

TENNECO INC  
Form DEFA14A  
April 10, 2006

OMB APPROVAL

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Tenneco Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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SEC 1913 (02-02)

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The following are materials that will be given to certain executive officers of Tenneco Inc. on or about April 10, 2006 for their use in personal solicitations of proxies in connection with Tenneco's 2006 Annual Meeting of Stockholders.

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## SAFE HARBOR

The foregoing presentation contains forward-looking statements that involve risks and uncertainties which could cause the company's plans, actions and results to differ materially from its current expectations. Such risks and uncertainties include, but are not limited to, the following: (i) the general political, economic and competitive conditions in markets and countries where the company operates, including currency fluctuations; (ii) governmental actions, including the ability to receive regulatory approvals and the timing of such approvals; (iii) changes in capital availability or costs, including increases in the company's costs of borrowing, the amount of the company's debt, the ability of the company to access capital markets and the credit ratings of the company's debt; (iv) changes in automotive manufacturers' production rates and their actual and forecasted requirements for the company's products; (v) the overall highly competitive nature of the automotive parts industry; (vi) the company's ability to realize the sales represented by its book of business which is based on a number of factors, including, but not limited to, the original equipment manufacturers' programs that have been formally awarded as well as programs where the company is highly confident that it will be awarded business based on informal customer indications, the company's status as a supplier on the existing program, and the relationship with the customer, and anticipated pricing for the applicable program over its life; (vii) the cyclical nature of the global vehicular industry, including the performance of the global aftermarket sector; (viii) the cost and outcome of existing and any future legal proceedings, and compliance with changes in regulations; (ix) workforce factors such as strikes or labor interruptions; (x) material substitutions and increases in the costs of raw materials; (xi) the company's continued success in cost reduction and cash management programs; (xii) the company's ability to develop and profitably commercialize new products and technologies, and the acceptance of such new products and technologies by the company's customers and the market; (xiii) further changes in the distribution channels for the company's aftermarket products, further consolidations among automotive parts customers and suppliers, and product warranty costs; (xiv) changes by the Financial Accounting Standards Board or other accounting regulatory bodies of authoritative generally accepted accounting principles or policies; (xv) acts of war, riots or terrorism, including, but not limited to the events taking place in the Middle East; and (xvi) the timing and occurrence (or non-occurrence) of transactions and events which may be subject to circumstances beyond the control of the company.

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**CORPORATE GOVERNANCE ISS s Corporate Governance Quotient TEN Board  
composed of majority of independent directors 9 of 11 independent Full Board elected annually  
Compensation/Nominating/Governance Committee composed entirely of independent directors  
Governance guidelines are publicly disclosed Audit Committee composed entirely of independent  
directors Executives and directors subject to stock ownership guidelines All independent directors  
meet in executive session at each meeting Designated lead independent director Board can appoint  
independent advisors**

*As of April, 2006, Tenneco Inc. s ISS Corporate Governance Quotient was better than that of 99.1%  
of Russell 3000 companies and 96.1% of Automobiles & Components companies*

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**ANNUAL MEETING PROPOSALS**

**Elect 11 Directors to Board of Directors**

**Ratify the appointment of Deloitte & Touche LLP as  
independent public accountants for 2006**

**Approve 2006 Long-Term Incentive Plan**

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**SUMMARY: 2006 LONG-TERM INCENTIVE PLAN**

**2006 LTIP provides for the issuance of 2,000,000 shares, including 500,000 full value awards (e.g.restricted stock)**

**The 2006 LTIP will also include any shares remaining under the 2002 LTIP at the time of approval of the 2006 LTIP (231,700 shares as of March 14,2006)**

**Substantially identical to 2002 LTIP that was previously approved by Tenneco s stockholders**

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**SUMMARY: 2006 LONG-TERM INCENTIVE PLAN**

**Options issued under the Plan may not be repriced, replaced or regranted through cancellation or by lowering the exercise price of a previously granted option**

**No material revision of the 2006 LTIP could be made without obtaining stockholder approval**

**Restricted stock granted to employees could not fully vest sooner than three years after the grant**

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**CALCULATION OF OVERHANG As of March14,2006:**

- **4,537,138 shares of common stock were reserved for outstanding options under the 2002 LTIP and prior plans**
- **737,475 shares of restricted stock were outstanding under the 2002 LTIP and prior plans**
- **231,700 shares remained available for grant under the 2002 LTIP**
- **45,169,180 shares of Tenneco common stock were outstanding**

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**CALCULATION OF OVERHANG**

**Overhang was 11.0%,calculated as follows:**

**4,537,138 + 737,475 + 231,700**

**45,169,180 + 4,537,138 + 231,700**

**Giving effect to the approval of the 2006 LTIP,the overhang would be14.5%,calculated as follows:**

**4,537,138 + 737,475 + 231,700 + 2,000,000**

**45,169,180 + 4,537,138 + 231,700 + 2,000,000**

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**LTIP: PROMOTES LONG-TERM SUCCESS**

**Attract and retain top caliber employees through competitive compensation**

**Continue to align existing and future employees' interests with those of Tenneco's other stockholders**

**- compensation based on Tenneco's common stock performance**

**Top 800 managers participating in LTIP**

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**GLOBAL SUPPLIER OF EMISSION AND RIDE CONTROL SYSTEMS Revenues (Millions)**  
**\$4,441 \$4,213 Total Emission Control/ 62/38 63/37 Ride Control Balance Original Equipment/ 77/23**  
**76/24**

**Aftermarket Balance**

**EBIT is income before interest expense, taxes and minority interest.**

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**BALANCE A KEY ADVANTAGE 63% of total 2005 sales to customers other than the Big 3 - 20% of North America OE revenues from Japanese customers**

**54% of 2005 revenues generated outside of North America**

**Exposure to a variety of markets**

**- light vehicle,commercial & specialty vehicle,automotive aftermarket**

**Innovative technologies across several product lines**

**- ride control,emission control,elastomers**

**Products on a diversified mix of more than 200 platforms**

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**LEADING MARKET POSITIONS 2004 Regions /**

| <b>Product Category</b> | <b>Market Position*</b> | <b>Key Competitors**</b>          |
|-------------------------|-------------------------|-----------------------------------|
| Aftermarket             | North America #1        | ArvinMeritor,Goerlich             |
| Emission Control        | Europe ** #1            | ArvinMeritor,Bosal                |
| Aftermarket             | North America #1        | ArvinMeritor,Kayaba               |
| Ride Control            | Europe ** #1            | ZF Sachs,Kayaba                   |
| Original Equipment      | North America #2        | ArvinMeritor,Faurecia             |
| Emission Control        | Europe #1               | Faurecia,ArvinMeritor,Eberspächer |
| Original Equipment      | North America #2        | Delphi,ZF Sachs                   |
| Ride Control            | Europe #2               | ZF Sachs,Kayaba                   |

\* Tenneco Estimates

\*\* Excludes OE Service

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**BALANCED CUSTOMER MIX**

*Top Customers as a % of 2005 Revenues*

**Includes substrate sales**

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**FAVORABLE PLATFORM MIX**

**EC Emission Control      RC Ride Control      EL Elastomers**

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**SIX YEARS OF PROGRESS 2005 2000**

**Revenues \$4.441BB \$3.528 BB Adjusted SGA&E (% of Sales) 10.3% 13.0% Reported SGA&E (% of Sales) 10.5% 14.0% Adjusted EBITDA \$414MM \$338 MM Reported EBITDA \$392MM \$273 MM Adjusted EPS \$ 1.52 \$ 0.14 Reported EPS \$ 1.29 \$(1.16) Working Capital (% of Sales) 2.2% 10.6% CAPEX (% of Sales) 3.2% 4.1% Net Debt/Adjusted EBITDA 3.0x 4.4x Stock Price (as of December 31) \$19.61 \$ 3.00**

Reconciliation of non-GAAP adjustments on slides 20- 23.

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**PRICE PERFORMANCE TEN VS.INDICES**

*2000 2005 Indexed Performance*

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**STRATEGIC INITIATIVES INVEST IN GROWING MARKETS**

**Emissions technologies for environmental mandates**

**Advanced technology for safety ratings China for rapid growth**

**Emerging OEMs for enhanced customer mix**

**Aftermarket service products for incremental sales**

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**NEW DIESEL BUSINESS SUPPORTS GROWTH IN 2007**

**F-250/350 N. America Diesel & Gasoline EC GM Duramax N. America Diesel EC OEM #1 Light Duty N. America Diesel EC International Truck N. America Medium Duty Diesel EC Toyota Tundra N. America EC components OEM #2 Crossover N. America EC complete system OEM #3 Europe Electronic shocks Audi A6 & A6 Avant Europe Electronic shocks**

EC-Emission Control

**\*See slide 24 for information regarding the OE revenue estimate.**

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**INVESTMENT HIGHLIGHTS**

**Balanced mix of customers,geographies,markets,products,platforms Leading Tier1OE supplier positioned on top selling platforms No.1 aftermarket supplier driven by leading brands Advanced technology leadership Proven strategies for business development**

**Demonstrated commitment to balance sheet strength and financial stability**

**Experienced management team**

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**SIX YEARS OF PROGRESS RECONCILIATION OF NON-GAAP RESULTS *EBITDA* \$  
Millions, Unaudited Years Ended December 31 2005 2000**

**Net Income (loss) \$58 \$(41) Minority interest 2 2 Income tax expense (benefit) 25 (27) Interest  
expenses, net of interest capitalized 130 188 Depreciation and amortization of other intangibles 177  
151 Total EBITDA \$392 \$273**

**EBITDA represents income before interest expense, income taxes, minority interest and depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles. The amounts included in the EBITDA calculation, however, are derived from amounts included in the historical statements of income. In addition, EBITDA should not be considered as an alternative to net income or operating income as an indicator of the company's operating performance, or as an alternative to operating cash flows as a measure of liquidity. Tenneco has presented EBITDA because it regularly reviews EBITDA as a measure of the company's performance. In addition, Tenneco believes that its security holders utilize and analyze its EBITDA for similar purposes. Tenneco also believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon many factors. However, the EBITDA measure presented may not always be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation. 4477-CORP-4/06 (20) 20**

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**SIX YEARS OF PROGRESS RECONCILIATION OF NON-GAAP RESULTS \$**

| <i>Millions, Unaudited</i>                              | SGA&E  | EBITDA | EPS   | 2005  | 2000   | 2005     | 2000  | 2005   | 2000   |
|---|--------|--------|-------|-------|--------|----------|-------|--------|--------|
| Financial Measures                                      | \$468  | \$496  | \$392 | \$273 | \$1.29 | \$(1.16) |       |        |        |
| Adjustments (reflect non-GAAP <sup>(1)</sup> measures): |        |        |       |       |        |          |       |        |        |
| Restructuring and restructuring related expenses        | (2)    | (38)   | 12    | 61    | 0.17   | 1.21     |       |        |        |
| New aftermarket customer changeover costs               | (10)   | 10     | 0.15  |       |        |          |       |        |        |
| Tax adjustments   | (0.09) |        |       |       |        |          |       |        |        |
| Cost related to refinancing                             |        |        |       |       |        |          |       |        |        |
| Other non-operational items                             |        |        |       |       |        |          |       |        |        |
| Extraordinary loss                                      | 0.02   |        |       |       |        |          |       |        |        |
| Non-GAAP financial measures                             |        |        |       |       |        |          |       |        |        |
|   |        |        |       | \$456 | \$458  | \$414    | \$338 | \$1.52 | \$0.14 |

(1) Generally Accepted Accounting Principles

(2) Tenneco presents the above reconciliation of non-GAAP results in order to reflect the results for the full year 2005 and the full year 2000 in a manner that allows a better understanding of the results of operational activities separate from the financial impact of decisions made for the long-term benefit of the company. Adjustments similar to the ones reflected above have been recorded in earlier periods, and similar types of adjustments can reasonably be expected to be recorded in future periods. Using only the non-GAAP earnings measure to analyze earnings would have material limitations because its calculation is based on the subjective determinations of management regarding the nature and classification of events and circumstances that investors may find material. Management compensates for these limitations by utilizing both GAAP and non-GAAP earnings measures reflected above to understand and analyze the results of the business. The company believes investors find the non-GAAP information helpful in understanding the ongoing performance of operations separate from items that may have a disproportionate positive or negative impact on the company's financial results in any particular period.

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**SIX YEARS OF PROGRESS RECONCILIATION OF NON-GAAP RESULTS *Working Capital (% of Sales) \$ Millions, Unaudited* Years Ended December 31 2005 2000**

**Current Assets** Receivables Customer notes and accounts \$ 515 \$ 457 Receivables Other 28 30  
Inventories 360 438 Deferred income taxes 43 76 Prepayments and other 110 89 \$1,056 \$1,090  
**Current Liabilities** Trade payables \$ 651 \$ 464 Accrued taxes 31 16 Accrued interest 38 35 Accrued  
liabilities 208 134 Other accruals 29 68 \$ 957 \$717 **Working Capital** (Current assets less current  
liabilities) \$ 99 \$373 **Net sales and operating revenues** \$4,441 \$3,528 **Working capital as percent of  
sales** 2.2% 10.6%

\* For purposes of computing working capital as a percentage of sales,  
we exclude cash and the current portion of

long term debt from the calculation. We exclude these items because we manage our working  
capital activity through

cash and short term debt. To include these items in the calculation would distort actual working  
capital changes.

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**SIX YEARS OF PROGRESS RECONCILIATION OF NON-GAAP RESULTS *Net Debt/Adjusted EBITDA \$ Millions, Unaudited* Years Ended December 31 2005 2000**

**Total debt \$1,378 \$1,527 Cash and cash equivalents 141 35 Debt net of cash balances 1,237 1,492  
Adjusted EBITDA \$414 \$338 Ratio of net debt to adjusted EBITDA 3.0x 4.4x**

**\* We review net debt as an indicator of our credit position and progress toward reducing our leverage.**

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## **GLOBAL OE REVENUE ESTIMATE**

Tenneco's global OE revenue estimate is based on original equipment manufacturers' programs that have been formally awarded to the company; programs where the company is highly confident that it will be awarded business based on informal customer indications consistent with past practices; Tenneco's status as supplier for the existing program and its relationship with the customer; and the actual original equipment revenues achieved by the company for each of the last several years compared to the amount of those revenues that the company estimated it would generate at the beginning of each year. The company's revenue estimate is subject to increase or decrease due to changes in customer requirements, customer and consumer preferences, and the number of vehicles actually produced by the company's customers. The company's revenue estimate is as of January 2006 and the company does not intend to update the estimate due to these changes. In addition, the company's revenue estimate is based on its anticipated pricing for each applicable program over its life. However, the company is under continuing pricing pressures from its OE customers. The company does not intend to update the amounts shown above for any price changes. Finally, for the company's foreign operations, its revenue estimate assumes a fixed foreign currency value. This value is used to translate foreign business to the US dollar. Currency in the company's foreign operations is subject to fluctuation based on the economic conditions in each of its foreign operations. The company does not intend to update its revenue estimate due to these fluctuations. See Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 and Risk Factors in the company's Annual Report on Form 10-K for the year ended December 31, 2005 for additional information regarding the company's revenue estimate.

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