

TENNECO INC  
Form 10-Q  
May 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended March 31, 2012

OR

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

**TENNECO INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**76-0515284**

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

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

(Address of principal executive offices)

**60045**

(Zip Code)

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

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

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

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

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

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

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

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

Common Stock, par value \$0.01 per share: 60,699,850 shares outstanding as of April 30, 2012.

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

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

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

general economic, business and market conditions;

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

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

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

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

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

the loss of any of our large original equipment manufacturer (OEM) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs or any change in customer demand due to delays in the adoption or enforcement of worldwide emissions regulations;

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

increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, customer recovery and other methods;

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

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

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

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costs related to product warranties and other customer satisfaction actions;

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

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

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

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

customer acceptance of new products;

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

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

our ability to successfully integrate any acquisitions that we complete and effectively manage our joint ventures and other third-party relationships;

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

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

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

the impact of changes in and compliance with laws and regulations, including: environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved; and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;

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

potential volatility in our effective tax rate;

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

acts of war and/or terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and

the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control. The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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**PART I.**

**FINANCIAL INFORMATION**

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of March 31, 2012, and the related condensed consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the three-month periods ended March 31, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

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

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

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

**/s/ PricewaterhouseCoopers LLP**

Chicago, Illinois

May 7, 2012

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



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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Millions Except Share and Per Share Amounts)</b>	
<b>Revenues</b>		
Net sales and operating revenues	\$ 1,912	\$ 1,760
<b>Costs and expenses</b>		
Cost of sales (exclusive of depreciation and amortization shown below)	1,607	1,466
Engineering, research, and development	38	35
Selling, general, and administrative	118	109
Depreciation and amortization of other intangibles	49	51
	1,812	1,661
<b>Other income (expense)</b>		
Loss on sale of receivables	(1)	(1)
Other income (expense)	(3)	(4)
	(4)	(5)
<b>Earnings before interest expense, income taxes, and noncontrolling interests</b>		
	96	94
Interest expense (net of interest capitalized of \$1 million in both the three months ended March 31, 2012 and 2011, respectively)	42	28
<b>Earnings before income taxes and noncontrolling interests</b>		
	54	66
Income tax expense	18	14
<b>Net income</b>		
	36	52
Less: Net income attributable to noncontrolling interests	6	5
<b>Net income attributable to Tenneco Inc.</b>		
	\$ 30	\$ 47
<b>Earnings per share</b>		
Weighted average shares of common stock outstanding		
Basic	60,196,428	59,849,278
Diluted	61,736,204	62,074,523
Basic earnings per share of common stock	\$ 0.50	\$ 0.78
Diluted earnings per share of common stock	\$ 0.49	\$ 0.75

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

part of these condensed consolidated statements of income.

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

	Tenneco Inc.		Three Months Ended March 31, 2012 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
	(Millions)					
<b>Net Income</b>		\$ 30		\$ 6		\$ 36
<b>Accumulated Other Comprehensive Income (Loss)</b>						
<b>Cumulative Translation Adjustment</b>						
Balance January 1	\$ (30)		\$ 4		\$ (26)	
Translation of foreign currency statements	26	26	(1)	(1)	25	25
Balance March 31	(4)		3		(1)	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance January 1	(352)				(352)	
Additional Liability for Pension and Postretirement Benefits, net of tax	3	3			3	3
Balance March 31	(349)				(349)	
Balance March 31	\$ (353)		\$ 3		\$ (350)	
<b>Other Comprehensive Income</b>		29		(1)		28
<b>Comprehensive Income</b>		\$ 59		\$ 5		\$ 64

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

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

	Tenneco Inc.		Three Months Ended March 31, 2011 Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Accumulated Other Comprehensive Income	Comprehensive Income (Millions)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
<b>Net Income</b>		\$ 47		\$ 5		\$ 52
<b>Accumulated Other Comprehensive Income (Loss)</b>						
<b>Cumulative Translation Adjustment</b>						
Balance January 1	\$ 8		\$ 5		\$ 13	
Translation of foreign currency statements	30	30	1	1	31	31
Balance March 31	38		6		44	
<b>Additional Liability for Pension and Postretirement Benefits</b>						
Balance January 1	(250)				(250)	
Additional Liability for Pension and Postretirement Benefits, net of tax	1	1			1	1
Balance March 31	(249)				(249)	
Balance March 31	\$ (211)		\$ 6		\$ (205)	
<b>Other Comprehensive Income</b>		31		1		32
<b>Comprehensive Income</b>		\$ 78		\$ 6		\$ 84

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

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

	March 31, 2012	December 31, 2011
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 193	\$ 214
Receivables		
Customer notes and accounts, net	1,135	936
Other	37	44
Inventories		
Finished goods	287	244
Work in process	208	181
Raw materials	134	121
Materials and supplies	50	46
Deferred income taxes	43	40
Prepayments and other	172	153
Total current assets	2,259	1,979
Other assets:		
Long-term receivables, net	9	10
Goodwill	75	74
Intangibles, net	32	32
Deferred income taxes	89	92
Other	110	103
	315	311
Plant, property, and equipment, at cost	3,234	3,153
Less Accumulated depreciation and amortization	(2,157)	(2,106)
	1,077	1,047
Total Assets	\$ 3,651	\$ 3,337
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	\$ 94	\$ 66
Trade payables	1,270	1,171
Accrued taxes	43	44
Accrued interest	14	13
Accrued liabilities	250	226
Other	42	50
Total current liabilities	1,713	1,570
Long-term debt	1,264	1,158
Deferred income taxes	50	51
Postretirement benefits	377	385
Deferred credits and other liabilities	127	118
Commitments and contingencies		

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Total liabilities	3,531	3,282
Redeemable noncontrolling interests	13	12
Tenneco Inc. Shareholders' equity:		
Common stock	1	1
Premium on common stock and other capital surplus	3,019	3,016
Accumulated other comprehensive loss	(353)	(382)
Retained earnings (accumulated deficit)	(2,349)	(2,379)
	318	256
Less: Shares held as treasury stock, at cost	256	256
Total Tenneco Inc. shareholders' equity	62	
Noncontrolling interests	45	43
Total equity	107	43
Total liabilities, redeemable noncontrolling interests and equity	\$ 3,651	\$ 3,337

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Millions)</b>	
<b>Operating Activities</b>		
Net income	\$ 36	\$ 52
Adjustments to reconcile net income to cash used by operating activities		
Depreciation and amortization of other intangibles	49	51
Deferred income taxes	(5)	(5)
Stock-based compensation	4	2
Loss on sale of assets	1	
Changes in components of working capital		
(Increase) decrease in receivables	(181)	(251)
(Increase) decrease in inventories	(76)	(77)
(Increase) decrease in prepayments and other current assets	(16)	(15)
Increase (decrease) in payables	88	139
Increase (decrease) in accrued taxes	1	8
Increase (decrease) in accrued interest		8
Increase (decrease) in other current liabilities	13	1
Change in long-term assets	8	(3)
Change in long-term liabilities	(5)	(12)
Other	(2)	(1)
Net cash used by operating activities	(85)	(103)
<b>Investing Activities</b>		
Proceeds from the sale of assets	1	4
Cash payments for plant, property, and equipment	(65)	(46)
Cash payments for software related intangible assets	(4)	(3)
Net cash used by investing activities	(68)	(45)
<b>Financing Activities</b>		
Retirement of long-term debt	(381)	(22)
Issuance of long-term debt	250	
Debt issuance cost of long-term debt	(12)	
Increase in bank overdrafts	2	7
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	233	47
Net increase in short-term borrowings secured by accounts receivable	30	82
Net cash provided by financing activities	122	114
Effect of foreign exchange rate changes on cash and cash equivalents	10	
Increase (decrease) in cash and cash equivalents	(21)	(34)
Cash and cash equivalents January 1	214	233
Cash and cash equivalents, March 31 (Note)	\$ 193	\$ 199
<b>Supplemental Cash Flow Information</b>		
Cash paid during the period for interest	\$ 35	\$ 19

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Cash paid during the period for income taxes (net of refunds)	17	10
<b>Non-cash Investing and Financing Activities</b>		
Period ended balance of payable for plant, property, and equipment	\$ 29	\$ 25

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

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

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

	Three Months Ended March 31,			
	2012			2011
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
<b>Tenneco Inc. Shareholders:</b>				
<b>Common Stock</b>				
Balance January 1	62,101,335	\$ 1	61,541,760	\$ 1
Issued pursuant to benefit plans	148,397		59,904	
Stock options exercised	104,742		125,624	
Balance March 31	62,354,474	1	61,727,288	1
<b>Premium on Common Stock and Other Capital Surplus</b>				
Balance January 1		3,016		3,008
Premium on common stock issued pursuant to benefit plans		3		1
Balance March 31		3,019		3,009
<b>Accumulated Other Comprehensive Loss</b>				
Balance January 1		(382)		(237)
Other comprehensive income		29		32
Balance March 31		(353)		(205)
<b>Retained Earnings (Accumulated Deficit)</b>				
Balance January 1		(2,379)		(2,536)
Net income attributable to Tenneco Inc.		30		47
Balance March 31		(2,349)		(2,489)
<b>Less Common Stock Held as Treasury Stock, at Cost</b>				
Balance January 1 and March 31	1,694,692	256	1,294,692	240
Total Tenneco Inc. shareholders equity		\$ 62		\$ 76
<b>Noncontrolling Interests:</b>				
Balance January 1		43		39
Net income		5		4
Dividends declared		(2)		
Other comprehensive income (loss)		(1)		
Balance March 31		\$ 45		\$ 43
<b>Total equity</b>		<b>\$ 107</b>		<b>\$ 119</b>

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



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part of these condensed consolidated statements of changes in shareholders' equity.

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

(Unaudited)

**(1) Consolidation and Presentation**

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

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

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies in which the Company does not have a controlling interest, as equity method investments, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated all intercompany transactions. We have evaluated all subsequent events through the date the financial statements were issued.

**(2) Financial Instruments**

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

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	\$ 1,268	\$ 1,325	\$ 1,162	\$ 1,200
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts:				
Asset derivative contracts			1	1

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

*Long-term Debt* The fair value of our public fixed rate senior notes is based on quoted market prices. The fair value of our private borrowings under our senior credit facility and other long-term debt instruments is based on the market value of debt with similar maturities, interest rates and risk characteristics. At March 31, 2012, the fair value of our level 1 debt, as classified in the fair value hierarchy, was \$800 million. We have classified the remaining \$525 million as level 2 in the fair value hierarchy since we utilize valuation inputs that are observable both directly and indirectly.

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



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

(Unaudited)

The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income. The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange forward contracts, presented on a gross basis by derivative contract at March 31, 2012 and December 31, 2011, respectively, was as follows:

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

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

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

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

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

The following table summarizes by major currency the notional amounts for foreign currency forward purchase and sale contracts as of March 31, 2012 (all of which mature in 2012):

**Notional Amount  
in Foreign Currency**

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		(Millions)
Australian dollars	Purchase	3
British pounds	Purchase	4
European euro	Sell	(108)
Japanese Yen	Purchase	270
South African rand	Purchase	179
U.S. dollars	Purchase	1,099
	Sell	(86)
Other	Purchase	1
	Sell	(1)

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(Unaudited)

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

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

On March 22, 2012, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity date of our revolving credit facility and adding a new Tranche A Term Facility. The amended and restated facility replaces our former \$556 million revolving credit facility, \$148 million Tranche B Term Facility and \$130 million Tranche B-1 letter of credit/revolving loan facility. The proceeds from this refinancing transaction were used to repay our \$148 million Tranche B Term Facility and to fund the purchase and redemption of our \$250 million 8 1/8 percent senior notes due in 2015. As of March 31, 2012, the senior credit facility provides us with a total revolving credit facility size of \$850 million and a \$250 million Tranche A Term Facility, both of which will mature on March 22, 2017. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. The revolving credit facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. Outstanding letters of credit reduce our availability to enter into revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of \$3.1 million beginning June 30, 2012 through March 31, 2014, \$6.3 million beginning June 30, 2014 through March 31, 2015, \$9.4 million beginning June 30, 2015 through March 31, 2016, \$12.5 million beginning June 30, 2016 through December 31, 2016 and a final payment of \$125 million is due on March 22, 2017.

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

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

	<b>Quarter Ended</b>	
	<b>March 31, 2012</b>	
	<b>Req.</b>	<b>Act.</b>
Leverage Ratio (maximum)	3.50	2.07
Interest Coverage Ratio (minimum)	2.55	6.11

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

On March 8, 2012, we announced a cash tender offer to purchase our outstanding \$250 million 8 1/8 percent senior notes due in 2015 and a solicitation of consents to certain proposed amendments to the indenture governing these notes. We received tenders and consents representing \$232 million aggregate principal amount of the notes and, on March 22, 2012, we purchased the tendered notes at a price of 104.44 percent of the principal amount (which includes a consent payment of three percent of the principal amount), plus accrued and unpaid interest, and amended the related indenture. On April 6, 2012, we redeemed all remaining outstanding \$18 million aggregate principal amount of senior notes that were not purchased pursuant to the tender offer at a price



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(Unaudited)

of 104.06 percent of the principal amount, plus accrued and unpaid interest. The additional liquidity provided by the new \$850 million revolving bank facility and the new \$250 million Tranche A Term Facility was used to fund the total cost of the tender offer and redemption, including all related fees and expenses.

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

At March 31, 2012, of the \$850 million available under the revolving credit facility, we had unused borrowing capacity of \$554 million with \$260 million in outstanding borrowings and \$36 million in outstanding letters of credit. As of March 31, 2012, our outstanding debt also included \$18 million of 8 1/8 percent senior notes redeemed on April 6, 2012 as described above, \$250 million Tranche A Term Facility due March 22, 2017, \$225 million of 7 3/4 percent senior notes due August 15, 2018, \$500 million of 6 7/8 percent senior notes due December 15, 2020, and \$105 million of other debt.

**(4) Income Taxes**

We reported income tax expense of \$18 million and \$14 million in the first quarter of 2012 and 2011, respectively. The tax expense recorded in 2012 differs from the expense that would be recorded using a U.S. Federal statutory rate of 35 percent due to a net tax benefit of \$1 million primarily related to U.S. taxable income with no associated tax expense due to our net operating loss ( NOL ) carryforward and income generated in lower tax rate jurisdictions, partially offset by the impact of recording a valuation allowance against the tax benefit for losses in certain foreign jurisdictions. We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

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;

Tax-planning strategies; and

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

In 2008, given our historical losses in the U.S., we concluded that our ability to fully utilize our NOLs was limited, as we were required to project the continuation of the negative economic environment at that time and the impact of the negative operating environment on our tax planning strategies. As a result, we recorded a valuation allowance against all of our U.S. deferred tax assets except for our tax planning strategies which have not yet been implemented and which do not depend upon generating future taxable income. We carry deferred tax assets in



the U.S. of \$90 million, as of March 31, 2012, relating to the expected utilization of those NOLs.

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

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The recording of a valuation allowance does not impact the amount of the NOL that would be available for federal and state income tax purposes in future periods. The federal NOLs expire beginning in tax years ending in 2021 through 2029. The state NOLs expire in various tax years through 2029.

The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable. In addition, the charge to establish the U.S. valuation allowance eliminated the need for certain tax reserves which would need to be recorded if the valuation allowance was reversed.

In prior years, we recorded a valuation allowance against deferred tax assets generated by taxable losses in the U.S. as well as certain other foreign jurisdictions. Our 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. In certain foreign jurisdictions, we have recorded a tax benefit on NOLs and tax credits with unlimited lives that are supported by tax actions and forecasted profitability. If the tax actions are not successful or losses are incurred, we may need to record a valuation allowance in a future period. These actions will cause variability in our effective tax rate.

**(5) Accounts Receivable Securitization**

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

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

We also securitize receivables in our European operations with regional banks in Europe. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year, but some may be cancelled with notice 90 days prior to renewal. In some instances, the arrangement

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provides for cancellation by the applicable financial institution at any time upon 15 days, or less, notification. The amount of outstanding third party investments in our securitized accounts receivable in Europe was \$139 million and \$121 million at March 31, 2012 and December 31, 2011, respectively.

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

In our North American accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our North American securitization program as a secured borrowing. In our European programs, we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, Transfers and Servicing, to report the transfer of financial assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million in interest expense in each of the three month periods ended March 31, 2012 and 2011, relating to our North American securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended March 31, 2012 and 2011, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately three percent during both the first quarter of 2012 and 2011.

**(6) Restructuring and Other Charges**

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. In 2011, we incurred \$8 million in restructuring and related costs, primarily related to headcount reductions in Europe and Australia and the closure of our ride control plant in Cozad, Nebraska, all of which was recorded in cost of sales. In the first quarter of 2012, we incurred \$1 million in restructuring and related costs, primarily related to headcount reductions in South America, all of which was recorded in cost of sales.

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

	December 31, 2011	2012 Restructuring Reserve	2012 Cash Payments (Millions)	March 31, 2012 Restructuring Reserve
Severance	\$ 1	1	(1)	\$ 1

Under the terms of our amended and restated senior credit agreement that took effect on March 22, 2012, we are allowed to exclude \$80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 22, 2012 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2012, we have excluded \$1 million in cumulative allowable charges relating to restructuring initiatives against the \$80 million available under the terms of the senior credit facility.

On September 22, 2009, we announced that we were closing our original equipment ride control plant in Cozad, Nebraska. The closure of the Cozad plant will eliminate approximately 500 positions. We are hiring at other facilities as we move production from Cozad to those facilities, which will result in a net decrease of approximately 60 positions. Much of the production is being shifted from Cozad to our plant in Hartwell,

Georgia.

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During the transition of production from our Cozad facility to our Hartwell facility, several customer programs, which were planned to phase out, were reinstated and volumes increased beyond the amount in our original restructuring plan. To meet the higher volume requirements, we have taken a number of actions to stabilize the production environment in Hartwell including reinforcing several core processes, realigning assembly lines, upgrading equipment to increase output and accelerating our Lean manufacturing activities. Based on the higher volumes, we have adjusted our consolidation plan. Our revised consolidation plan includes temporarily continuing some basic production operations in Cozad, and redirecting some programs from our Hartwell facility to our other North American facilities to better balance production. These actions are anticipated to conclude during the third quarter of 2012. As of March 31, 2012, more than 95 percent of the positions at our Cozad facility have been eliminated.

During 2009 and 2010, we recorded \$11 million and \$10 million, respectively, of restructuring and related expenses related to this initiative, of which approximately \$16 million represents cash expenditures. In 2011, we recorded an additional cash charge of \$2 million related to this initiative.

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

We are involved in environmental remediation matters, legal proceedings, claims, investigations and warranty obligations that are incidental to the conduct of our business and create the potential for contingent losses. We accrue for potential contingent losses when our review of available facts indicates that it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Each quarter we assess our loss contingencies based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors and record adjustments to these reserves as required. As an example, we consider all available evidence including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations when we evaluate our environmental remediation contingencies. Further, all of our loss contingency estimates are subject to revision in future periods based on actual costs or new information. With respect to our environmental liabilities, where future cash flows are fixed or reliably determinable, we have discounted those liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. As of March 31, 2012, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At March 31, 2012, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately \$17 million, of which \$5 million is recorded in other current liabilities and \$12 million is recorded in deferred credits and other liabilities in our condensed consolidated balance sheet. For those locations in which the liability was discounted, the weighted average discount rate used was 2.2 percent. The undiscounted value of the estimated remediation costs was \$20 million. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination

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**TENNECO INC.**

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

(Unaudited)

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

We also from time to time are involved in legal proceedings, claims or investigations. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, in the U.S. we are subject to an audit in 11 states with respect to the payment of unclaimed property to those states, spanning a period as far back as over 30 years. We now have practices in place which we believe ensure that we pay unclaimed property as required. We vigorously defend ourselves against all of these claims. In future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved on unfavorable terms. 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 lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive products. Only a small percentage of the claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers and/or users continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to charges to earnings if any of these matters are resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolutions. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

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

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actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. The reserve is included in both current and long-term liabilities on the balance sheet.

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Millions)</b>	
Beginning Balance January 1,	\$ 26	\$ 33
Accruals related to product warranties	5	1
Reductions for payments made	(4)	(1)
Ending Balance March 31,	\$ 27	\$ 33

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

**(8) Earnings Per Share**

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Millions Except Share and Per Share Amounts)</b>	
<b>Basic earnings per share</b>		
Net income attributable to Tenneco Inc.	\$ 30	\$ 47
Weighted average shares of common stock outstanding	60,196,428	59,849,278
Earnings per average share of common stock	\$ 0.50	\$ 0.78
<b>Diluted earnings per share</b>		
Net income attributable to Tenneco Inc.	\$ 30	\$ 47

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Weighted average shares of common stock outstanding	60,196,428	59,849,278
Effect of dilutive securities:		
Restricted stock	160,346	352,512
Stock options	1,379,430	1,872,733
<b>Weighted average shares of common stock outstanding including dilutive securities</b>	<b>61,736,204</b>	<b>62,074,523</b>
 Earnings per average share of common stock	 \$ 0.49	 \$ 0.75



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(Unaudited)

Options to purchase 202,064 and 201,260 shares of common stock were outstanding as of March 31, 2012 and 2011, respectively, but not included in the computation of diluted earnings per share respectively, because the options were anti-dilutive.

**(9) Common Stock**

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

*Accounting Methods* We have recorded \$2 million and \$1 million in compensation expense in the quarters ended March 31, 2012 and 2011, respectively, related to nonqualified stock options as part of our selling, general and administrative expense. This resulted in a decrease of \$.03 and \$.01 in both basic and diluted earnings per share for each of the quarters ended March 31, 2012 and 2011, respectively.

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

As of March 31, 2012, there was approximately \$5 million of unrecognized compensation costs related to our stock option awards that we expect to recognize over a weighted average period of 1.8 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs was \$6 million and \$4 million for the quarters ended March 31, 2012 and 2011 respectively, and was recorded in selling, general, and administrative expense in our condensed consolidated statements of income.

Cash received from stock option exercises for the three months ended March 31, 2012 and 2011 was \$1 million and \$2 million, respectively. Stock option exercises in the first three months of 2012 and 2011 would have generated an excess tax benefit of \$1 million in each period, respectively. We did not record the excess tax benefit as we have federal and state net operating losses which are not currently being utilized.

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Stock Options Granted		
Weighted average grant date fair value, per share	\$ 17.35	\$ 26.13
Weighted average assumptions used:		
Expected volatility	73.5%	70.1%
Expected lives	4.7	4.8
Risk-free interest rates	0.8%	1.8%
Dividend yields	0.0%	0.0%

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

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



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## TENNECO INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

	Shares Under Option	Three Months Ended March 31, 2012		Aggregate Intrinsic Value (Millions)
		Weighted Avg. Exercise Prices	Weighted Avg. Remaining Life in Years	
<b>Outstanding Stock Options</b>				
Outstanding, January 1, 2012	2,743,199	\$ 17.43	4.0	\$ 37
Granted	316,799	29.83		
Canceled	(22,840)	16.00		
Forfeited	(15,206)	16.68		
Exercised	(104,742)	13.99		2
Outstanding, March 31, 2012	2,917,210	\$ 18.92	4.2	\$ 51

The weighted average grant-date fair value of options granted during the three months ended March 31, 2012 and 2011 was \$17.35 and \$26.13, respectively. The total fair value of shares vested was \$3 million for both the periods ended March 31, 2012 and 2011, respectively.

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

	Shares	Three Months Ended March 31, 2012	
		Weighted Avg. Grant Date Fair Value	
<b>Nonvested Restricted Shares</b>			
Nonvested balance at January 1, 2012	407,751	\$ 22.64	
Granted	217,225	29.83	
Vested	(246,314)	15.74	
Forfeited	(2,378)	9.71	

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Nonvested balance at March 31, 2012	376,284	\$	31.39
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The fair value of restricted stock grants is equal to the average market price of our stock at the date of grant. As of March 31, 2012, approximately \$9 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.2 years. The total fair value of restricted shares vested was \$4 million and \$2 million at March 31, 2012 and 2011, respectively.

In January 2012, our Board of Directors approved a share repurchase program, authorizing our Company to repurchase up to 600,000 shares of the Company's outstanding common stock over a 12 month period. This share repurchase program is intended to offset dilution from shares of restricted stock and stock options issued in 2012 to employees. We did not repurchase any shares through this program in the three month period ended March 31, 2012.

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(Unaudited)

*Long-Term Performance Units, Restricted Stock Units and SARs* Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of March 31, 2012, \$18 million of total unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 2.2 years.

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

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

	Three Months Ended March 31,					
	Pension				Postretirement	
	2012		2011		2012	2011
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost – benefits earned during the period	\$	\$ 2	\$	\$ 2	\$	\$
Interest cost	5	4	5	5	2	2
Expected return on plan assets	(5)	(5)	(5)	(5)		
Net amortization:						
Actuarial loss	2	2	1	1	1	1
Prior service cost					(1)	(1)
<b>Net pension and postretirement costs</b>	<b>\$ 2</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 2</b>

For the three months ended March 31, 2012, we made pension contributions of \$4 million for our domestic pension plans and \$5 million for our foreign pension plans. Based on current actuarial estimates, we believe we will be required to contribute approximately \$39 million for the remainder of 2012. Pension contributions beyond 2012 will be required, but those amounts will vary based upon many factors, including the performance of our pension fund investments during 2012.

We made postretirement contributions of approximately \$3 million during the first three months of 2012. Based on current actuarial estimates, we believe we will be required to contribute approximately \$6 million for the remainder of 2012.

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

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(Unaudited)

Amounts recognized for pension and postretirement benefits in other comprehensive income for the three month periods ended March 31, 2012 and 2011 include the following components:

	2012		Three Months Ended March 31,			2011
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	
			(Millions)			
Defined benefit pension plans:						
Amortization of prior service cost included in net periodic pension and postretirement cost	(1)		(1)	(1)		(1)
Amortization of actuarial loss included in net periodic pension and postretirement cost	5	(1)	4	3	(1)	2
Other Comprehensive income (loss) pension benefits	4	(1)	3	2	(1)	1

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

**(11) New Accounting Pronouncements**

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

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements in United States Generally Accepted Accounting Principles ( U.S. GAAP ) and International Financial Reporting Standards ( IFRS ). The amendment (1) allows the concepts of highest and best use and valuation premise when measuring the fair value of nonfinancial assets, (2) provides specific requirements for measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, (3) requires disclosure of quantitative information about unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy, (4) allows the use of a price, that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk, in measuring the fair value of financial instruments that are managed within a portfolio, (5) requires a reporting entity, in the absence of a Level 1 input, to apply premiums or discounts when market participants would do so when pricing an asset or liability and (6) requires additional disclosure about fair value measurements. This amendment is



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**TENNECO INC.**

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

(Unaudited)

effective for a reporting entity's interim and annual periods beginning after December 15, 2011. The adoption of this amendment on January 1, 2012 did not have any impact on the measurement of our financial assets and liabilities. We have added additional disclosures, as required by this amendment, in Note 2 Financial Instruments of our notes to condensed consolidated financial statements.

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

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

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

**(12) Guarantees**

We have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility and our senior notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier



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

(Unaudited)

foreign subsidiaries. No assets or capital stock of our direct or indirect foreign subsidiaries secure our senior notes. For additional information, refer to Note 14 of our condensed consolidated financial statements, where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have two performance guarantee agreements in the U.K. between Tenneco Management Europe Limited ( TMEL ) and the two Walker Group Retirement Plans, the Walker Group Employee Benefit Plan and the Walker Group Executive Retirement Benefit Plan (the Walker Plans ), whereby TMEL will guarantee the payment of all current and future pension contributions in event of a payment default by the sponsoring or participating employers of the Walker Plans. As a result of our decision to enter into these performance guarantee agreements, the levy due to the U.K. Pension Protection Fund will be reduced. The Walker Plans are comprised of employees from Tenneco Walker (U.K.) Limited and our Futaba Tenneco U.K. joint venture. Employer contributions are funded by both Tenneco Walker (U.K.) Limited, as the sponsoring employer and Futaba Tenneco U.K., as a participating employer. The performance guarantee agreements are expected to remain in effect until all pension obligations for the Walker Plans sponsoring and participating employers have been satisfied. The maximum amount payable for these pension performance guarantees is approximately \$16 million as of March 31, 2012 which is determined by taking 105 percent of the liability of the Walker Plans calculated under section 179 of the U.K. Pension Act of 2004 offset by plan assets. We did not record an additional liability for this performance guarantee since Tenneco Walker (U.K.) Limited, as the sponsoring employer of the Walker Plans, already recognizes 100 percent of the pension obligation calculated based on U.S. GAAP, for all of the Walker Plans participating employers on its balance sheet, which was \$12 million and \$13 million at March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, all pension contributions under the Walker Plans were current for all of the Walker Plans sponsoring and participating employers.

We have an indemnity agreement between TMEL and Futaba Industrial Co. Ltd. ( Futaba ) which requires Futaba to indemnify TMEL for any cost, loss or liability which TMEL may incur under the performance guarantee agreements. The maximum amount reimbursable by Futaba to TMEL under this indemnity agreement is equal to the amount incurred by TMEL under the performance guarantee agreements multiplied by Futaba s shareholder ownership percentage of the Futaba Tenneco U.K. joint venture. At March 31, 2012 the maximum amount reimbursable by Futaba to TMEL is approximately \$3 million.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of March 31, 2012, we have guaranteed \$36 million in letters of credit to support some of our subsidiaries insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

*Negotiable Financial Instruments* One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$4 million and \$10 million at March 31, 2012 and December 31, 2011, respectively. No negotiable financial instruments were held by our European subsidiary as of March 31, 2012 and December 31, 2011, respectively.

In certain instances, several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$9 million and \$14 million at March 31, 2012 and December 31, 2011, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$11 million and \$9 million at March 31, 2012 and December 31, 2011, respectively. We classify financial instruments received from our OE customers as other current assets if issued

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(Unaudited)

by a financial institution of our customers or as customer notes and accounts, net if issued by our customer. We classified \$11 million and \$9 million in other current assets at March 31, 2012 and December 31, 2011, respectively. Some of our Chinese subsidiaries that issue their own negotiable financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at those Chinese subsidiaries at March 31, 2012 or December 31, 2011.

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

**(13) Segment Information**

We are a global manufacturer with three geographic reportable segments: (1) North America, (2) Europe, South America and India ( Europe ), and (3) Asia Pacific. Each segment manufactures and distributes ride control and emission control products primarily for the automotive industry. We have not aggregated individual operating segments within these reportable segments. We evaluate segment performance based primarily on earnings before interest expense, income taxes, and noncontrolling interests. Products are transferred between segments and geographic areas on a basis intended to reflect as nearly as possible the market value of the products.

The following table summarizes certain Tenneco Inc. segment information:

	North America	Europe	Segment Asia Pacific (Millions)	Reclass & Elims	Consolidated
<b>At March 31, 2012 and for the Three Months Then Ended</b>					
Revenues from external customers	\$ 986	\$ 732	\$ 194	\$	\$ 1,912
Intersegment revenues	6	44	8	(58)	
Earnings before interest expense, income taxes, and noncontrolling interests	71	17	8		96
Total assets	1,607	1,433	581	30	3,651
<b>At March 31, 2011 and for the Three Months Then Ended</b>					
Revenues from external customers	\$ 851	\$ 741	\$ 168	\$	\$ 1,760
Intersegment revenues	3	37	6	(46)	
Earnings before interest expense, income taxes, and noncontrolling interests	62	24	8		94
Total assets	1,469	1,498	539	26	3,532

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

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Substantially all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior notes due in 2015 (which were repurchased and redeemed at the aggregate principal amount of \$232 million in March 2012 and \$18 million in

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**TENNECO INC.**

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

(Unaudited)

April 2012), 2018, and 2020 on a joint and several basis. However, a subsidiary's guarantee may be released in certain customary circumstances such as a sale of the subsidiary or all or substantially all of its assets in accordance with the indenture applicable to the notes. The Guarantor Subsidiaries are combined in the presentation below.

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

*Distributions*

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

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(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Three Months Ended March 31, 2012

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 890	\$ 1,022	\$	\$	\$ 1,912
Affiliated companies	51	152		(203)	
	941	1,174		(203)	1,912
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	847	963		(203)	1,607
Engineering, research, and development	16	22			38
Selling, general, and administrative	39	77	2		118
Depreciation and amortization of other intangibles	18	31			49
	920	1,093	2	(203)	1,812
<b>Other income (expense)</b>					
Loss on sale of receivables		(1)			(1)
Other income (expense)	3	(6)			(3)
	3	(7)			(4)
<b>Earnings (loss) before interest expense, income taxes, noncontrolling interests and equity in net income from affiliated companies</b>					
	24	74	(2)		96
<b>Interest expense</b>					
External (net of interest capitalized)		1	41		42
Affiliated companies (net of interest income)	54	(19)	(35)		
<b>Earnings (loss) before income taxes, noncontrolling interests and equity in net income from affiliated companies</b>					
	(30)	92	(8)		54
Income tax expense	2	16			18
Equity in net income (loss) from affiliated companies	68		38	(106)	

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Net income	36	76	30	(106)	36
Less: Net income attributable to noncontrolling interests		6			6
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 36</b>	<b>\$ 70</b>	<b>\$ 30</b>	<b>\$ (106)</b>	<b>\$ 30</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 43</b>	<b>\$ 92</b>	<b>\$ 30</b>	<b>\$ (106)</b>	<b>\$ 59</b>

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

(Unaudited)

**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

For the Three Months Ended March 31, 2011

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Revenues</b>					
Net sales and operating revenues					
External	\$ 773	\$ 987	\$	\$	\$ 1,760
Affiliated companies	41	131		(172)	
	814	1,118		(172)	1,760
<b>Costs and expenses</b>					
Cost of sales (exclusive of depreciation and amortization shown below)	724	914		(172)	1,466
Engineering, research, and development	15	20			35
Selling, general, and administrative	33	75	1		109
Depreciation and amortization of other intangibles	18	33			51
	790	1,042	1	(172)	1,661
<b>Other income (expense)</b>					
Loss on sale of receivables		(1)			(1)
Other income (expense)	(1)	(3)			(4)
	(1)	(4)			(5)
<b>Earnings (loss) before interest expense, income taxes, noncontrolling interests and equity in net income from affiliated companies</b>					
	23	72	(1)		94
<b>Interest expense</b>					
External (net of interest capitalized)		1	27		28
Affiliated companies (net of interest income)	49	(15)	(34)		
<b>Earnings (loss) before income taxes, noncontrolling interests and equity in net income from affiliated companies</b>					
	(26)	86	6		66
Income tax expense	1	13			14
Equity in net income (loss) from affiliated companies	65		41	(106)	

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Net income	38	73	47	(106)	52
Less: Net income attributable to noncontrolling interests		5			5
<b>Net income (loss) attributable to Tenneco Inc.</b>	<b>\$ 38</b>	<b>\$ 68</b>	<b>\$ 47</b>	<b>\$ (106)</b>	<b>\$ 47</b>
<b>Comprehensive income (loss) attributable to Tenneco Inc.</b>	<b>\$ 49</b>	<b>\$ 88</b>	<b>\$ 47</b>	<b>\$ (106)</b>	<b>\$ 78</b>



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

(Unaudited)

**BALANCE SHEET**

	March 31, 2012				
	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 3	\$ 190	\$	\$	\$ 193
Receivables, net	499	1,387	27	(741)	1,172
Inventories	277	402			679
Deferred income taxes	35	32		(24)	43
Prepayments and other	22	150			172
Total current assets	836	2,161	27	(765)	2,259
Other assets:					
Investment in affiliated companies	474		750	(1,224)	
Notes and advances receivable from affiliates	4,197	2,377	6,094	(12,668)	
Long-term receivables, net	2	7			9
Goodwill	22	53			75
Intangibles, net	12	20			32
Deferred income taxes	64	24	1		89
Other	30	46	34		110
	4,801	2,527	6,879	(13,892)	315
Plant, property, and equipment, at cost	1,039	2,195			3,234
Less Accumulated depreciation and amortization	(740)	(1,417)			(2,157)
	299	778			1,077
Total assets	\$ 5,936	\$ 5,466	\$ 6,906	\$ (14,657)	\$ 3,651
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$	\$ 92	\$ 2	\$	\$ 94
Short-term debt affiliated	173	416	10	(599)	
Trade payables	501	888		(119)	1,270
Accrued taxes	12	31			43
Other	127	188	38	(47)	306
Total current liabilities	813	1,615	50	(765)	1,713
Long-term debt non-affiliated		9	1,255		1,264
Long-term debt affiliated	4,754	2,420	5,494	(12,668)	

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Deferred income taxes		50		50	
Postretirement benefits and other liabilities	410	91	3	504	
Commitments and contingencies					
Total liabilities	5,977	4,185	6,799	(13,430)	3,531
Redeemable noncontrolling interests		13			13
Tenneco Inc. Shareholders' equity	(41)	1,223	107	(1,227)	62
Noncontrolling interests		45			45
Total equity	(41)	1,268	107	(1,227)	107
Total liabilities, redeemable noncontrolling interests and equity	\$ 5,936	\$ 5,466	\$ 6,906	\$ (14,657)	\$ 3,651

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

(Unaudited)

**BALANCE SHEET**

	December 31, 2011				
	Tenneco Inc.				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	(Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 1	\$ 213	\$	\$	\$ 214
Receivables, net	455	1,214	27	(716)	980
Inventories	248	344			592
Deferred income taxes	35	31		(26)	40
Prepayments and other	21	132			153
Total current assets	760	1,934	27	(742)	1,979
Other assets:					
Investment in affiliated companies	444		681	(1,125)	
Notes and advances receivable from affiliates	4,252	1,507	6,059	(11,818)	
Long-term receivables, net	2	8			10
Goodwill	22	52			74
Intangibles, net	13	19			32
Deferred income taxes	64	25	3		92
Other	31	45	27		103
	4,828	1,656	6,770	(12,943)	311
Plant, property, and equipment, at cost	1,041	2,112			3,153
Less Accumulated depreciation and amortization	(749)	(1,357)			(2,106)
	292	755			1,047
Total assets	\$ 5,880	\$ 4,345	\$ 6,797	\$ (13,685)	\$ 3,337
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	\$	\$ 64	\$ 2	\$	\$ 66
Short-term debt affiliated	203	374	10	(587)	
Trade payables	455	825		(109)	1,171
Accrued taxes	11	33			44
Other	118	178	39	(46)	289
Total current liabilities	787	1,474	51	(742)	1,570
Long-term debt non-affiliated		9	1,149		1,158
Long-term debt affiliated	4,718	1,546	5,554	(11,818)	

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

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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Three Months Ended March 31, 2012				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 2	\$ (21)	\$ (66)	\$	\$ (85)
<b>Investing Activities</b>					
Proceeds from sale of assets		1			1
Cash payments for plant, property, and equipment	(25)	(40)			(65)
Cash payments for software related intangible assets	(1)	(3)			(4)
Net cash used by investing activities	(26)	(42)			(68)
<b>Financing Activities</b>					
Retirement of long-term debt			(381)		(381)
Issuance of long-term debt			250		250
Debt issuance cost of long-term debt			(12)		(12)
Increase (decrease) in bank overdrafts		2			2
Net increase in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable		27	206		233
Net increase in short-term borrowings secured by accounts receivable			30		30
Intercompany dividends and net increase (decrease) in intercompany obligations	26	1	(27)		
Net cash provided (used) by financing activities	26	30	66		122
Effect of foreign exchange rate changes on cash and cash equivalents		10			10
Increase (decrease) in cash and cash equivalents	2	(23)			(21)
Cash and cash equivalents, January 1	1	213			214
Cash and cash equivalents, March 31 (Note)	\$ 3	\$ 190	\$	\$	\$ 193

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



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

(Unaudited)

**STATEMENT OF CASH FLOWS**

	Three Months Ended March 31, 2011				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company) (Millions)	Reclass & Elims	Consolidated
<b>Operating Activities</b>					
Net cash provided (used) by operating activities	\$ 106	\$ (160)	\$ (49)	\$	\$ (103)
<b>Investing Activities</b>					
Proceeds from sale of assets	4				4
Cash payments for plant, property, and equipment	(14)	(32)			(46)
Cash payments for software related intangible assets	(1)	(2)			(3)
Net cash used by investing activities	(11)	(34)			(45)
<b>Financing Activities</b>					
Retirement of long-term debt			(22)		(22)
Increase (decrease) in bank overdrafts		7			7
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables			47		47
Net increase (decrease) in short-term borrowings secured by accounts receivables		82			82
Intercompany dividends and net increase (decrease) in intercompany obligations	(93)	69	24		
Net cash provided (used) by financing activities	(93)	158	49		114
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>					
Increase (decrease) in cash and cash equivalents	2	(36)			(34)
Cash and cash equivalents, January 1		233			233
Cash and cash equivalents, March 31 (Note)	\$ 2	\$ 197	\$	\$	\$ 199

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





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

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

**Executive Summary**

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

Factors that continue to be critical to our success include winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences 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.

For the first quarter of 2012, light vehicle production was up 16 percent in North America, 11 percent in India and four percent in Australia. Light vehicle production was down in the first quarter of 2012 when compared to the first quarter of 2011 in both Europe and China by four percent and six percent in South America.

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

Total revenues for the first quarter of 2012 were \$1,912 million (\$311 million in aftermarket revenues and \$1,601 million in original equipment revenues), a nine percent increase from \$1,760 million (\$297 million in aftermarket revenues and \$1,463 million in original equipment revenues) in the first quarter of 2011. Excluding the impact of currency and substrate sales, revenue was up \$162 million, or 12 percent, from \$1,337 million to \$1,499 million, driven primarily by higher OE light vehicle production volumes, higher North American aftermarket sales and incremental commercial vehicle business.

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Cost of sales: Cost of sales for the first quarter of 2012 was \$1,607 million, or 84.0 percent of sales, compared to \$1,466 million, or 83.3 percent of sales in the first quarter of 2011. The following table lists the primary drivers behind the change in cost of sales (\$ millions).

Quarter ended March 31, 2011	\$ 1,466
Volume and mix	159
Material	5
Currency exchange rates	(43)
Restructuring	
Other Costs	20
 Quarter ended March 31, 2012	 \$ 1,607

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

Gross margin: Revenue less cost of sales for the first quarter of 2012 was \$305 million, or 16.0 percent, versus \$294 million, or 16.7 percent in the first quarter of 2011. The effects on gross margin resulting from higher volumes were more than offset by a higher mix of OE revenues, unfavorable pricing, primarily related to contractual price reductions, negative currency and higher manufacturing costs.

Engineering, research and development: Engineering, research and development expense was \$38 million and \$35 million in the first quarters of 2012 and 2011, respectively. Increased spending to support customer programs, technology applications and growth in emerging markets drove the increase in expense year-over-year.

Selling, general and administrative: Selling, general and administrative expense was up \$9 million in the first quarter of 2012, at \$118 million, compared to \$109 million in the first quarter of 2011. Expenses to support new customer programs and new manufacturing facilities in China, and higher aftermarket changeover costs primarily drove the increase in expense year-over-year.

Depreciation and amortization: Depreciation and amortization expense in the first quarter of 2012 was \$49 million, compared to \$51 million in the first quarter of 2011.

Goodwill impairment: There were no goodwill impairment charges in either first quarter of 2012 or 2011.

Earnings before interest expense, taxes and noncontrolling interests ( EBIT ) was \$96 million for the first quarter of 2012, an improvement of \$2 million, when compared to \$94 million in the first quarter of the prior year. Higher light vehicle production volumes, growing commercial vehicle business, lower depreciation and amortization expense, decreased material costs net of recoveries and higher North American aftermarket sales drove the year-over-year increase to EBIT. Partially offsetting the increase were unfavorable product mix shift in our North America and Europe aftermarket, higher selling, general, administrative and engineering spending to support new customer programs, which included higher aftermarket changeover costs and investments in new facilities in China, unfavorable pricing, primarily related to contractual price reductions, higher manufacturing expenses and \$4 million of negative currency.

**Results from Operations*****Net Sales and Operating Revenues for the three months ended March 31, 2012 and 2011***

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

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

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.

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

	Three Months Ended March 31, 2012				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 171	\$	\$ 171	\$	\$ 171
Emission Control	617		617	277	340
Total North America Original Equipment	788		788	277	511
North America Aftermarket					
Ride Control	146	\$	146		146
Emission Control	52		52		52
Total North America Aftermarket	198		198		198
Total North America	986		986	277	709
Europe Original Equipment					
Ride Control	139	(7)	146		146
Emission Control	381	(20)	401	139	262
Total Europe Original Equipment	520	(27)	547	139	408
Europe Aftermarket					
Ride Control	43	(3)	46		46
Emission Control	22	(1)	23		23
Total Europe Aftermarket	65	(4)	69		69
South America & India	147	(13)	160	23	137
Total Europe, South America & India	732	(44)	776	162	614
Asia	155	(7)	162	22	140
Australia	39	1	38	2	36
Total Asia Pacific	194	(6)	200	24	176
Total Tenneco	\$ 1,912	\$ (50)	\$ 1,962	\$ 463	\$ 1,499

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	Three Months Ended March 31, 2011				
	Revenues	Currency Impact	Revenues Excluding Currency (Millions)	Substrate Sales Excluding Currency	Revenues Excluding Currency and Substrate Sales
North America Original Equipment					
Ride Control	\$ 152	\$	\$ 152	\$	\$ 152
Emission Control	526		526	249	277
Total North America Original Equipment	678		678	249	429
North America Aftermarket					
Ride Control	127		127		127
Emission Control	46		46		46
Total North America Aftermarket	173		173		173
Total North America	851		851	249	602
Europe Original Equipment					
Ride Control	139		139		139
Emission Control	376		376	124	252
Total Europe Original Equipment	515		515	124	391
Europe Aftermarket					
Ride Control	44		44		44
Emission Control	30		30		30
Total Europe Aftermarket	74		74		74
South America & India	152		152	26	126
Total Europe, South America & India	741		741	150	591
Asia	131		131	21	110
Australia	37		37	3	34
Total Asia Pacific	168		168	24	144
Total Tenneco	\$ 1,760	\$	\$ 1,760	\$ 423	\$ 1,337

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	<b>Three Months Ended March 31, 2012 Versus Three Months Ended March 31, 2011 Dollar and Percent Increase (Decrease)</b>			
	<b>Revenues</b>	<b>Percent</b>	<b>Revenues Excluding Currency and Substrate Sales</b>	<b>Percent</b>
	<b>(Millions Except Percent Amounts)</b>			
<b>North America Original Equipment</b>				
Ride Control	\$ 19	12%	\$ 19	13%
Emission Control	91	18%	63	23%
<b>Total North America Original Equipment</b>	<b>110</b>	<b>16%</b>	<b>82</b>	<b>19%</b>
<b>North America Aftermarket</b>				
Ride Control	19	14%	19	14%
Emission Control	6	14%	6	14%
<b>Total North America Aftermarket</b>	<b>25</b>	<b>14%</b>	<b>25</b>	<b>14%</b>
<b>Total North America</b>	<b>135</b>	<b>16%</b>	<b>107</b>	<b>18%</b>
<b>Europe Original Equipment</b>				
Ride Control		0%	7	5%
Emission Control	5	1%	10	4%
<b>Total Europe Original Equipment</b>	<b>5</b>	<b>1%</b>	<b>17</b>	<b>4%</b>
<b>Europe Aftermarket</b>				
Ride Control	(1)	(3)%	2	3%
Emission Control	(8)	(26)%	(7)	(20)%
<b>Total Europe Aftermarket</b>	<b>(9)</b>	<b>(12)%</b>	<b>(5)</b>	<b>(7)%</b>
<b>South America &amp; India</b>	<b>(5)</b>	<b>(3)%</b>	<b>11</b>	<b>9%</b>
<b>Total Europe, South America &amp; India</b>	<b>(9)</b>	<b>(1)%</b>	<b>23</b>	<b>4%</b>
<b>Asia</b>	<b>24</b>	<b>18%</b>	<b>30</b>	<b>28%</b>
<b>Australia</b>	<b>2</b>	<b>3%</b>	<b>2</b>	<b>2%</b>
<b>Total Asia Pacific</b>	<b>26</b>	<b>15%</b>	<b>32</b>	<b>22%</b>
<b>Total Tenneco</b>	<b>\$ 152</b>	<b>9%</b>	<b>\$ 162</b>	<b>12%</b>

**Light Vehicle Industry Production by Region for Three Months Ended March 31, 2012 and 2011** (According to IHS Automotive, April 2012)

	<b>Three Months Ended March 31, Increase</b>			
	<b>2012</b>	<b>2011</b>	<b>(Decrease)</b>	<b>% Increase</b>
	<b>(Number of Vehicles in Thousands)</b>			
North America	3,931	3,381	550	16%
Europe	5,085	5,319	(234)	(4)%
South America	959	1,022	(63)	(6)%
India	1,088	983	105	11%
<b>Total Europe, South America &amp; India</b>	<b>7,132</b>	<b>7,324</b>	<b>(192)</b>	<b>(3)%</b>
China	4,315	4,507	(192)	(4)%
Australia	53	51	2	4%







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The EBIT results shown in the preceding table include the following items, certain of which are discussed below under Restructuring and Other Charges, which have an effect on the comparability of EBIT results between periods:

	Three Months Ended March 31,	
	2012	2011
	(Millions)	
North America		
Restructuring and related expenses	\$	\$
Europe, South America and India		
Restructuring and related expenses	1	1
Asia Pacific		
Restructuring and related expenses		

EBIT from North American operations increased \$9 million to \$71 million in the first quarter of 2012, from \$62 million in the first quarter of one year ago. The benefits to EBIT from significantly higher OE production volumes, the related manufacturing efficiencies, incremental commercial vehicle revenue, decreased depreciation and amortization expense and increased aftermarket revenues were partially offset by negative aftermarket product mix change of \$6 million, increased manufacturing and distribution costs, negative currency of \$1 million and higher selling, general, administrative and engineering costs, which included a year-over-year increase to aftermarket changeover costs of \$2 million related to new aftermarket business.

Our European, South American and Indian segment's EBIT was \$17 million for the first three months of 2012 compared to \$24 million during the same period last year. The decrease was driven by unfavorable pricing, mainly contractual price reductions and increased manufacturing and selling, general, administrative and engineering costs. In addition, lower OE production volumes and the Company's decision to relinquish a platform due to pricing and profitability in South America, lower Europe aftermarket emission control sales, as well as unfavorable aftermarket ride control product mix driven by higher unit sales in Eastern Europe, where the premium mix is lower than Western Europe where unit sales decreased, contributed to the year-over-year decrease. Stronger European OE emission control volumes, higher revenues in India, new platform launches and material cost management activities, partially offset the decrease. Restructuring and related expenses of \$1 million was included in EBIT for both first quarters of 2012 and 2011. Currency had a \$2 million unfavorable impact on EBIT for 2012 when compared to last year.

EBIT for our Asia Pacific segment in the first quarter of 2012 was \$8 million even with the first quarter of 2011. Higher volumes, the related manufacturing efficiencies, decreased material costs net of recoveries and restructuring savings from last year's restructuring activities drove EBIT improvement, but was offset by unfavorable pricing and increased selling, general, administrative, and engineering costs to support new plants and new customers in China. Currency had a \$1 million unfavorable impact on EBIT for the first quarter of 2012 when compared to the first quarter of last year.

Currency had a \$4 million unfavorable impact on overall company EBIT for the first quarter of 2012 as compared to the prior year's first quarter.

***EBIT as a Percentage of Revenue for the Three Months Ended March 31, 2012 and 2011***

	Three Months Ended March 31,	
	2012	2011
North America	7%	7%
Europe, South America & India	2%	3%
Asia Pacific	4%	5%
Total Tenneco	5%	5%

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In North America, EBIT as a percentage of revenue for the first quarter of 2012 was even when compared to last year's first quarter. The benefits to EBIT from significantly higher OE production volumes, the related manufacturing efficiencies, incremental commercial vehicle revenue, decreased depreciation and amortization expense and improved aftermarket revenues was offset as a percentage of revenue by increased manufacturing costs, negative currency, unfavorable aftermarket product mix change and higher selling, general, administrative and engineering costs, which included a year-over-year increase to aftermarket changeover costs related to new aftermarket business. In Europe, South America and India, EBIT margin for the first quarter of 2012 was down one percentage point from the prior year's first quarter. The decrease was driven by lower OE production volumes in South America, decreased revenues in Europe Aftermarket, unfavorable pricing, mainly contractual price reductions, negative currency and increased manufacturing and selling, general, administrative and engineering costs which more than offset as a percentage of revenue, stronger European OE emission control volumes, higher revenues in India, new platform launches and material cost management activities. EBIT as a percentage of revenue for our Asia Pacific segment decreased one percentage point in the first quarter of 2012 versus the prior year's first quarter as higher volumes, the related manufacturing efficiencies, decreased material costs net of recoveries and restructuring savings from last year's restructuring activities were more than offset as a percent of revenue by unfavorable pricing, negative currency and increased selling, general, administrative, and engineering costs to support new plants and new customers in China.

***Interest Expense, Net of Interest Capitalized***

We reported interest expense in the first quarter of 2012 of \$42 million net of interest capitalized of \$1 million (all in our U.S. operations), up from \$28 million net of interest capitalized of \$1 million (\$27 million in our U.S. operations and \$1 million in our foreign operations) in the first quarter of 2011. Included in the first quarter of 2012 was \$17 million of expense related to our refinancing activities. Included in the first quarter of 2011 was \$1 million of expense related to our refinancing activities. Excluding the refinancing expenses, interest expense decreased in the first quarter of 2012 compared to the prior year's first quarter as a result of lower rates due to last year's debt refinancing transactions.

On March 31, 2012, we had \$754 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through March 2020, \$225 million is fixed through August 2018, \$18 million was fixed through April 2012, and the remainder is fixed from 2012 through 2025. We also have \$514 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to "Liquidity and Capital Resources - Capitalization" later in this Management's Discussion and Analysis.

***Income Taxes***

Income tax expense was \$18 million for 2012. The tax expense recorded for 2012 differs from a statutory rate of 35 percent due to a net tax benefit of \$1 million primarily related to U.S. taxable income with no associated tax expense due to our net operating loss carryforward and income generated in lower tax rate jurisdictions, partially offset by the impact of recording a valuation allowance against the tax benefit for losses in certain foreign jurisdictions. Income tax expense was \$14 million for 2011. The tax expense recorded for 2011 differs from a statutory rate of 35 percent due to a net tax benefit of \$10 million primarily related to U.S. taxable income with no associated tax expense due to our net operating loss carryforward and income generated in lower tax rate jurisdictions, partially offset by the impact of recording a valuation allowance against the tax benefit for losses in certain foreign jurisdictions.

***Restructuring and Other Charges***

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. In 2011, we incurred \$8 million in restructuring and related costs, primarily related to headcount reductions in Europe and Australia and the closure of our ride control plant in Cozad, Nebraska, all of which was recorded in cost of sales. In the first quarter of 2012, we incurred \$1 million in restructuring and related costs, primarily related to headcount reductions in South America, all of which was recorded in cost of sales.

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

	December 31, 2011 Restructuring Reserve	2012 Expenses	2012 Cash Payments (Millions)	March 31, 2012 Restructuring Reserve
Severance	\$ 1	1	(1)	\$ 1

Under the terms of our amended and restated senior credit agreement that took effect on March 22, 2012, we are allowed to exclude \$80 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after March 22, 2012 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2012, we have excluded \$1 million in cumulative allowable charges relating to restructuring initiatives against the \$80 million available under the terms of the senior credit facility.

On September 22, 2009, we announced that we were closing our original equipment ride control plant in Cozad, Nebraska. The closure of the Cozad plant will eliminate approximately 500 positions. We are hiring at other facilities as we move production from Cozad to those facilities, which will result in a net decrease of approximately 60 positions. Much of the production is being shifted from Cozad to our plant in Hartwell, Georgia.

During the transition of production from our Cozad facility to our Hartwell facility, several customer programs, which were planned to phase out, were reinstated and volumes increased beyond the amount in our original restructuring plan. To meet the higher volume requirements, we have taken a number of actions to stabilize the production environment in Hartwell including reinforcing several core processes, realigning assembly lines, upgrading equipment to increase output and accelerating our Lean manufacturing activities. Based on the higher volumes, we have adjusted our consolidation plan. Our revised consolidation plan includes temporarily continuing some basic production operations in Cozad, and redirecting some programs from our Hartwell facility to our other North American facilities to better balance production. These actions are anticipated to conclude during the third quarter of 2012. As of March 31, 2012, more than 95 percent of the positions at our Cozad facility have been eliminated. We still estimate that we will generate \$8 million in annualized cost savings once these actions are completed.

During 2009 and 2010, we recorded \$11 million and \$10 million, respectively, of restructuring and related expenses related to this initiative, of which approximately \$16 million represents cash expenditures. In 2011, we recorded an additional cash charge of \$2 million related to this initiative.

**Earnings Per Share**

We reported net income of \$30 million or \$0.49 per diluted common share for the first quarter of 2012. Included in the results for the first quarter of 2012 were negative impacts from expenses related to our restructuring activities and costs related to our refinancing activities which were partially offset by net tax benefits. The net impact of these items decreased earnings per diluted share by \$0.17. We reported net income of \$47 million or \$0.75 per diluted common share for the first quarter of 2011. Included in the results for 2011 were negative impacts from expenses related to our restructuring activities and costs related to our refinancing activities, which were more than offset by net tax benefits. The net impact of these items increased earnings per diluted share by \$0.12.

**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.

**Table of Contents***Cash Flows for 2012 and 2011*

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Millions)</b>	
Cash provided (used) by:		
Operating activities	\$ (85)	\$ (103)
Investing activities	(68)	(45)
Financing activities	122	114

*Operating Activities*

For the first quarter of 2012, operating activities used \$85 million in cash compared to \$103 million in cash used during last year's first quarter. For the first quarter of 2012, cash used for working capital was \$171 million versus \$187 million of cash used for working capital in the first quarter of 2011. Receivables were a use of cash of \$181 million in the first quarter of 2012 compared to a cash use of \$251 million in the prior year's first quarter. Inventory represented a cash outflow of \$76 million during the first quarter of 2012, compared to a cash outflow of \$77 million for last year's first quarter. Accounts payable provided cash of \$88 million for the quarter ended March 31, 2012, compared to cash provided of \$139 million for the quarter ended March 31, 2011. Cash taxes were \$17 million for the first quarter of 2012 compared to \$10 million in the prior year's first quarter.

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. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled \$4 million and \$10 million at March 31, 2012 and December 31, 2011, respectively. No negotiable financial instruments were held by our European subsidiary as of March 31, 2012 and December 31, 2011, respectively.

In certain instances, several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled \$9 million and \$14 million at March 31, 2012 and December 31, 2011, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled \$11 million and \$9 million at March 31, 2012 and December 31, 2011, respectively. We classify financial instruments received from our OE customers as other current assets if issued by a financial institution of our customers or as customer notes and accounts, net if issued by our customer. We classified \$11 million and \$9 million in other current assets at March 31, 2012 and December 31, 2011, respectively. Some of our Chinese subsidiaries that issue their own negotiable financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at those Chinese subsidiaries at March 31, 2012 or December 31, 2011.

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

*Investing Activities*

Cash used for investing activities was \$23 million higher in the first three months of 2012 compared to the same period a year ago. Cash payments for plant, property and equipment were \$65 million in the first quarter of

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2012 versus payments of \$46 million in the first quarter of 2011, an increase of \$19 million. The majority of the spending was in Europe and North America OE businesses to support new light and commercial vehicle program launches, and in China to accommodate new programs and new customers. Cash payments for software-related intangible assets were \$4 million in 2012 compared to \$3 million in 2011.

### *Financing Activities*

Cash flow from financing activities was an inflow of \$122 million for the quarter ending March 31, 2012 compared to an inflow of \$114 million for the quarter ending March 31, 2011. We ended the first quarter of 2012 with \$260 million in borrowings under our revolving credit facility. At March 31, 2011, there were \$47 million in borrowings outstanding under our revolving credit facility. The increase was due to refinancing activities in the first quarter of this year which included retiring certain of our 8 1/8 percent senior notes due in 2015 and the \$148 million Tranche B Term Facility, adding a new \$250 million Tranche A Term Facility and increasing the amount and extending the maturity date of our revolving credit facility.

### **Outlook**

Industry light vehicle production in the second quarter is forecasted by IHS Automotive to increase in most of the regions where we operate. This includes a 21 percent year-over-year increase in North America, 18 percent in China, 12 percent in India and 4 percent in South America. Forecasts from IHS Automotive estimate that European light vehicle production will fall nine percent and Australia light vehicle production will fall four percent in the second quarter of 2012 when compared to the second quarter of 2011.

According to IHS Automotive, full-year light vehicle production in the regions where we operate is still predicted to increase four percent versus last year. Full-year light vehicle production is estimated by IHS Automotive to increase in North America by 12 percent, in India by 15 percent, in China by seven percent, in South America by five percent and in Australia by two percent. While full-year light vehicle production in Europe is projected to decline six percent, we should continue to benefit from our strong customer and platform mix.

On the commercial vehicle side of our business, this is the second year in a six-year period where we are launching and ramping up new commercial vehicle business. Commercial vehicle emission control launches are currently underway and will ramp up in line with regulatory enforcement, for on- and off-road equipment in North America, Europe, China and South America.

We have implemented price increases with our aftermarket customers in Europe and North America and expect to see the full effect of these increases in the second quarter of 2012.

In North America, we expect continued margin improvement in the OE emission control business, driven by higher volumes and the benefit from commercial vehicle programs. Our North America OE ride control business continues to improve sequentially and margins are expected to strengthen in the second quarter of 2012.

In Europe, our OE emission control business is expected to benefit from its strong customer and platform mix with positive contribution from the ramp up of new commercial vehicle business.

In South America, we have completed a restructuring action to address the volume decline from relinquishing business on a platform, and we anticipate positive volume contributions to margins as the production environment improves in the second quarter of 2012. In addition, having won significant commercial vehicle business in South America, we expect to benefit from these programs as they continue to ramp up in the second quarter of 2012.

Strong OE volumes in China will continue to drive EBIT for our Asia Pacific segment. Costs associated with preparing for new programs and new customers are not fully absorbed but will continue to improve as programs ramp up and added capacity becomes fully utilized at our new facilities.

### *Critical Accounting Policies*

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing our condensed consolidated financial statements in



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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 condensed 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. Generally, 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 \$456 million and \$423 million for the first three months of 2012 and 2011, 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. Shipping and handling costs billed to customers are included in revenues and the related costs are included in cost of sales in our condensed consolidated statements of income.

### *Warranty Reserves*

Where we have offered product warranty, we also provide for warranty costs. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified on OE products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims and upon specific warranty issues as they arise. The warranty terms vary but range from one year up to limited lifetime warranties on some of our premium aftermarket products. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. 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 condensed 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. Unbilled pre-production design and development costs recorded in prepayments and other and long-term receivables totaled \$21 million and \$19 million at March 31, 2012 and December 31, 2011, respectively. In addition, plant, property and equipment included \$38 million at both March 31, 2012 and December 31, 2011, respectively, for original equipment tools and dies that we own, and prepayments and other included \$59 million and \$49 million at March 31, 2012 and December 31, 2011, respectively, for in-process tools and dies that we are building for our original equipment customers.

### *Income Taxes*

We reported income tax expense of \$18 million and \$14 million in the first quarter of 2012 and 2011, respectively. The tax expense recorded in 2012 differs from the expense that would be recorded using a U.S. Federal statutory rate of 35 percent due to a net tax benefit of \$1 million primarily related to U.S. taxable income with no associated tax expense due to our net operating loss ( NOL ) carryforward and income generated in lower tax rate jurisdictions, partially offset by the impact of recording a valuation allowance against the tax benefit for losses in certain foreign jurisdictions. We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all

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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;

Tax-planning strategies; and

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

In 2008, given our historical losses in the U.S., we concluded that our ability to fully utilize our NOLs was limited, as we were required to project the continuation of the negative economic environment at that time and the impact of the negative operating environment on our tax planning strategies. As a result, we recorded a valuation allowance against all of our U.S. deferred tax assets except for our tax planning strategies which have not yet been implemented and which do not depend upon generating future taxable income. We carry deferred tax assets in the U.S. of \$90 million, as of March 31, 2012, relating to the expected utilization of those NOLs. The recording of a valuation allowance does not impact the amount of the NOL that would be available for federal and state income tax purposes in future periods. The federal NOLs expire beginning in tax years ending in 2021 through 2029. The state NOLs expire in various tax years through 2029.

The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable. In addition, the charge to establish the U.S. valuation allowance eliminated the need for certain tax reserves which would need to be recorded if the valuation allowance was reversed. Based on the operating improvements we have made, the outlook for light and commercial vehicle production in the U.S., and the positive impact this should have on our U.S. operations, we expect that we should be able to reverse the valuation allowance by the third quarter of 2012.

In prior years, we recorded a valuation allowance against deferred tax assets generated by taxable losses in the U.S. as well as certain other foreign jurisdictions. Our 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. In certain foreign jurisdictions, we have recorded a tax benefit on NOLs and tax credits with unlimited lives that are supported by tax actions and forecasted profitability. If the tax actions are not successful or losses are incurred, we may need to record a valuation allowance in a future period. These actions will cause variability in our effective tax rate.

*Goodwill, net*

We evaluate goodwill for impairment in the fourth quarter of each year, or more frequently if events indicate it is warranted. The goodwill impairment test consists of a two-step process. In step one, 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. A separate discount rate derived by a combination of published sources, internal estimates and weighted based on our debt and equity structure, was used to calculate the discounted cash flows for each of our reporting units. These estimates are based on assumptions that we believe to be reasonable, but which are inherently uncertain and outside of the



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control of management. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist which requires step two to be performed to measure the amount of the impairment loss. The amount of impairment is determined by comparing the implied fair value of a reporting unit's goodwill to its carrying value.

In the fourth quarter of 2011, the estimated fair value of each of our reporting units exceeded the carrying value of their assets and liabilities as of the testing date.

### *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 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 is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan. Based on this approach, we lowered the weighted average discount rate for all our pension plans to 4.9 percent in 2012 from 5.5 percent in 2011. The discount rate for postretirement benefits was lowered to 4.9 percent in 2012 from 5.6 percent in 2011.

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 was left unchanged at 7.2 percent for both 2012 and 2011.

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 March 31, 2012, all legal funding requirements had been met.

### **Changes in Accounting Pronouncements**

Note 11 in our notes to condensed consolidated financial statements located in Part I Item 1 of this Form 10-Q is incorporated herein for reference.

**Table of Contents****Liquidity and Capital Resources***Capitalization*

	March 31, 2012	December 31, 2011 (Millions)	% Change
Short-term debt and maturities classified as current	\$ 94	\$ 66	42%
Long-term debt	1,264	1,158	9
<b>Total debt</b>	<b>1,358</b>	<b>1,224</b>	<b>11</b>
Total redeemable noncontrolling interests	13	12	8
<b>Total noncontrolling interests</b>	<b>45</b>	<b>43</b>	<b>5</b>
Tenneco Inc. shareholders' equity	62		100
<b>Total equity</b>	<b>107</b>	<b>43</b>	<b>149</b>
<b>Total capitalization</b>	<b>\$ 1,478</b>	<b>\$ 1,279</b>	<b>16</b>

*General.* Short-term debt, which includes maturities classified as current, borrowings by foreign subsidiaries, and borrowings securitized by our North American accounts receivable securitization program, was \$94 million and \$66 million as of March 31, 2012 and December 31, 2011, respectively. Borrowings under our revolving credit facilities, which are classified as long-term debt, were \$260 million and \$24 million at March 31, 2012 and December 31, 2011, respectively.

The 2012 year-to-date increase in total equity primarily resulted from net income attributable to Tenneco Inc. of \$30 million, a \$26 million increase caused by the impact of changes in foreign exchange rates on the translation of financial statements of our foreign subsidiaries into U.S. dollars, a \$3 million increase in premium on common stock and other capital surplus relating to common stock issued pursuant to benefit plans, and a \$3 million increase in additional liability for pension and postretirement benefits.

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

On March 22, 2012, we completed an amendment and restatement of our senior credit facility by increasing the amount and extending the maturity date of our revolving credit facility and adding a new Tranche A Term Facility. The amended and restated facility replaces our former \$556 million revolving credit facility, \$148 million Tranche B Term Facility and \$130 million Tranche B-1 letter of credit/revolving loan facility. The proceeds from this refinancing transaction were used to repay our \$148 million Tranche B Term Facility and to fund the purchase and redemption of our \$250 million 8 1/8 percent senior notes due in 2015. As of March 31, 2012, the senior credit facility provides us with a total revolving credit facility size of \$850 million and a \$250 million Tranche A Term Facility, both of which will mature on March 22, 2017. Funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. The revolving credit facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. Outstanding letters of credit reduce our availability to enter into revolving loans under the facility. We are required to make quarterly principal payments under the Tranche A Term Facility of \$3.1 million beginning June 30, 2012 through March 31, 2014, \$6.3 million beginning June 30, 2014 through March 31, 2015, \$9.4 million beginning June 30, 2015 through March 31, 2016, \$12.5 million beginning June 30, 2016 through December 31, 2016 and a final payment of \$125 million is due on March 22, 2017.

Beginning March 22, 2012, our Tranche A Term and revolving credit facilities bear interest at an annual rate equal to, at our option, either (i) London Interbank Offered Rate (LIBOR) plus a margin of 250 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 150 basis points, (b) the



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Federal Funds rate plus 50 basis points plus a margin of 150 basis points, and (c) the Eurodollar Rate plus 100 basis points plus a margin of 150 basis points. The margin we pay on these borrowings will be reduced by 25 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 1.50 or will be increased by 25 basis points if our consolidated net leverage ratio is greater than or equal to 2.50.

At March 31, 2012, of the \$850 million available under the revolving credit facility, we had unused borrowing capacity of \$554 million with \$260 million in outstanding borrowings and \$36 million in outstanding letters of credit.

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

As a result of the refinancing of our senior credit facility and the repurchase of our 8 1/8 percent senior notes due in 2015, we expect to reduce our annual interest expense by approximately \$20 million. We recorded \$17 million of pre-tax charges in March 2012 related to the refinancing of our senior credit facility, the repurchase and redemption of \$232 million aggregate principal amount of our 8 1/8 percent senior notes due in 2015 and the write-off of deferred debt issuance costs relating to these senior notes. We expect to record an additional \$1 million of pre-tax charges during the second quarter of 2012 relating to the redemption of the remaining \$18 million aggregate principal amount of our 8 1/8 percent senior notes which occurred in April 2012. During the first quarter of 2011, we recorded \$1 million of pre-tax charges related to our repurchase and redemption of our 8 5/8 percent senior subordinated notes.

*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) LIBOR plus a margin as set forth in the table below; or (ii) a rate consisting of the greater of the JPMorgan Chase prime rate, the Federal Funds rate plus 50 basis points or the Eurodollar Rate plus 100 basis points, plus a margin as set forth in the table below:

	6/3/2010 thru 2/27/2011	2/28/2011 thru 5/15/2011	5/16/2011 thru 8/7/2011	8/8/2011 thru 2/26/2012	2/27/2012 thru 3/21/2012	Beginning 3/22/2012
Applicable Margin over:						
LIBOR for Revolving Loans	4.50%	4.25%	4.50%	4.25%	4.00%	2.50%
LIBOR for Term Loan B Loans	4.75%	4.50%	4.75%	4.50%	4.50%	
LIBOR for Tranche B-1 Loans	5.00%	5.00%	5.00%	5.00%	5.00%	
LIBOR for Tranche A Loans						2.50%
Prime for Revolving Loans	3.50%	3.25%	3.50%	3.25%	3.00%	1.50%
Prime for Term Loan B Loans	3.75%	3.50%	3.75%	3.50%	3.50%	
Prime for Tranche B-1 Loans	4.00%	4.00%	4.00%	4.00%	4.00%	
Prime for Tranche A Loans						1.50%
Federal Funds for Revolving Loans	3.50%	3.25%	3.50%	3.25%	3.00%	1.50%
Federal Funds for Term Loan B Loans	3.75%	3.50%	3.75%	3.50%	3.50%	
Federal Funds for Tranche B-1 Loans	4.00%	4.00%	4.00%	4.00%	4.00%	
Federal Funds for Tranche A Loans						1.50%
Commitment Fee	0.75%	0.50%	0.75%	0.50%	0.50%	0.40%

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*Senior Credit Facility Other Terms and Conditions.* 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 amended and restated senior credit facility and, the actual ratios we achieved for the first quarter of 2012, are as follows:

	Quarter Ended	
	March 31, 2012	
	Req.	Act.
Leverage Ratio (maximum)	3.50	2.07
Interest Coverage Ratio (minimum)	2.55	6.11

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

The covenants in our senior credit facility agreement generally prohibit us from repaying or refinancing our senior notes. So long as no default existed, we would, however, under our senior credit facility agreement, be permitted to repay or refinance our senior notes (i) with the net cash proceeds of permitted refinancing indebtedness (as defined in the senior credit facility agreement or with the net cash proceeds of our common stock); (ii) with the net cash proceeds of the incremental facilities (as defined in the senior credit facility agreement); (iii) with the net cash proceeds of the revolving loans (as defined in the senior credit facility agreement); (iv) with the cash generated by the operations of the Company; (v) in an amount equal to the net cash proceeds of qualified capital stock (as defined in the senior credit facility agreement) issued by the Company after March 22, 2012; and (vi) in exchange for permitted refinancing indebtedness or in exchange for shares of our common stock; provided that such purchases are capped as follows (with respect to clauses (iii), (iv) and (v) on a pro forma consolidated leverage ratio after giving effect to such purchase, cancellation or redemption:

Proforma Consolidated Leverage Ratio	Aggregate Senior
	Note Maximum Amount (Millions)
Greater than or equal to 3.0x	\$ 20
Greater than or equal to 2.5x	\$ 100
Greater than or equal to 2.0x	\$ 200
Less than 2.0x	no limit

Although the senior credit facility agreement would permit us to repay or refinance our senior notes under the conditions described above, any repayment or refinancing of our outstanding notes would be subject to market conditions and either the voluntary participation of note holders or our ability to redeem the notes under the terms of the applicable note indenture. For example, while the senior credit agreement would allow us to repay our outstanding notes via a direct exchange of the notes for either permitted refinancing indebtedness or for shares of our common stock, we do not, under the terms of the agreements governing our outstanding notes, have the right to refinance the notes via any type of direct exchange.

The senior credit facility agreement also contains other 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 senior credit facility 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 the senior 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.

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As of March 31, 2012, we were in compliance with all the financial covenants and operational restrictions of the senior credit 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 Notes.* As of March 31, 2012, our outstanding debt also included \$18 million of 8 1/8 percent senior notes redeemed on April 6, 2012, \$225 million of 7 3/4 percent senior notes due August 15, 2018 and \$500 million of 6 7/8 percent senior notes due December 15, 2020. Under the indentures governing the notes, we are permitted to redeem some or all of the remaining senior notes at any time after August 14, 2014 in the case of the senior notes due 2018, and December 15, 2015 in the case of senior notes due 2020. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes. Under the indentures governing the notes, we are permitted to redeem up to 35 percent of the senior notes due 2018, with the proceeds of certain equity offerings completed before August 13, 2013 and up to 35 percent of the senior notes due 2020, with the proceeds of certain equity offerings completed before December 15, 2013.

Our senior 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 pro forma basis, be greater than 2.00. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (ii) dividends; (iii) distributions and stock 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. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. As of March 31, 2012, we were in compliance with the covenants and restrictions of these indentures.

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

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

We also securitize receivables in our European operations with regional banks in Europe. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year, but some may be cancelled with notice 90 days prior to renewal. In some instances, the arrangement

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provides for cancellation by the applicable financial institution at any time upon 15 days, or less, notification. The amount of outstanding third party investments in our securitized accounts receivable in Europe was \$139 million and \$121 million at March 31, 2012 and December 31, 2011, respectively.

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

In our North American accounts receivable securitization programs, we transfer a partial interest in a pool of receivables and the interest that we retain is subordinate to the transferred interest. Accordingly, we account for our North American securitization program as a secured borrowing. In our European programs, we transfer accounts receivables in their entirety to the acquiring entities and satisfy all of the conditions established under ASC Topic 860, *Transfers and Servicing*, to report the transfer of financial assets in their entirety as a sale. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized \$1 million in interest expense in each of the three month periods ended March 31, 2012 and 2011, relating to our North American securitization program. In addition, we recognized a loss of \$1 million in each of the three month periods ended March 31, 2012 and 2011, on the sale of trade accounts receivable in our European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately three percent during both the first quarter of 2012 and 2011.

*Capital Requirements.* We believe that cash flows from operations, combined with our cash on hand and 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, including debt amortization, capital expenditures, pension contributions, and other operational 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. In the event that we are unable to meet these financial covenants, we would consider several options 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. 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.

## **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.

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In managing our foreign currency exposures, we identify and aggregate existing offsetting positions and then hedge residual exposures through third-party derivative contracts. The fair value of our foreign currency forward contracts was less than \$1 million at March 31, 2012 and is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. The following table summarizes by major currency the notional amounts for our foreign currency forward purchase and sale contracts as of March 31, 2012. All contracts in the following table mature in 2012.

		<b>March 31, 2012 Notional Amount in Foreign Currency (Millions)</b>
Australian dollars	Purchase	3
British pounds	Purchase	4
European euro	Sell	(108)
Japanese yen	Purchase	270
South African rand	Purchase	179
U.S. dollars	Purchase	1,099
	Sell	(86)
Other	Purchase	1
	Sell	(1)

*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 facility 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 March 31, 2012, we had \$754 million in long-term debt obligations that have fixed interest rates. Of that amount, \$500 million is fixed through December 2020, \$225 million is fixed through August 2018, \$18 million was fixed through April 2012, and the remainder is fixed from 2012 through 2025. We also have \$514 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to *Liquidity and Capital Resources Capitalization* earlier in this Management's Discussion and Analysis.

We estimate that the fair value of our long-term debt at March 31, 2012 was about 105 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 \$6 million.

**Environmental and Legal Contingencies**

We are involved in environmental remediation matters, legal proceedings, claims, investigations and warranty obligations that are incidental to the conduct of our business and create the potential for contingent losses. We accrue for potential contingent losses when our review of available facts indicates that it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Each quarter we assess our loss contingencies based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors and record adjustments to these reserves as required. As an example, we consider all available evidence including prior experience in remediation of contaminated sites, other companies' cleanup experiences and data released by the United States Environmental Protection Agency or other organizations when we evaluate our environmental remediation contingencies. Further, all of our loss contingency estimates are subject to revision in future periods based on actual costs or new information. With respect to our environmental liabilities, where future cash flows are fixed or reliably determinable, we have discounted those liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our consolidated financial statements.



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We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. As of March 31, 2012, we have the obligation to remediate or contribute towards the remediation of certain sites, including one Federal Superfund site. At March 31, 2012, our aggregated estimated share of environmental remediation costs for all these sites on a discounted basis was approximately \$17 million, of which \$5 million is recorded in other current liabilities and \$12 million is recorded in deferred credits and other liabilities in our consolidated balance sheet. For those locations in which the liability was discounted, the weighted average discount rate used was 2.2 percent. The undiscounted value of the estimated remediation costs was \$20 million. Our expected payments of environmental remediation costs are estimated to be approximately \$4 million in 2012, \$2 million in 2013 and \$1 million in each year beginning 2014 through 2016 and \$11 million thereafter. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability. We do not believe that any potential costs associated with our current status as a potentially responsible party in the Federal Superfund site, or as a liable party at the other locations referenced herein, will be material to our condensed consolidated results of operations, financial position or cash flows.

We also from time to time are involved in legal proceedings, claims or investigations. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, in the U.S. we are subject to an audit in 11 states with respect to the payment of unclaimed property to those states, spanning a period as far back as over 30 years. We now have practices in place which we believe ensure that we pay unclaimed property as required. We vigorously defend ourselves against all of these claims. In future periods, we could be subject to cash costs or charges to earnings if any of these matters are resolved on unfavorable terms. 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 lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive products. Only a small percentage of the claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number in some cases exceeding

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100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers and/or users continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to charges to earnings if any of these matters are resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolutions. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

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

### **Tenneco 401(K) Retirement Savings Plan**

Effective January 1, 2012, the Tenneco Employee Stock Ownership Plan for Hourly Employees and the Tenneco Employee Stock Ownership Plan for Salaried Employees were merged into one plan called the Tenneco 401(k) Retirement Savings Plan (the Retirement Savings Plan ). Under the plan, 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. We match in cash 100 percent on the first three percent and 50 percent on the next two percent of employee contributions. 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. We recorded expense for these contributions of approximately \$5 million and \$4 million for the three months ended March 31, 2012 and 2011, respectively. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee's third anniversary of employment.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For information regarding our exposure to interest rate risk and foreign currency exchange rate risk, see the caption entitled "Derivative Financial Instruments" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the quarter covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by our Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II****ITEM 1A. RISK FACTORS**

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) None.

(b) Not applicable.

(c) *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 first quarter of 2012. All of these purchases reflect shares withheld upon vesting of restricted stock for minimum tax withholding obligations. We intend to continue to satisfy statutory minimum tax withholding obligations in connection with the vesting of outstanding restricted stock through the withholding of shares.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid</b>
January 2012	66,580	\$ 30.44
February 2012		\$
March 2012	1,327	\$ 38.36
Total	67,907	\$ 30.60

In January 2012, our Board of Directors approved a share repurchase program, authorizing our Company to repurchase up to 600,000 shares of the Company's outstanding common stock over a 12 month period. Our share repurchase program is intended to offset dilution from shares of restricted stock and stock options issued in 2012 to employees. We did not repurchase any shares through this program in the three month period ended March 31, 2012.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, Tenneco Inc. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TENNECO INC.

By:                    /s/   KENNETH R. TRAMMELL  
  Kenneth R. Trammell  
  Executive Vice President and Chief Financial Officer

Dated: May 7, 2012

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<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
4.1	Third Amended and Restated Credit Agreement, dated as of March 22, 2012, among Tenneco Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto (incorporated herein by reference from Exhibit 4.1 of the registrant's Current Report on Form 8-K dated as of March 22, 2012, File No. 1-12387).
4.2	Guarantee and Collateral Agreement, dated as of March 22, 2012 (amending and restating the Guarantee and Collateral Agreement dated as of March 17, 2007, as previously amended and restated), among Tenneco Inc., various of its subsidiaries and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference from Exhibit 4.2 of the registrant's Current Report on Form 8-K dated as of March 22, 2012, File No. 1-12387).
4.3	First Supplemental Indenture, dated as of March 22, 2012, among Tenneco Inc., the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated herein by reference from Exhibit 4.3 of the registrant's Current Report on Form 8-K dated as of March 22, 2012, File No. 1-12387).
10.1	Form of Tenneco Inc. 2006 Long-Term Incentive Plan Board of Directors Restricted Stock Notification (incorporated herein by reference from Exhibit 10.1 of the registrant's Current Report on Form 8-K dated as of January 18, 2012, File No. 1-12387).
10.2	Form of Tenneco Inc. 2006 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference from Exhibit 10.2 of the registrant's Current Report on Form 8-K dated as of January 18, 2012, File No. 1-12387).
10.3	Form of Tenneco Inc. 2006 Long-Term Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated herein by reference from Exhibit 10.3 of the registrant's Current Report on Form 8-K dated as of January 18, 2012, File No. 1-12387).
10.4	Amendment No. 2 to Third Amended and Restated Receivables Purchase Agreement, dated as of March 23, 2012 (incorporated herein by reference from Exhibit 10.1 of the registrant's Current Report on Form 8-K dated as of March 26, 2012, File No. 1-12387).
10.5	Amendment No. 2 to Receivables Purchase Agreement, dated as of March 23, 2012 (incorporated herein by reference from Exhibit 10.2 of the registrant's Current Report on Form 8-K dated as of March 26, 2012, File No. 1-12387).
*12	Computation of Ratio of Earnings to Fixed Charges.
*15.1	Letter of PricewaterhouseCoopers regarding interim financial information.
*31.1	Certification of Gregg M. Sherrill under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Gregg M. Sherrill and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.