006. Ride control aftermarket revenues, excluding the impact of currency, were up five percent from 2006, reflecting strong volumes and improved pricing. Emission control aftermarket revenues were down nine percent, excluding \$16 million in currency benefit, due to lower volumes which more than offset improved pricing. South American and Indian revenues were \$333 million in 2007, compared to \$272 million in 2006. Stronger OE and aftermarket sales and currency appreciation drove this increase.

Revenues from our Asia Pacific segment, which includes Asia and Australia, increased \$125 million to \$546 million in 2007, as compared to \$421 million in 2006. Excluding the impact of substrate sales and currency, Asian revenues increased \$53 million in 2007 compared to 2006 driven by higher OE sales in China due to new launches and higher emission control volumes on existing platforms. In Australia, industry OE production declines negatively impacted revenues. Excluding substrate sales and favorable currency of \$23 million, Australian revenue was down \$10 million due to lower volumes.

Earnings before Interest Expense, Income Taxes and Minority Interest (EBIT) for Years 2008 and 2007

	Year Ended December 31,		
	2008	2007	Change
	(Millions)		
North America	\$ (107)	\$ 120	\$ (227)
Europe, South America and India	85	99	(14)
Asia Pacific	19	33	(14)
	\$ (3)	\$ 252	\$ (255)

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

	Year Ended December 31, 2008 2007 (Millions)	
North America		
Restructuring and restructuring-related expenses	\$ 16	\$ 3
New aftermarket customer changeover costs(1)	7	5
Goodwill impairment charge(2)	114	
Europe, South America and India		
Restructuring and restructuring-related expenses	22	22
Asia Pacific		
Restructuring and restructuring-related expenses	2	

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

(2) Non-cash asset impairment charge related to goodwill for Tenneco's 1996 acquisition of Clevite Industries.

EBIT for North American operations was a loss of \$107 million in 2008, a decrease of \$227 million from \$120 million of earnings one year ago. OE industry production volume declines and unfavorable product mix from reduced sales on light trucks negatively impacted EBIT by \$89 million. SUV and pick-up truck business accounted for 54 percent of 2008 revenues compared to 72 percent of 2007 revenues. Lower manufacturing cost absorption driven by significant downward changes to customer production schedules reduced EBIT by an additional \$31 million. Higher depreciation expense related to capital expenditures to support our sizeable 2007 emission control platform launches further reduced EBIT. North America's 2008 EBIT was also negatively impacted by \$16 million in restructuring and restructuring-related costs, goodwill impairment charge of \$114 million, changeover costs for new aftermarket customers of \$7 million and unfavorable currency exchange of \$20 million, related to the Mexican Peso and Canadian dollar. These decreases were partially offset by higher aftermarket volumes and new OE platform launches in both emission and ride control business which combined to impact EBIT favorably by \$29 million as well as focused spending reduction efforts to help counter the eroding North American industry environment, mainly in lower selling, general and administrative costs. Restructuring and restructuring-related costs of \$3 million and changeover costs for new aftermarket customers of \$5 million were included in 2007 EBIT.

Our European, South American and Indian segment's EBIT was \$85 million for 2008, down \$14 million from \$99 million in 2007. OE production volume declines, unfavorable vehicle mix, lower aftermarket sales volumes and related manufacturing fixed cost absorption had a combined \$45 million unfavorable impact on 2008 EBIT. Currency further reduced EBIT by \$6 million. These decreases were partially offset by the impact of our new OE platform launches, improved pricing, restructuring savings, and reduced SG&A spending due to discretionary spending controls and overhead reduction efforts. Restructuring and restructuring-related expenses of \$22 million were included in EBIT for each of 2008 and 2007.

EBIT for our Asia Pacific segment, which includes Asia and Australia, decreased \$14 million to \$19 million in 2008 compared to \$33 million in the prior year. Lower OE production volumes and the related manufacturing fixed cost absorption combined to reduce EBIT by \$12 million. Favorable currency of \$4 million partially offset these declines. Included in Asia Pacific's 2008 EBIT were \$2 million in restructuring and restructuring-related expenses.

Currency had a \$22 million unfavorable impact on overall company EBIT for 2008, as compared to the prior year.

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	Year Ended December 31,		
	2007	2006	Change
	(Millions)		
North America	\$ 120	\$ 103	\$ 17
Europe, South America and India	99	81	18
Asia Pacific	33	12	21
	\$ 252	\$ 196	\$ 56

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

	Year Ended December 31,	
	2007	2006
	(Millions)	
North America		
Restructuring and restructuring-related expenses	\$ 3	\$ 13
New aftermarket customer changeover costs(1)	5	6
Pension replacement(2)		(7)
Reserve for receivable from former affiliate		3
Europe, South America and India		
Restructuring and restructuring-related expenses	22	8
Asia Pacific		
Restructuring and restructuring-related expenses		6

- (1) Represents costs associated with changing new aftermarket customers from their prior suppliers to an inventory of our products. Although our aftermarket business regularly incurs changeover costs, we specifically identify in the table above those changeover costs that, based on the size or number of customers involved, we believe are of an unusual nature for the period in which they were incurred.
- (2) In August 2006, we announced that we were freezing future accruals under our U.S. defined benefit pension plans for substantially all our U.S. salaried and non-union hourly employees effective December 31, 2006. In lieu of those benefits, we are offering additional benefits under our defined contribution plan.

EBIT for North American operations increased to \$120 million from \$103 million in 2006. The improvement was primarily driven by the \$22 million impact of higher OE volumes due to new platform launches, lower selling, general and administrative expenses, manufacturing efficiencies of \$25 million driven by Lean and Six Sigma, lower changeover cost and lower restructuring costs of \$10 million. These increases were partially offset by higher steel

costs of \$38 million, incremental launch costs of \$2 million, increased spending on engineering and a softer aftermarket. Included in North America's 2007 EBIT is \$3 million in restructuring and restructuring-related expenses and \$5 million in customer changeover costs. Included in North America's 2006 EBIT were \$13 million in restructuring and restructuring-related expenses, \$6 million in customer changeover costs, \$3 million of expense in connection with booking a reserve for a receivable from a former affiliate and a \$7 million benefit due to changes to our U.S. retirement plans for salaried and non-union hourly employees described above. Currency had a \$1 million favorable impact on North American EBIT for 2007.

Our European, South American and Indian segment's EBIT was \$99 million for 2007, up \$18 million from \$81 million in 2006. Higher OE volumes on existing business and new platform launches had a combined \$28 million impact, favorable currency of \$10 million, manufacturing efficiencies of \$43 million gained through Lean manufacturing and Six Sigma programs drove the improvement. These increases were

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partially offset by material cost increases which included \$26 million of higher steel costs, higher SG&A of \$8 million, net alloy surcharge of \$10 million and increased spending on engineering of \$5 million. Restructuring and restructuring-related expenses of \$22 million were included in EBIT of 2007 compared to \$8 million in 2006.

EBIT for our Asia Pacific segment, which includes Asia and Australia, increased \$21 million to \$33 million in 2007 compared to \$12 million in 2006. Increased volume had an impact of \$10 million driven primarily by OE production and new launches in China, reduced restructuring charges of \$6 million and favorable currency of \$4 million was partially offset by \$5 million of increased steel costs and reduced light vehicle production in Australia. Included in Asia Pacific's 2006 EBIT were \$6 million in restructuring and restructuring-related expenses.

Currency had a \$15 million favorable impact on overall company EBIT for 2007, as compared to 2006.

EBIT as a Percentage of Revenue for Years 2008, 2007 and 2006

	Year Ended December 31,		
	2008	2007	2006
North America	(4)%	4%	5%
Europe, South America and India	3%	4%	4%
Asia Pacific	4%	6%	3%
Total Tenneco		4%	4%

In North America, EBIT as a percentage of revenue for 2008 was down eight percentage points from prior year levels. OE industry production volume declines, unfavorable product mix, lower manufacturing cost absorption driven by significant downward changes to customer production schedules, goodwill impairment charge, higher depreciation expense, and unfavorable currency impact drove the decrease. During 2008, North American results included higher restructuring and restructuring-related charges and aftermarket changeover costs. In Europe, South America and India, EBIT margin for 2008 was down one percentage point from prior year. Lower OE production volumes and the related manufacturing fixed cost absorption, aftermarket sales declines, unfavorable currency impact and increased investments in engineering were partially offset by new platform launches. Restructuring and restructuring-related expenses were the same as prior year. EBIT as a percentage of revenue for our Asia Pacific segment decreased two percentage points in 2008 versus the prior year. OE production volume decreases and manufacturing fixed cost absorption, drove the decline. Favorable currency partially offset the decline in EBIT margin. Asia Pacific 2008 results included higher restructuring and restructuring-related expenses over prior year.

In North America, EBIT as a percentage of revenue for 2007 was down one percentage point from 2006 levels. The benefits from our new platform launches, lower selling, general and administrative expenses and manufacturing efficiencies were more than offset by the margin impact from an increase in lower margin substrate sales, lower North American light vehicle production volumes, higher material costs, incremental launch costs, increased investments in engineering and soft aftermarket conditions. During 2007, North American results included lower restructuring and restructuring-related charges and lower aftermarket changeover costs. In Europe, South America and India, EBIT margin for 2007 was flat with 2006. Higher European OE volumes on existing business, new platform launches, favorable currency and manufacturing efficiencies were offset by higher material costs and restructuring charges. Restructuring and restructuring-related expenses were higher than 2006. EBIT as a percentage of revenue for our Asia Pacific segment increased three percentage points in 2007 versus 2006. OE production increases in China, favorable currency and benefits from 2006's restructuring activities drove the improvement. Lower restructuring and restructuring-related expenses also benefited EBIT margin.

Interest Expense, Net of Interest Capitalized

We reported interest expense in 2008 of \$113 million net of interest capitalized of \$6 million (\$102 million in our U.S. operations and \$11 million in our foreign operations), down from \$164 million (\$162 million

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in our U.S. operations and \$2 million in our foreign operations) a year ago. The requirement to mark to market the interest rate swaps described below decreased interest expense by \$7 million for 2008, versus a decrease to expense of \$6 million in 2007. Included in the 2007 results was \$5 million related to a charge to expense the unamortized portion of debt issuance costs related to our amended and restated senior credit facility in connection with our debt refinancing in the first quarter of 2007 and \$21 million related to a net charge to expense the costs associated with the tender premium and fees, the write-off of deferred debt issuance costs and the write-off of previously recognized debt issuance premium in connection with our November 2007 refinancing transaction. Interest expense decreased in 2008 compared to the prior year as a result of a decrease in our variable and fixed rate debt and lower rates on both our variable rate debt and a portion of our fixed rate debt.

We reported interest expense of \$164 million in 2007 compared to \$136 million (\$134 million in our U.S. operations and \$2 million in our foreign operations) in 2006, net of interest capitalized of \$6 million in each year. Of the increase, \$5 million related to a charge to expense the unamortized portion of debt issuance costs related to our 2003 amended and restated senior credit facility in connection with our debt refinancing in the first quarter of 2007 and \$21 million related to a net charge to expense the costs associated with the tender premium and fees, the write-off of deferred debt issuance costs and the write-off of previously recognized debt issuance premium in connection with our November 2007 refinancing transaction. The requirement to mark the fixed-to-floating interest rate swaps to market reduced interest expense by \$6 million in 2007 and increased interest expense by \$1 million in 2006. The remainder of the change was due to higher borrowing during the year to fund growth.

See more detailed explanations on our debt structure, prepayments and the amendment and restatement of our senior credit facility in March 2007 and our November 2007 refinancing transaction, and their impact on our interest expense, in *Liquidity and Capital Resources* *Capitalization* later in this *Management's Discussion and Analysis*.

In April 2004, we entered into fixed-to-floating interest rate swaps covering \$150 million of our fixed interest rate debt. The change in market value of these swaps is recorded as part of interest expense and other long-term assets or liabilities. On December 16, 2008, we terminated the swaps. In consideration for the termination of these interest rate swaps we received \$6 million in cash. Since entering into these swaps, we have realized a net cumulative benefit of \$8 million through December 16, 2008, in reduced interest payments. On December 31, 2008, we had \$1.010 billion in long-term debt obligations that have fixed interest rates. Of that amount, \$245 million is fixed through July 2013, \$500 million is fixed through November 2014, \$250 million is fixed through November 2015, and the remainder is fixed from 2009 through 2025. We also have \$397 million in long-term debt obligations that are subject to variable interest rates. See Note 6 to the consolidated financial statements of Tenneco Inc. and Consolidated Subsidiaries in Item 8.

Income Taxes

We reported income tax expense of \$289 million in 2008 which included \$244 million in tax charges primarily related to recording a valuation allowance against our U.S. deferred tax assets, repatriating cash from Brazil as a result of strong performance in South America over the past several years and changes in foreign tax rates. We reported \$83 million of income tax expense in 2007 which included \$56 million in tax charges primarily related to a \$66 million non-cash tax charge to realign the company's European ownership structure, partially offset by net tax benefits of \$10 million related to a reduction in foreign income tax rates and adjustments for prior year income tax returns. Income tax expense for 2006 was \$5 million which include tax benefits of \$15 million comprised of a FAS 109 adjustment, adjustments for prior year income tax returns, a Czech investment credit and resolution of tax issues with former affiliates.

Restructuring and Other Charges

Over the past several years we have adopted plans to restructure portions of our operations. These plans were approved by the Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. In the fourth quarter of 2001 our Board of Directors approved a restructuring

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plan, a project known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. We incurred \$27 million in restructuring and restructuring-related costs during 2006, of which \$23 million was recorded in cost of sales and \$4 million was recorded in selling, general and administrative expense. We incurred \$25 million in restructuring and restructuring-related costs during 2007, of which \$22 million was recorded in cost of sales and \$3 million was recorded in selling, general and administrative expense. In 2008, we incurred \$40 million in restructuring and restructuring-related costs, of which \$17 million was recorded in cost of sales and \$23 million was recorded in selling, general, administrative and engineering expense. At December 31, 2008, our restructuring reserve was \$22 million, primarily related to actions announced in October 2008, including European head count reductions and North American facility closures and head count reductions, and the remaining obligations for the Wissembourg, France plant closure. At December 31, 2007, our restructuring reserve was \$16 million, primarily related to obligations for the Wissembourg, France plant closure.

Under the terms of our amended and restated senior credit agreement that took effect on March 16, 2007, we were allowed to exclude \$80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 16, 2007 from the calculation of the financial covenant ratios required under our senior credit facility. As of December 31, 2008, we had excluded \$62 million in allowable charges relating to restructuring initiatives against the \$80 million available under the terms of the March 2007 amended and restated senior credit facility.

On January 13, 2009, we announced that we will postpone closing an original equipment ride control plant in the United States as part of our current global restructuring program. We still expect, as announced in October 2008, the elimination of 1,100 positions. We now estimate that we will record up to \$31 million in charges, of which approximately \$25 million represents cash expenditures, in connection with the restructuring program announced in the fourth quarter of 2008. We recorded \$24 million of these charges in 2008 and expect to record the remaining \$7 million in 2009. We now expect to generate approximately \$58 million in annual savings beginning in 2009 related to this restructuring program. Various restructuring projects announced prior to the fourth quarter of 2008 are still being completed, and when complete, will generate an additional \$20 million in annual savings.

The February 2009 amendment resets the exclusion allowing us to exclude \$40 million of cash charges and expenses related to cost reduction initiatives incurred after February 23, 2009.

Earnings (Loss) Per Share

We reported a net loss of \$415 million or \$8.95 per diluted common share for 2008, as compared to a net loss of \$5 million or \$0.11 per diluted common share for 2007. Included in the results for 2008 were negative impacts from expenses related to our restructuring activities, new aftermarket customer changeover costs, a goodwill impairment charge and tax adjustments. The net impact of these items decreased earnings per diluted share by \$9.37. Included in the results for 2007 were negative impacts from expenses related to our restructuring activities, new aftermarket customer changeover costs, charges relating to refinancing activities and tax adjustments. The net impact of these items decreased earnings per diluted share by \$1.93.

We reported a net loss of \$5 million or \$0.11 per diluted common share for 2007, as compared to net income of \$49 million or \$1.05 per diluted common share for 2006. Included in the results for 2007 were negative impacts from expenses related to our restructuring activities, new aftermarket customer changeover costs, charges relating to refinancing activities and tax adjustments. The net impact of these items decreased earnings per diluted share by \$1.93. Included in the results for 2006 were negative impacts from expenses related to our restructuring activities, new aftermarket customer changeover costs and expense in connection with booking a reserve for a receivable from a

former affiliate, partially offset by a positive impact from tax adjustments and a benefit from replacing the defined benefit pension plans in the U.S. The net impact of these items decreased earnings per diluted share by \$0.10.

Table of Contents**Dividends on Common Stock**

On January 10, 2001, our Board of Directors eliminated the quarterly dividend on our common stock. There are no current plans to reinstate a dividend on our common stock.

Outlook

In 2009, OE production schedules are projected to be at their lowest point in decades and the outlook for 2009 is uncertain. According to Global Insight, North American light vehicle production levels are expected to decline an estimated 24 percent in 2009 compared to 2008, with passenger car production levels expected to decrease by 26 percent and light trucks projected to decline by 22 percent. Light vehicle production for 2009 in Europe is projected by Global Insight to fall by 12 percent compared to 2008, with estimated production declines of 13 percent in Western Europe and 10 percent in Eastern Europe. Compared to 2008, Global Insight projects production to fall in South America by 15 percent, but will remain flat in India in 2009. Global Insight also projects that China's 2009 light vehicle production will increase by three percent over 2008. We anticipate that the global aftermarket for 2009 will be down as a result of the global economic crisis. We will continue to support our strong brands and aggressively pursue new customers, actions that we hope will help offset some of the softness in the aftermarket.

We will continue to closely watch market conditions, specifically the credit markets, unemployment rates and trends in light vehicle purchases by consumers. To address the impact of the current global economic conditions, we will focus on cost reduction and cash generation activities including aggressive global restructuring initiatives, continued reduced compensation and benefit actions, ongoing discretionary spending cuts and additional cash generating activities from working capital improvements, especially global inventory reductions and capital spending cuts. While we are tightly controlling engineering spending, we continue to support customer programs and technology needed for environmental mandates.

The outlook for the next several quarters and predictions regarding a recovery are uncertain. In the meantime, we will continue to plan conservatively, aggressively manage our cash and stay well-positioned for a recovery. Given these conditions, it is not possible at this time to provide any OE revenue guidance. Future global OE production projections are too unreliable for us to provide guidance regarding our OE revenue growth. However, we will continue to benefit from new stricter emissions regulations. Our highly competitive technology is driving content growth and new business over the next five years in traditional and adjacent markets including on and off-road commercial vehicles and locomotives.

Cash Flows for 2008 and 2007

	Year Ended December 31, 2008 2007 (Millions)	
Cash provided (used) by:		
Operating activities	\$ 160	\$ 158
Investing activities	(261)	(202)
Financing activities	58	(10)

Operating Activities

For 2008, operating activities provided \$160 million in cash compared to \$158 million in cash from last year. Cash used for working capital during 2008 was \$31 million versus \$83 million in 2007. Receivables provided cash of \$126 million compared to a use of cash of \$116 million in the prior year. The cash provided by receivables reflects an increase of \$22 million in securitized accounts receivable. Inventory cash flow represented a cash inflow of \$19 million during 2008 versus a cash outflow of \$66 million in the prior year. The improvement was primarily due to a significant decrease in cash used for inventories of catalytic converters sourced from South Africa. Accounts payable used cash of \$181 million compared to last year s

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cash inflow of \$100 million driven by the rapid decline in global production. Cash taxes were \$62 million for 2008, compared to \$60 million in the prior year.

One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$23 million as of December 31, 2008, compared with \$15 million at the same date in 2007. No negotiable financial instruments were held by our European subsidiary as of December 31, 2008 or December 31, 2007.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$6 million and \$23 million at December 31, 2008 and 2007, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$6 million and \$8 million at December 31, 2008 and 2007, respectively, and were classified as other current assets. One of our Chinese subsidiaries that issues its own negotiable financial instruments to pay its vendors is required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at that Chinese subsidiary as of December 31, 2008 and 2007.

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

Investing Activities

Cash used for investing activities was \$59 million higher in 2008 compared to 2007. Cash payments for plant, property and equipment were \$233 million in 2008 versus payments of \$177 million in 2007. The increase of \$56 million in cash payments for plant, property and equipment was to support new business that has been awarded for 2010 and 2011. Cash of \$19 million was used to acquire ride control assets at Delphi's Kettering, Ohio location during 2008. In September 2008, we acquired Gruppo Marzocchi which resulted in a \$3 million cash inflow (\$4 million cash acquired net of \$1 million cash consideration paid). Cash of \$16 million was used to acquire Combustion Components Associates' ELIM-NO[®] technology during 2007. Cash payments for software-related intangible assets were \$15 million in 2008 compared to \$19 million in 2007.

Financing Activities

Cash flow from financing activities was a \$58 million inflow in 2008 compared to an outflow of \$10 million in 2007. The increase was mainly due to higher borrowings under our revolving credit facility.

Cash Flows for 2007 and 2006

Year Ended	
December 31,	
2007	2006

(Millions)

Cash provided (used) by:

Operating activities

\$ 158 \$ 203

Investing activities

(202) (172)

Financing activities

(10) 12

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For the year ended December 31, 2007, cash flow provided from operating activities was \$158 million as compared to \$203 million in 2006. For 2007 cash used by working capital was \$83 million compared to cash provided of \$7 million for 2006. Receivables were a cash use of \$116 million for 2007, a \$92 million increase from 2006. Inventory was a use of cash of \$66 million compared to cash use of \$57 million in 2006. Inventory was up year-over-year due to the ramp-up of future platform launches. The year-over-year increase in the use of cash for both accounts receivable and inventory was primarily a result of working capital requirements for our new platform launches in North America. In addition to the higher level of receivables related to the revenue increase, we must carry higher inventory levels for these new platforms, a portion of which relates to higher value substrates sourced from South Africa. This inventory from South Africa increased our cash outflow from operating activities during 2007 by \$33 million. Accounts payable provided cash of \$100 million versus cash inflow of \$91 million in 2006. Cash interest payments of \$177 million in 2007 were higher than 2006 payments of \$137 million as a result of higher interest rates on our variable portion of debt, increased average borrowings, and costs related to our refinancing activities of \$26 million. Cash tax payments were \$60 million in 2007 compared to \$26 million in 2006. We made tax payments in 2007 to resolve audits related to prior years' operations and for separation from the old Tenneco packaging company. In addition, cash collected from former affiliates in 2006 offset other cash tax payments.

One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$15 million at December 31, 2007 and \$26 million at December 31, 2006. No negotiable financial instruments were held by our European subsidiary as of December 31, 2007 or December 31, 2006.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$23 million and \$12 million at December 31, 2007 and 2006, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$8 million and \$9 million at December 31, 2007 and 2006, respectively, and were classified as other current assets. One of our Chinese subsidiaries that issues its own negotiable financial instruments to pay its vendors is required to maintain a cash balance at a financial institution that guarantees those financial instruments. No financial instruments were outstanding at that Chinese subsidiary as of December 31, 2007. As of December 31, 2006 the required cash balance was less than \$1 million and was classified as cash and cash equivalents.

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

Investing Activities

Cash used for investing activities was \$202 million in 2007, \$30 million greater than in 2006. In 2007, we received \$10 million in cash from the sale of assets. Cash payments for plant, property and equipment (PP&E) were \$177 million in 2007, equal to 2006. In 2007, we spent \$16 million to acquire Combustion Components Associates ELIM-NOxtm technology. Cash payments for software-related intangible assets were \$19 million in 2007 compared to

\$13 million in 2006.

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Cash flow from financing activities was a \$10 million outflow in 2007 compared to an inflow of \$12 million in 2006. The primary reason for the change is debt issuance costs due to our long-term debt refinancing activities in 2007.

*Liquidity and Capital Resources**Capitalization*

	Year Ended December 31,		% Change
	2008	2007	
		(Millions)	
Short-term debt and maturities classified as current	\$ 49	\$ 46	7%
Long-term debt	1,402	1,328	6
Total debt	1,451	1,374	6
Total minority interest	31	31	
Shareholders' equity	(251)	400	NM
Total capitalization	\$ 1,231	\$ 1,805	(32)%

General. Short-term debt, which includes maturities classified as current and borrowings by foreign subsidiaries, was \$49 million and \$46 million as of December 31, 2008 and December 31, 2007, respectively. Borrowings under our revolving credit facilities, which are classified as long-term debt, were approximately \$239 million and \$169 million as of December 31, 2008 and December 31, 2007.

The 2008 decrease in shareholders' equity primarily resulted from \$127 million of translation of foreign balances into U.S. dollars and a net loss of \$415 million, primarily related to tax charges for a valuation allowance on deferred tax assets and an impairment charge for goodwill. While our book equity balance was negative at December 31, 2008, it had no effect on our business operations. We have no debt covenants that are based upon our book equity, and there are no other agreements that are adversely impacted by our negative book equity.

Overview and Recent Transactions. Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of December 31, 2008, the senior credit facility consisted of a five-year, \$150 million term loan A maturing in March 2012, a five-year, \$550 million revolving credit facility maturing in March 2012, and a seven-year \$130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. Our outstanding debt also includes \$245 million of 101/4 percent senior secured notes due July 15, 2013, \$250 million of 81/8 percent senior notes due November 15, 2015, and \$500 million of 85/8 percent senior subordinated notes due November 15, 2014.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness

net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduce the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). These changes are detailed in the table below.

Beginning February 23, 2009 and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan A and revolving credit facility will incur interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these

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borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0, and will be further reduced following each fiscal quarter for which the consolidated net leverage ratio is less than 4.0.

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

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

On December 23, 2008, we amended a financial covenant effective for the fourth quarter of 2008 in our senior secured credit facility which increased the consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) by increasing the maximum ratio to 4.25 from 4.0. We agreed to increase the margin we pay on the borrowings under our senior credit facility as outlined in the table below. In addition, we agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately \$3 million.

In December 2008, we terminated the fixed-to-floating interest rate swaps we entered into in April 2004. The change in the market value of these swaps was recorded as part of interest expense with an offset to other long-term assets or liabilities. At the termination date, we had recorded a reduction in interest expense and a long-term asset of \$6 million, which the counter-parties to the swaps paid us in cash.

On November 20, 2007, we issued \$250 million of 81/8 percent Senior Notes due November 15, 2015 through a private placement offering. The offering and related transactions were designed to (1) reduce our interest expense and extend the maturity of a portion of our debt (by using the proceeds of the offering to tender for \$230 million of our outstanding \$475 million 101/4 percent senior secured notes due 2013), (2) facilitate the realignment of the ownership structure of some of our foreign subsidiaries and (3) otherwise amend certain of the covenants in the indenture for our 101/4 percent senior secured notes to be consistent with those contained in our 85/8 percent senior subordinated notes, including conforming the limitation on incurrence of indebtedness and the absence of a limitation on issuances or transfers of restricted subsidiary stock, and make other minor modifications.

The ownership structure realignment was designed to allow us to more rapidly use our U.S. net operating losses and reduce our cash tax payments. The realignment involved the creation of a new European holding company which now owns some of our foreign entities. We may further alter the components of the realignment from time to time. If market conditions permit, we may offer debt issued by the new European holding company. This realignment utilized part of our U.S. net operating tax losses. Consequently, we recorded a non-cash charge of \$66 million in the fourth quarter of 2007.

The offering of new notes and related repurchase of our senior secured notes reduced our annual interest expense by approximately \$3 million for 2008 and increased our total debt outstanding to third-parties by approximately \$20 million. In connection with the offering and the related repurchase of our senior secured notes, we also recorded

non-recurring pre-tax charges related to the tender premium and fees, the write-off of deferred debt issuance costs, and the write-off of previously recognized issuance premium totaling \$21 million in the fourth quarter of 2007.

In July 2008, we exchanged \$250 million principal amount of 8 1/8 percent Senior Notes due 2015 which have been registered under the Securities Act of 1933, for and in replacement of all outstanding

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81/8 percent Senior Notes due 2015 which we issued on November 20, 2007 in a private placement. The terms of the new notes are substantially identical to the terms of the notes for which they were exchanged, except that the transfer restrictions and registration rights applicable to the original notes generally do not apply to the new notes.

In March 2007, we refinanced our \$831 million senior credit facility. At that time, the transaction reduced the interest rates we paid on all portions of the facility. While the total amount of the new senior credit facility is \$830 million, approximately the same as the previous facility, we changed the components of the facility to enhance our financial flexibility. We increased the amount of commitments under our revolving loan facility from \$320 million to \$550 million, reduced the amount of commitments under our tranche B-1 letter of credit/revolving loan facility from \$155 million to \$130 million and replaced the \$356 million term loan B with a \$150 million term loan A. As of December 31, 2008, the senior credit facility consisted of a five-year, \$150 million term loan A maturing in March 2012, a five-year, \$550 million revolving credit facility maturing in March 2012, and a seven-year \$130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014.

At that time, the refinancing of the prior facility allowed us to: (i) amend the consolidated net debt to EBITDA ratio, (ii) eliminate the fixed charge coverage ratio, (iii) eliminate the restriction on capital expenditures, (iv) increase the amount of acquisitions permitted, (v) improve the flexibility to repurchase and retire higher cost junior debt, (vi) increase our ability to enter into capital leases, (vii) increase the ability of our foreign subsidiaries to incur debt, (viii) increase our ability to pay dividends and repurchase common stock, (ix) increase our ability to invest in joint ventures, (x) allow for the increase in the existing tranche B-1 facility and/or the term loan A or the addition of a new term loan of up to \$275 million in order to reduce our 101/4 percent senior secured notes, and (xi) make other modifications.

Following the refinancing, the term loan A facility is payable in twelve consecutive quarterly installments, commencing June 30, 2009 as follows: \$6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, \$15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and \$17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and reborrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

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

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Senior Credit Facility Interest Rates and Fees. Borrowings and letters of credit issued under the senior credit facility bear interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin as set forth in the table below; or (ii) a rate consisting of the greater of the JP Morgan Chase prime rate or the Federal Funds rate, plus a margin as set forth in the table below.

	For the Period				
	1/01/2006	4/3/2006	3/16/2007	12/23/2008	
	thru	thru	thru	thru	Beginning
	4/2/2006	3/15/2007	12/22/2008	2/22/2009	2/23/2009
Applicable Margin over LIBOR for Revolving Loans	2.75%	2.75%	1.50%	3.00%	5.50%
Applicable Margin over LIBOR for Term Loan B Loans	2.25%	2.00%	N/A	N/A	N/A
Applicable Margin over LIBOR for Term Loan A Loans	N/A	N/A	1.50%	3.00%	5.50%
Applicable Margin over LIBOR for Tranche B-1 Loans	2.25%	2.00%	1.50%	3.00%	5.50%
Applicable Margin for Prime-based Loans	1.75%	1.75%	0.50%	2.00%	4.50%
Applicable Margin for Federal Funds base Loans	2.125%	2.125%	1.00%	2.50%	5.00%
Commitment Fee	0.375%	0.375%	0.35%	0.50%	0.75%

Senior Credit Facility Other Terms and Conditions. As described above, we are highly leveraged. Our senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA, as defined in the senior credit facility agreement), and consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined under the senior credit facility agreement) at the end of each period indicated. Failure to maintain these ratios will result in a default under our senior credit facility. The financial ratios required under the senior credit facility and, the actual ratios we achieved for four quarters of 2008, are shown in the following tables:

	Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	2008		2008		2008		2008	
	Req.	Act.	Req.	Act.	Req.	Act.	Req.	Act.
Leverage Ratio (maximum)	4.00	2.79	4.00	2.92	4.00	3.27	4.25	3.66
Interest Coverage Ratio (minimum)	2.10	4.06	2.10	4.22	2.10	4.08	2.10	3.64

The financial ratios required under the senior credit facility for 2009 and beyond are set forth below.

Period Ending	Leverage Ratio	Interest Coverage Ratio
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March 31, 2009	5.50	2.25
June 30, 2009	7.35	1.85
September 30, 2009	7.90	1.55
December 31, 2009	6.60	1.60
March 31, 2010	5.50	2.00
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
2012 and 2013	3.50	2.75

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The senior credit facility agreement provides the ability to refinance our senior subordinated notes and/or our senior secured notes in an amount equal to the sum of (i) the net cash proceeds of equity issued after March 16, 2007, plus (ii) the portion of annual excess cash flow (as defined in the senior credit facility agreement) that is not required to be applied to the payment of the credit facilities and which is not used for other purposes, provided that the amount of the subordinated notes and the aggregate amount of the senior secured notes and the subordinated notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Proforma Consolidated Leverage Ratio	Subordinated Notes Maximum Amount	Aggregate Senior and Subordinate Note Maximum Amount
Greater than or equal to 3.0x	\$ 0 million	\$ 10 million
Greater than or equal to 2.5x	\$ 100 million	\$ 300 million
Less than 2.5x	\$ 125 million	\$ 375 million

In addition, the senior secured notes may be refinanced with (i) the net cash proceeds of incremental facilities and permitted refinancing indebtedness (as defined in the senior credit facility agreement), (ii) the net cash proceeds of any new senior or subordinated unsecured indebtedness, (iii) proceeds of revolving credit loans (as defined in the senior credit facility agreement), (iv) up to 200 million of unsecured indebtedness of the company's foreign subsidiaries and (v) cash generated by the company's operations provided that the amount of the senior secured notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Proforma Consolidated Leverage Ratio	Aggregate Senior and Subordinate Note Maximum Amount
Greater than or equal to 3.0x	\$ 10 million
Greater than or equal to 2.5x	\$ 300 million
Less than 2.5x	\$ 375 million

The senior credit facility agreement also contains restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions as described in the amended and restated agreement); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees; (v) investments and acquisitions; (vi) dividends and share repurchases; (vii) mergers and consolidations; and (viii) refinancing of subordinated and 101/4 percent senior secured notes. Compliance with these requirements and restrictions is a condition for any incremental borrowings under the senior credit facility agreement and failure to meet these requirements enables the lenders to require repayment of any outstanding loans. As of December 31, 2008, we were in compliance with all the financial covenants and operational restrictions of the facility.

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

Senior Secured, Senior and Senior Subordinated Notes. As of December 31, 2008, our outstanding debt also included \$245 million of 10¹/₄ percent senior secured notes due July 15, 2013, \$250 million of 8¹/₈ percent senior notes due November 15, 2015, and \$500 million of 8⁵/₈ percent senior subordinated notes due November 15, 2014. We can redeem some or all of the notes at any time after July 15, 2008 in the case of the senior secured notes, November 15, 2009 in the case of the senior subordinated notes and November 15, 2011 in the case of the senior notes. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes. We are permitted to redeem up to 35 percent of the senior notes with the proceeds of certain equity offerings completed before November 15, 2010.

Our senior secured, senior and senior subordinated notes require that, as a condition precedent to incurring certain types of indebtedness not otherwise permitted, our consolidated fixed charge coverage ratio, as calculated on a proforma basis, be greater than 2.00. We have not incurred any of the types of indebtedness not otherwise permitted by the indentures. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (ii) dividends; (iii) distributions and stock

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repurchases; (iv) investments; (v) asset sales and (vi) mergers and consolidations. Subject to limited exceptions, all of our existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee these notes on a joint and several basis. In addition, the senior secured notes and related guarantees are secured by second priority liens, subject to specified exceptions, on all of our and our subsidiary guarantors' assets that secure obligations under our senior credit facility, except that only a portion of the capital stock of our subsidiary guarantor's domestic subsidiaries is provided as collateral and no assets or capital stock of our direct or indirect foreign subsidiaries secure the notes or guarantees. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. The senior subordinated notes rank junior in right of payment to our senior credit facility and any future senior debt incurred. As of December 31, 2008, we were in compliance with the covenants and restrictions of these indentures.

Accounts Receivable Securitization. In addition to our senior credit facility, senior secured notes, senior notes and senior subordinated notes, we also sell some of our accounts receivable on a nonrecourse basis in North America and Europe. In North America, we have an accounts receivable securitization program with two commercial banks. We sell original equipment and aftermarket receivables on a daily basis under this program. We had sold accounts receivable under this program of \$101 million and \$100 million at December 31, 2008 and 2007, respectively. This program is subject to cancellation prior to its maturity date if we (i) fail to pay interest or principal payments on an amount of indebtedness exceeding \$50 million, (ii) default on the financial covenant ratios under the senior credit facility, or (iii) fail to maintain certain financial ratios in connection with the accounts receivable securitization program. In January 2009, the U.S. program was amended and extended to March 2, 2009 at a facility size of \$120 million. These revisions will have the effect of reducing the amount of receivables sold by approximately \$10 million to \$30 million compared to the terms of the previous program. On February 23, 2009 this program was renewed for 364 days to February 22, 2010 at a facility size of \$100 million. As part of the renewal, the margin we pay the banks increased. While the funding costs incurred by the banks are expected to be down in 2009, we estimate that the additional margin would otherwise increase the loss we record on the sale of receivables by approximately \$4 million annually. We also sell some receivables in our European operations to regional banks in Europe. At December 31, 2008, we had sold \$78 million of accounts receivable in Europe up from \$57 million at December 31, 2007. The arrangements to sell receivables in Europe are provided under 10 separate arrangements, by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year but may be cancelled with 90 day notice prior to renewal. In four instances, the arrangement provides for cancellation by financial institution at any time upon 30 days, or less, notification. If we were not able to sell receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreements may increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreements.

Capital Requirements. We believe that cash flows from operations, combined with available borrowing capacity described above, assuming that we maintain compliance with the financial covenants and other requirements of our loan agreement, will be sufficient to meet our future capital requirements for the following year. Our ability to meet the financial covenants depends upon a number of operational and economic factors, many of which are beyond our control. Factors that could impact our ability to comply with the financial covenants include the rate at which consumers continue to buy new vehicles and the rate at which they continue to repair vehicles already in service, as well as our ability to successfully implement our restructuring plans and offset higher raw material prices. Further deterioration in North American vehicle production levels, weakening in the global aftermarket, or a further reduction in vehicle production levels in Europe, beyond our expectations, could impact our ability to meet our financial covenant ratios. In the event that we are unable to meet these financial covenants, we would consider several options to meet our cash flow needs. These options could include renegotiations with our senior credit lenders, additional cost reduction or restructuring initiatives, sales of assets or common stock, or other alternatives to enhance our financial and operating position. Should we be required to implement any of these actions to meet our cash flow needs, we

believe we can do so in a reasonable time frame.

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Our remaining required debt principal amortization and payment obligations under lease and certain other financial commitments as of December 31, 2008 are shown in the following table:

	Payments due in:					Beyond 2013	Total
	2009	2010	2011	2012 (Millions)	2013		
Obligations:							
Revolver borrowings	\$	\$	\$	\$ 109	\$	\$ 130	\$ 239
Senior term loans	17	50	66	17			150
Senior secured notes				1	245		246
Senior subordinated notes						500	500
Senior notes						250	250
Capital leases	4	4					8
Other subsidiary debt	1	1	1	1	1	4	9
Short-term debt	44						44
Debt and capital lease obligations	66	55	67	128	246	884	1,446
Operating leases	16	13	11	6	4	14	64
Interest payments	105	105	105	97	75	78	565
Capital commitments	55						55
Total Payments	\$ 242	\$ 173	\$ 183	\$ 231	\$ 325	\$ 976	\$ 2,130

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

Included in our contractual obligations is the amount of interest to be paid on our long-term debt. As our debt structure contains both fixed and variable rate interest debt, we have made assumptions in calculating the amount of the future interest payments. Interest on our senior secured notes, senior subordinated notes, and senior notes is calculated using the fixed rates of 101/4 percent, 85/8 percent, and 81/8 percent respectively. Interest on our variable rate debt is calculated as LIBOR plus the applicable margin in effect at December 31, 2008 for the Eurodollar, Term Loan A and Tranche B-1 loans and Prime plus the applicable margin in effect on December 31, 2008 on the prime-based loans. We have assumed that both LIBOR and the Prime rate will remain unchanged for the outlying years. See Capitalization.

We have also included an estimate of expenditures required after December 31, 2008 to complete the projects authorized at December 31, 2008, in which we have made substantial commitments in connection with purchasing plant, property and equipment for our operations. For 2009, we expect our capital expenditure budget to be about \$160 million.

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

We have not included material cash requirements for unrecognized tax benefits or taxes as we are a taxpayer in certain foreign jurisdictions but not in the U.S. Additionally, it is difficult to estimate taxes to be

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paid as changes in where we generate income can have a significant impact on future tax payments. We have also not included cash requirements for funding pension and postretirement benefit costs. Based upon current estimates, we believe we will be required to make contributions of approximately \$34 million to those plans in 2009. Pension and postretirement contributions beyond 2009 will be required but those amounts will vary based upon many factors, including the performance of our pension fund investments during 2009. In addition, we have not included cash requirements for environmental remediation. Based upon current estimates we believe we will be required to spend approximately \$11 million over the next 20 to 30 years. However, due to possible modifications in remediation processes and other factors, it is difficult to determine the actual timing of the payments. See Environmental and Other Matters.

We occasionally provide guarantees that could require us to make future payments in the event that the third party primary obligor does not make its required payments. We have not recorded a liability for any of these guarantees.

Additionally, we have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility, our senior secured notes, our senior notes and our senior subordinated notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. Our \$245 million senior secured notes are also secured by second-priority liens on substantially all our domestic assets, excluding some of the stock of our domestic subsidiaries. No assets or capital stock of our direct or indirect foreign subsidiaries secure these notes. You should also read Note 14 of the condensed consolidated financial statements of Tenneco Inc., where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of December 31, 2008, we have guaranteed \$47 million in letters of credit to support some of our subsidiaries' insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

Critical Accounting Policies

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

Revenue Recognition

We recognize revenue for sales to our original equipment and aftermarket customers when title and risk of loss passes to the customers under the terms of our arrangements with those customers, which is usually at the time of shipment from our plants or distribution centers. In connection with the sale of exhaust systems to certain original equipment manufacturers, we purchase catalytic converters and diesel particulate filters or components thereof including precious metals (substrates) on behalf of our customers which are used in the assembled system. These substrates are included in our inventory and passed through to the customer at our cost, plus a small margin, since we take title to the inventory and are responsible for both the delivery and quality of the finished product. Revenues recognized for substrate sales were \$1,492 million, \$1,673 million and \$927 million in 2008, 2007 and 2006, respectively. For our aftermarket customers, we provide for promotional incentives and returns at the time of sale. Estimates are based upon

the terms of the incentives and historical experience with returns. Certain taxes assessed by governmental authorities on revenue producing transactions, such as value added taxes, are excluded from revenue and recorded on a net basis.

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Shipping and handling costs billed to customers are included in revenues and the related costs are included in cost of sales in our Statements of Income (Loss).

Warranty Reserves

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

Pre-production Design and Development and Tooling Assets

We expense pre-production design and development costs as incurred unless we have a contractual guarantee for reimbursement from the original equipment customer. We had current and long-term receivables of \$12 million and \$20 million on the balance sheet at December 31, 2008 and 2007, respectively, for guaranteed pre-production design and development reimbursement arrangements with our customers. In addition, plant, property and equipment includes \$53 million and \$62 million at December 31, 2008 and 2007, respectively, for original equipment tools and dies that we own, and prepayments and other includes \$22 million and \$33 million at December 31, 2008 and 2007, respectively, for in-process tools and dies that we are building for our original equipment customers.

Income Taxes

In accordance with SFAS No. 109 Accounting for Income Taxes (SFAS No. 109), we evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. SFAS No. 109 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

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

Future reversals of existing taxable temporary differences;

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

Tax-planning strategies.

In 2008, we recorded tax expense of \$289 million primarily related to establishing a valuation allowance against our net deferred tax assets in the U.S. In the U.S. we utilize the results from 2007 and 2008 as a measure of the cumulative losses in recent years. Accounting standards do not permit us to give any consideration to a likely economic recovery in the U.S. or the recent new business we have won particularly in the commercial vehicle segment in evaluating the requirement to record a valuation allowance. Consequently, we concluded that our ability to fully utilize our NOLs was limited due to projecting the current negative economic environment into the future and the impact of the current negative operating environment on our tax planning strategies. As a result of tax planning strategies which have not

yet been implemented but which we plan to implement and which do not depend upon generating future taxable income, we continue to carry deferred tax assets in the U.S. of \$70 million relating to the expected utilization of those NOLs. The federal NOL expires beginning in 2020 through 2028. The state NOL expires in various years through 2028.

If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the

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future. The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain U.S. state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable.

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

Our capital structure impacts the U.S. pretax loss because most of our debt is in the U.S. resulting in a significant amount of our interest expense being incurred in the U.S. In 2008, interest expense was \$102 million in the U.S. and \$11 million outside the U.S. Interest expense in the U.S. was \$162 million and \$134 million in 2007 and 2006, respectively. Interest expense outside the U.S. was \$2 million in each of 2007 and 2006.

Stock-Based Compensation

Effective January 1, 2006, we began accounting for our stock-based compensation plans in accordance with SFAS No. 123(R), Share-Based Payment, which requires a fair value method of accounting for compensation costs related to our stock-based compensation plans. Under the fair value method recognition provision of the Statement, a share-based payment is measured at the grant date based upon the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards requires judgment in estimating employee and market behavior. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted. As of December 31, 2008, there was approximately \$4 million, net of tax, of total unrecognized compensation costs related to these stock-based awards that is expected to be recognized over a weighted average period of 0.9 years as compared to \$4 million, net of tax, and a weighted average period of 0.8 years as of December 31, 2007.

Goodwill and Other Intangible Assets

As required by SFAS No. 142, Goodwill and Other Intangible Assets, we evaluate goodwill for impairment in the fourth quarter of each year, or more frequently if events indicate it is warranted. We compare the estimated fair value of our reporting units with goodwill to the carrying value of the unit's assets and liabilities to determine if impairment exists within the recorded balance of goodwill. We estimate the fair value of each reporting unit using the income approach which is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of market trends, forecasted revenues and expenses, capital expenditures, weighted average cost of capital and other variables. These estimates are based on assumptions that we believe to be reasonable, but which are inherently uncertain.

During the fourth quarter of 2008, all of our reporting units passed this test with the exception of our North American Original Equipment Ride Control reporting unit whose carrying value exceeded the estimated fair value. Under SFAS No. 142, we were required to calculate the implied fair value of goodwill of the North America Original Equipment Ride Control reporting unit by allocating the estimated fair value to the assets and liabilities of this reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the acquisition price. As a result of this test, we determined that the remaining amount of goodwill related to our elastomer business acquired in 1996 was impaired due to the significant decline in production. Accordingly, we recorded an impairment charge of \$114 million during the fourth quarter of 2008. During the fourth quarter of 2007, all of our reporting units passed the goodwill impairment test.

Pension and Other Postretirement Benefits

We have various defined benefit pension plans that cover some of our employees. We also have postretirement health care and life insurance plans that cover some of our domestic employees. Our pension and postretirement health care and life insurance expenses and valuations are dependent on assumptions used

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by our actuaries in calculating those amounts. These assumptions include discount rates, health care cost trend rates, long-term return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend rate assumptions are developed based on historical cost data and an assessment of likely long-term trends. Retirement rates are based primarily on actual plan experience while mortality rates are based upon the general population experience which is not expected to differ materially from our experience.

Our approach to establishing the discount rate assumption for both our domestic and foreign plans starts with high-quality investment-grade bonds adjusted for an incremental yield based on actual historical performance. This incremental yield adjustment is the result of selecting securities whose yields are higher than the normal bonds that comprise the index. Based on this approach, for 2008 we raised the weighted-average discount rate for all of our pension plans to 6.2 percent from 5.9 percent. The discount rate for postretirement benefits was left unchanged at 6.2 percent for 2008.

Our approach to determining expected return on plan asset assumptions evaluates both historical returns as well as estimates of future returns, and is adjusted for any expected changes in the long-term outlook for the equity and fixed income markets. As a result, our estimate of the weighted-average long-term rate of return on plan assets for all of our pension plans for 2008 was lowered to 7.9 percent from 8.2 percent.

Except in the U.K., our pension plans generally do not require employee contributions. Our policy is to fund our pension plans in accordance with applicable U.S. and foreign government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At December 31, 2008 and 2007, all legal funding requirements had been met. Other postretirement benefit obligations, such as retiree medical, and certain foreign pension plans are not funded.

Effective December 31, 2006, we froze future accruals under our defined benefit plans for substantially all U.S. salaried and non-union hourly employees and replaced these benefits with additional contributions under defined contribution plans. These changes reduced expense in 2007 by approximately \$11 million from 2006. Additionally, we realized a one-time benefit of \$7 million in the fourth quarter 2006 related to curtailing the defined benefit pension plans.

Recent Accounting Pronouncements

Footnote 1 to the consolidated financial statements of Tenneco Inc. located in Item 8 Financial Statements and Supplemental Data is incorporated herein by reference.

Derivative Financial Instruments

Foreign Currency Exchange Rate Risk

We use derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments for speculative purposes.

In managing our foreign currency exposures, we identify and aggregate existing offsetting positions and then hedge residual exposures through third-party derivative contracts. 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 December 31, 2008. The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted

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spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. All contracts in the following table mature in 2009.

		Notional Amount in Foreign Currency	December 31, 2008 Weighted Average Settlement Rates (Millions Except Settlement Rates)	Fair Value in U.S. Dollars
Australian dollars	Purchase	32	.711	\$ 23
	Sell	(7)	.711	(5)
British pounds	Purchase	14	1.459	20
	Sell	(12)	1.459	(17)
European euro	Purchase			
	Sell	(9)	1.400	(13)
South African rand	Purchase	285	0.106	30
	Sell	(45)	0.106	(5)
U.S. dollars	Purchase	9	1.002	9
	Sell	(46)	1.002	(46)
Other	Purchase	577	0.011	7
	Sell	(1)	0.822	(1)
				\$ 2

Interest Rate Risk

Our financial instruments that are sensitive to market risk for changes in interest rates are primarily our debt securities. We use our revolving credit facilities to finance our short-term and long-term capital requirements. We pay a current market rate of interest on these borrowings. Our long-term capital requirements have been financed with long-term debt with original maturity dates ranging from five to ten years. On December 31, 2008, we had \$1.010 billion in long-term debt obligations that have fixed interest rates. Of that amount, \$245 million is fixed through July 2013, \$500 million is fixed through November 2014, \$250 million is fixed through November 2015, and the remainder is fixed from 2009 through 2025. We also have \$397 million in long-term debt obligations that are subject to variable interest rates. See Note 6 to the consolidated financial statements of Tenneco Inc. and Consolidated Subsidiaries included in Item 8.

We estimate that the fair value of our long-term debt at December 31, 2008 was about 51 percent of its book value. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by about \$4 million.

Environmental and Other Matters

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental

assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We

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evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.

As of December 31, 2008, we were designated as a potentially responsible party in one Superfund site. Including the Superfund site, we may have the obligation to remediate current or former facilities, and we estimate our share of environmental remediation costs at these facilities to be approximately \$11 million. For the Superfund site and the current and former facilities, we have established reserves that we believe are adequate for these costs. Although we believe our estimates of remediation costs are reasonable and are based on the latest available information, the cleanup costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute to the remediation costs. In addition, at the Superfund site, the Comprehensive Environmental Response, Compensation and Liability Act provides that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at the Superfund site, and of other liable parties at our current and former facilities, has been considered, where appropriate, in our determination of our estimated liability. We believe that any potential costs associated with our current status as a potentially responsible party in the Superfund site, or as a liable party at our current or former facilities, will not be material to our results of operations, 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 warnings issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentina 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. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. A small percentage of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. Nearly all of the claims are related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 200 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. During 2008, voluntary dismissals were initiated on behalf of 635 plaintiffs and are in process; we were dismissed from an additional 74 cases. Accordingly, we

presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

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Employee Stock Ownership Plans

We have established Employee Stock Ownership Plans for the benefit of our employees. Under the plans, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75 percent of their salary through contributions to the plan, which are invested in selected mutual funds or used to buy our common stock. Prior to January 1, 2009, we matched in cash 50 percent of each employee's contribution up to eight percent of the employee's salary. We have temporarily discontinued these matching contributions to salaried and hourly U.S. employees as a result of the recent global economic downturn. We will continue to reevaluate the Company's ability to restore the matching contribution for the U.S. employees. In connection with freezing the defined benefit pension plans for nearly all U.S. based salaried and non-union hourly employees effective December 31, 2006, and the related replacement of those defined benefit plans with defined contribution plans, we are making additional contributions to the Employee Stock Ownership Plans. These additional contributions are not affected by the temporary disruption of matching contributions discussed above. We recorded expense for these contributions of approximately \$18 million, \$17 million and \$7 million in 2008, 2007 and 2006, respectively, of which \$10 million in each of 2008 and 2007 related to contributions for the defined benefit replacement plans. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee's third anniversary of employment.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The section entitled "Derivative Financial Instruments" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

**INDEX TO FINANCIAL STATEMENTS OF TENNECO INC.
AND CONSOLIDATED SUBSIDIARIES**

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<u>Management's Report on Internal Control Over Financial Reporting</u>	70
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<u>Statements of income (loss) for each of the three years in the period ended December 31, 2008</u>	73
<u>Balance sheets December 31, 2008 and 2007</u>	74
<u>Statements of cash flows for each of the three years in the period ended December 31, 2008</u>	75
<u>Statements of changes in shareholders' equity for each of the three years in the period ended December 31, 2008</u>	76
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Tenneco Inc. is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). Management's internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements in financial reporting. Further, due to changing conditions and adherence to established policies and controls, internal control effectiveness may vary over time.

Management assessed the company's effectiveness of internal controls over financial reporting. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

During the fiscal year ended December 31, 2008, we designed and implemented remediation steps over our accounting for income taxes material weakness previously reported in our Annual Report on Form 10-K dated February 29, 2008, as described within Item 9A. Based on our assessment we have concluded that the company's internal control over financial reporting was effective as of December 31, 2008.

Our internal control over financial reporting as of December 31, 2008 has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

February 27, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tenneco Inc.

We have audited the internal control over financial reporting of Tenneco Inc. and subsidiaries (the Company) as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2008 and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity and comprehensive income (loss) and financial statement schedule for the year ended December 31, 2008, and our report dated February 27, 2009 expressed

an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP
Chicago, Illinois
February 27, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tenneco Inc.

We have audited the accompanying consolidated balance sheets of Tenneco Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income (loss), cash flows, changes in shareholders' equity, and comprehensive income (loss) for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 11, effective January 1, 2007, the Company adopted the measurement date provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

As discussed in Note 1 to the consolidated financial statements, on December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP
Chicago, Illinois
February 27, 2009

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

Year Ended December 31,
2008 2007 2006
(Millions Except Share and Per Share Amounts)

Revenues

Net sales and operating revenues	\$ 5,916	\$ 6,184	\$ 4,682
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Costs and expenses

Cost of sales (exclusive of depreciation and amortization shown below)	5,063	5,210	3,836
Goodwill impairment charge	114		
Engineering, research, and development	127	114	88
Selling, general, and administrative	392	399	373
Depreciation and amortization of intangibles	222	205	184
	5,918	5,928	4,481

Other income (expense)

Loss on sale of receivables	(10)	(10)	(9)
Other income	9	6	4
	(1)	(4)	(5)

Income (loss) before interest expense, income taxes, and minority interest

	(3)	252	196
Interest expense (net of interest capitalized of \$6 million, \$6 million and \$6 million, respectively)	113	164	136
Income tax expense	289	83	5
Minority interest	10	10	6

Net income (loss)	\$ (415)	\$ (5)	\$ 49
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Earnings (loss) per share

Weighted average shares of common stock outstanding			
Basic	46,406,095	45,809,730	44,625,220
Diluted	46,406,095	45,809,730	46,755,573
Basic earnings (loss) per share of common stock	\$ (8.95)	\$ (0.11)	\$ 1.11
Diluted earnings (loss) per share of common stock	\$ (8.95)	\$ (0.11)	\$ 1.05

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

Table of Contents**TENNECO INC.****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2008	2007
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126	\$ 188
Receivables		
Customer notes and accounts, net	529	732
Other	45	25
Inventories	513	539
Deferred income taxes	18	36
Prepayments and other	107	121
	1,338	1,641
Other assets:		
Long-term receivables, net	11	19
Goodwill	95	208
Intangibles, net	26	26
Deferred income taxes	88	370
Other	125	141
	345	764
Plant, property, and equipment, at cost	2,960	2,978
Less Accumulated depreciation and amortization	(1,815)	(1,793)
	1,145	1,185
	\$ 2,828	\$ 3,590

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 49	\$ 46
Trade payables	790	987
Accrued taxes	30	41
Accrued interest	22	22
Accrued liabilities	201	213
Other	65	49

	1,157	1,358
Long-term debt	1,402	1,328
Deferred income taxes	51	114
Postretirement benefits	377	288
Deferred credits and other liabilities	61	71
Commitments and contingencies		
Minority interest	31	31
Shareholders' equity:		
Common stock		
Premium on common stock and other capital surplus	2,809	2,800
Accumulated other comprehensive loss	(318)	(73)
Retained earnings (accumulated deficit)	(2,502)	(2,087)
	(11)	640
Less: Shares held as treasury stock, at cost	240	240
	(251)	400
	\$ 2,828	\$ 3,590

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

Table of Contents**TENNECO INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
	(Millions)		
Operating Activities			
Net income (loss)	\$ (415)	\$ (5)	\$ 49
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Depreciation and amortization of other intangibles	222	205	184
Goodwill impairment charge	114		
Deferred income taxes	204	25	(41)
Stock-based compensation	10	9	7
Loss on sale of assets	10	8	3
Changes in components of working capital			
(Increase) decrease in receivables	126	(116)	(24)
(Increase) decrease in inventories	19	(66)	(57)
(Increase) decrease in prepayments and other current assets	1	15	(25)
Increase (decrease) in payables	(181)	100	91
Increase (decrease) in accrued taxes	4	(25)	15
Increase (decrease) in accrued interest		(10)	2
Increase (decrease) in other current liabilities		19	5
Change in long-term assets	16	6	3
Change in long-term liabilities	19	(13)	(11)
Other	11	6	2
Net cash provided by operating activities	160	158	203
Investing Activities			
Proceeds from sale of assets	3	10	17
Cash payments for plant, property, and equipment	(233)	(177)	(177)
Cash payments for software related intangible assets	(15)	(19)	(13)
Cash payment for net assets purchased		(16)	
Acquisition of businesses (net of cash acquired)	(16)		
Investments and other			1
Net cash used by investing activities	(261)	(202)	(172)
Financing Activities			
Issuance of common shares	2	8	17
Issuance of long-term debt	1	400	
Debt issuance costs on long-term debt	(2)	(11)	
Increase (decrease) in bank overdrafts	(1)	7	

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Retirement of long-term debt	(6)	(591)	(4)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt	77	183	3
Distribution to minority interest partners	(13)	(6)	(4)
Net cash provided (used) by financing activities	58	(10)	12
Effect of foreign exchange rate changes on cash and cash equivalents	(19)	40	18
Increase (decrease) in cash and cash equivalents	(62)	(14)	61
Cash and cash equivalents, January 1	188	202	141
Cash and cash equivalents, December 31 (Note)	\$ 126	\$ 188	\$ 202
Supplemental Cash Flow Information			
Cash paid during the year for interest	\$ 117	\$ 177	\$ 137
Cash paid during the year for income taxes (net of refunds)	62	60	26
Non-cash Investing and Financing Activities			
Period ended balance of payables for plant, property, and equipment	\$ 28	\$ 40	\$ 18
Assumption of debt from business acquisition	10		

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

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

Table of Contents**TENNECO INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

	Year Ended December 31,					
	2008		2007		2006	
	Shares	Amount	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)					
Common Stock						
Balance January 1	47,892,532	\$	47,085,274	\$	45,544,668	\$
Issued (Reacquired) pursuant to benefit plans	238,982		209,558		(104,240)	
Stock options exercised	182,976		597,700		1,644,846	
Balance December 31	48,314,490		47,892,532		47,085,274	
Premium on Common Stock and Other Capital Surplus						
Balance January 1		2,800		2,790		2,776
Premium on common stock issued pursuant to benefit plans		9		10		14
Balance December 31		2,809		2,800		2,790
Accumulated Other Comprehensive Loss						
Balance January 1		(73)		(252)		(281)
Adoption of recognition provision of Statement of Financial Accounting Standard (SFAS) No. 158, net of tax of \$31 million						(59)
Measurement date implementation of SFAS No. 158, net of tax of \$7 million				14		
Other comprehensive income (loss)		(245)		165		88
Balance December 31		(318)		(73)		(252)
Retained Earnings (Accumulated Deficit)						
Balance January 1		(2,087)		(2,072)		(2,118)

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Net income (loss)		(415)		(5)		49
Measurement date implementation of SFAS No. 158, net of tax of \$2 million				(8)		
Other				(2)		(3)
Balance December 31		(2,502)		(2,087)		(2,072)
Less Common Stock Held as Treasury Stock, at Cost						
Balance January 1 and December 31	1,294,692	240	1,294,692	240	1,294,692	240
Total		\$ (251)		\$ 400		\$ 226

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

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

	Year Ended December 31,					
	2008		2007		2006	
	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)	\$	(415)	\$	(5)	\$	49
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	\$	85	\$	(53)	\$	(149)
Translation of foreign currency statements		(127)		(127)		138
				138		96
Balance December 31		(42)		85		(53)
Additional Liability for Pension Benefits						
Balance January 1		(158)		(199)		(132)
Additional liability for pension and postretirement benefits, net of tax of \$9 million in 2008, \$(15) million in 2007, and \$2 million in 2006		(118)		(118)		27
				27		27
Measurement date implementation of SFAS No. 158, net of tax of \$7 million				14		
Deferred tax valuation allowance adjustment						(3)
						(3)
Balance December 31		(276)		(158)		(140)
Adoption of recognition provision of SFAS No. 158,						(59)

net of tax of \$31 million

Balance December 31	\$	(318)	\$	(73)	\$	(252)
Other comprehensive income (loss)		(245)		165		88
Comprehensive Income (Loss)	\$	(660)	\$	160	\$	137