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TENNECO INC  
Form DEF 14A  
April 03, 2007

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 ☒ [X]  
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  
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☒ [X] Definitive Proxy Statement  
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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)

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SEC 1913 (01-07)

TENNECO INC.  
500 NORTH FIELD DRIVE  
LAKE FOREST, ILLINOIS 60045  
(847) 482-5000

(TENNECO LOGO)

April 3, 2007

To the Stockholders of Tenneco Inc.:

The Annual Meeting of Stockholders of Tenneco Inc. will be held Tuesday, May 8, 2007, at 10:00 a.m., local time, at our headquarters located at 500 North Field Drive, Lake Forest, Illinois 60045. A Notice of the meeting, a proxy and a proxy statement containing information about the matters to be acted upon are enclosed.

Holders of common stock are entitled to vote at the Annual Meeting on the basis of one vote for each share held.

A record of our activities for the year 2006 is contained in the Annual Report to Stockholders. We urge each stockholder who cannot attend the Annual Meeting to please assist us in preparing for the meeting by either completing, executing and returning your proxy promptly or using our telephone or Internet voting procedures.

Very truly yours,

/S/ GREGG SHERRILL  
GREGG SHERRILL

Chairman and Chief Executive  
Officer

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NOTICE OF  
ANNUAL MEETING OF STOCKHOLDERS  
MAY 8, 2007

The Annual Meeting of Stockholders of Tenneco Inc. will be held at our principal executive offices located at 500 North Field Drive, Lake Forest, Illinois 60045 on Tuesday, May 8, 2007, at 10:00 a.m., local time.

The purposes of the meeting are:

1. To elect eight directors for a term to expire at the 2008 Annual Meeting of Stockholders;
2. To consider and act upon a proposal to ratify the appointment of Deloitte & Touche LLP as independent public accountants for 2007; and
3. To consider and act upon such other matters as may properly be brought before the meeting, or any adjournment or postponement thereof.

The Board of Directors knows of no other matters at this time that may be brought before the meeting. Holders of common stock of record at the close of business on March 13, 2007 are entitled to vote at the meeting. A list of these stockholders will be available for inspection for 10 days preceding the meeting at our principal executive offices located at 500 North Field Drive, Lake Forest, Illinois 60045, and also will be available for inspection at the meeting.

Each stockholder who does not expect to attend the meeting is urged to either complete, date and sign the enclosed proxy and return it to us in the enclosed envelope, which requires no postage if mailed in the United States, or utilize our telephone or Internet voting procedures.

By Order of the Board of Directors

J. JEFFREY ZIMMERMAN  
Corporate Secretary

Lake Forest, Illinois  
April 3, 2007

TENNECO INC.  
500 NORTH FIELD DRIVE  
LAKE FOREST, ILLINOIS 60045  
(847) 482-5000

(TENNECO LOGO)

April 3, 2007

PROXY STATEMENT

This statement is furnished in connection with the solicitation on behalf of the Board of Directors of Tenneco Inc. (which we refer to as we, us, our, Tenneco or our company) of proxies to be voted at the Annual Meeting of Stockholders on May 8, 2007, or at any adjournment or postponement thereof. Holders of common stock of record at the close of business on March 13, 2007 will be entitled to vote at the Annual Meeting. Each share is entitled to one

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vote. At March 13, 2007, there were 45,900,306 shares of common stock outstanding and entitled to vote. This proxy statement is first being mailed to stockholders on or about April 3, 2007.

### BACKGROUND

In 1996, we were formed and spun off from the company that, at the time, was known as Tenneco Inc. After the spin-off, we held the former Tenneco Inc.'s automotive and packaging operations. In 1999, we spun off the packaging operations and, at that time, changed our name to "Tenneco Automotive Inc." In October 2005, we returned to the name "Tenneco Inc.", as we believe the name Tenneco better represents the continued expansion of our offerings through our commercial and specialty vehicle businesses.

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#### ELECTION OF DIRECTORS (ITEM 1)

Our Board of Directors currently comprises ten individuals, eight of whom are proposed to be elected at this Annual Meeting to serve for a term to expire at the annual meeting of stockholders to be held in 2008 and until their successors are chosen and have qualified. After many years of distinguished service, two our directors, Ms. M. Kathryn Eickhoff-Smith and Dr. Dennis G. Severance, will be retiring from the Board of Directors effective at the Annual Meeting and, at that time, the size of our Board will be reduced to eight.

The persons named as proxy voters in the accompanying proxy card, or their substitutes, will vote your proxy for all the nominees, each of whom has been designated as such by the Board of Directors, unless otherwise indicated in your proxy. In the event that any nominee for director withdraws or for any reason is not able to serve as a director, we will vote your proxy for the remainder of those nominated for director (except as otherwise indicated in your proxy) and for any replacement nominee designated by the Compensation/Nominating/Governance Committee of the Board of Directors.

You may vote for or withhold your vote from any or all of the director nominees. Assuming a quorum is present, the affirmative vote of the plurality of votes cast at the Annual Meeting (in person or by proxy) will be required for the election of directors.

Brief statements setting forth the age (at March 13, 2007), the principal occupation, the employment during at least the past five years, the year in which first elected a director and other information concerning each nominee appears below.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR ALL OF THE NOMINEES LISTED BELOW.

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#### NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS FOR ONE-YEAR TERMS EXPIRING AT THE 2008 ANNUAL MEETING OF STOCKHOLDERS

CHARLES W. CRAMB -- Mr. Cramb has been Executive Vice President, Finance and Technology and Chief Financial Officer of Avon Products, Inc., a global manufacturer and marketer of beauty and related products, since November 2005. Mr. Cramb was Senior Vice President and Chief Financial Officer of The Gillette Company, a global manufacturer and marketer of a wide variety of consumer products, from 1997 until October 2005. He joined Gillette in 1970 and served in

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a number of financial positions. From 1976 to 1981, he held several key financial management positions in Gillette's European operations, including Manager, Financial Services, Gillette Europe, and Financial Controller, Gillette Industries Limited, UK. From 1981 to 1995, he held a series of senior financial management positions in the United States, including Controller, International Operations; Vice President, Finance and Strategic Planning, Gillette North Atlantic Group; Assistant Controller, The Gillette Company; and Vice President, Finance, Planning and Administration, Diversified Group. From 1995 to 1997, he was Corporate Vice President and Corporate Controller. He is a director of Idenix Pharmaceuticals, Inc., where he is Chairman of the Audit Committee and a member of the Compensation Committee. Mr. Cramb was elected to our Board of Directors in March 2003, is 60 years old and is Chairman of the Audit Committee.

FRANK E. MACHER -- Mr. Macher served as President and Chief Executive Officer and as a member of the Board of Directors of Collins & Aikman Corporation, a global supplier of motor vehicle parts, from July 2005 until his recent retirement. Mr. Macher served as Chief Executive Officer of Federal Mogul Corporation, a manufacturer of motor vehicle parts and supplies, from January 2001 to July 2003 and Chairman of Federal Mogul from October 2001 to his retirement in January 2004. From June 1997 to his retirement in July 1999, Mr. Macher served as President and Chief Executive Officer of ITT Automotive, a supplier of automotive components. From 1966 to his retirement in 1996, Mr. Macher was employed by Ford Motor Company, serving most recently as Vice President and General Manager of the Automotive Components Division. Mr. Macher is 66 years old and was named a director of our company in July 2000. He is a member of the Board of Trustees of Kettering University. Mr. Macher is a member of the Audit Committee.

ROGER B. PORTER -- Mr. Porter is the IBM Professor of Business and Government at Harvard University. Mr. Porter has served on the faculty at Harvard University since 1977. Mr. Porter also held senior economic policy positions in the Ford, Reagan and George H. W. Bush White Houses, serving as special assistant to the President and executive secretary of the Economic Policy Board from 1974 to 1977, as deputy assistant to the President and director of the White House Office of Policy Development from 1981 to 1985, and as assistant to the President for economic and domestic policy from 1989 to 1993. He is also a director of Zions Bancorporation, Pactiv Corporation, Extra Space Storage Inc. and Packaging Corporation of America. Mr. Porter is 60 years old and has been a director of our company since January 1998. Mr. Porter is a member

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of the Compensation/Nominating/Governance Committee and the Chairman of the Three-Year Independent Director Evaluation Committee.

DAVID B. PRICE, JR. -- Mr. Price has served as Chief Executive Officer, President and Founder of Birdet Price, LLC, an investment and consulting firm wholly owned by Mr. Price, since July 2001. Previously, Mr. Price was President of Noveon Inc. from February 2001 until May 2001. Noveon, Inc. was formerly the Performance Materials segment of BF Goodrich Company prior to its sale to an investor group in February 2001. While with BF Goodrich Company from July 1997 to February 2001, Mr. Price served as Executive Vice President of the BF Goodrich Company and President and Chief Operating Officer of BF Goodrich Performance Materials. Prior to joining BF Goodrich, Mr. Price held various executive positions over a 25-year span at Monsanto Company, most recently serving as President of the Performance Materials Division of Monsanto Company from 1995 to July 1997. From 1993 to 1995, he was Vice President and General Manager of commercial operations for the Industrial Products Group and was also named to the management board of Monsanto's Chemical Group. He is a director and Chairman of the YMCA of Greater St. Louis and a Director of St. Lukes Hospital

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in St. Louis. He is also a director of CH2M HILL, Inc. Mr. Price is 61 years old and was named a director of our company in November 1999. Mr. Price is the Chairman of the Compensation/Nominating/Governance Committee and a member of the Three-Year Independent Director Evaluation Committee.

GREGG SHERRILL -- Chairman of the Board and Chief Executive Officer -- Mr. Sherrill was named our Chairman and Chief Executive Officer in January 2007. Mr. Sherrill joined us from Johnson Controls Inc., where he served since 1998, most recently as President, Power Solutions. From 2002 to 2003, Mr. Sherrill served as the Vice President and Managing Director of Europe, South Africa and South America for Johnson Controls' Automotive Systems Group. Prior to joining Johnson Controls, Mr. Sherrill held various engineering and manufacturing assignments over a 22-year span at Ford Motor Company, including Plant Manager of Ford's Dearborn, Michigan engine plant and Director of Supplier Technical Assistance. Mr. Sherrill is 53 years old and became a director of our company in January 2007.

PAUL T. STECKO -- Mr. Stecko has served as the Chief Executive Officer of Packaging Corporation of America since April 1999. From November 1998 to April 1999, Mr. Stecko served as President and Chief Operating Officer of Tenneco Inc. From January 1997 to November 1998, Mr. Stecko served as Chief Operating Officer of Tenneco Inc. From December 1993 through January 1997, Mr. Stecko served as Chief Executive Officer of Tenneco Packaging Inc. Prior to joining Tenneco Packaging Inc., Mr. Stecko spent 16 years with International Paper Company. Mr. Stecko is 62 years old and has been a director of our company since November 1998. He is also a director of State Farm Mutual Insurance Company and Cives Corporation and is the Chairman of the Board of Packaging Corporation of America. Mr. Stecko is a member of the Compensation/Nominating/Governance Committee and the Three-Year Independent Director Evaluation Committee.

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MITSUNOBU TAKEUCHI -- Mr. Takeuchi served as Chairman Emeritus of DENSO International Americas, Inc., the North American arm of Japan-based DENSO Corp., a worldwide supplier of advanced automotive systems and components, from 2004 until January 2006. Mr. Takeuchi joined DENSO in 1964 and rose through a series of sales and general manager positions in Japan and North America, with experience in both original equipment and aftermarket. He became President and Chief Executive Officer, DENSO International Americas in 1997, Chairman and Chief Executive Officer in 2002 and Chairman Emeritus in 2004. He served as a member of the Board of Directors of Denso Corporation from March 1995 until his retirement in June 2004. Mr. Takeuchi is a director of the Economic Club of Detroit and the Motor Equipment Manufacturers Association and a member and past president of the Japan Business Society of Detroit. Mr. Takeuchi is 65 years old and has been a director of our company since January 2006. Mr. Takeuchi is a member of the Audit Committee.

JANE L. WARNER -- Ms. Warner has served as Group President at Illinois Tool Works Inc., a global manufacturer of specialty products and equipment, since December 2005, where she has worldwide responsibility for its Finishing Systems and Click Commerce businesses. Prior to this, Ms. Warner was President of Plexus Systems, L.L.C., a provider of manufacturing information systems from June 2004 until December 2005 and an executive with Electronic Data Systems from 2000 through June 2004, where she was President of their Global Manufacturing Information Solutions Group. Ms. Warner served as Executive Vice President for first tier supplier Textron Automotive from 1994 through 1999, where she was President of its Kautex North America and Randall divisions. Previously, Ms. Warner held various positions over a 20-year span at General Motors Corporation which included General Superintendent and Assistant Chief Engineer. She was sponsored as a Sloan Fellow to Stanford University where she received a Master's in Management. Ms. Warner is 60 years old and was named a director of our

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company in October 2004. Ms. Warner is also a board member of MeadWestvaco Corporation, where she sits on the Audit and Safety, Health and Environmental Committees, a board member of the Original Equipment Suppliers Association and a member of the Board of Trustees for Kettering University where she is past Chair and serves on the Executive and Finance Committees. Ms. Warner is a member of the Compensation/Nominating/Governance Committee.

### NON-CONTINUING DIRECTORS TERMS EXPIRING AT 2007 ANNUAL MEETING OF STOCKHOLDERS

M. KATHRYN EICKHOFF-SMITH -- Ms. Eickhoff-Smith served as President and Chief Economist of Eickhoff Economics, Inc., a consulting firm, from 1987 until her recent retirement. From 1985 to 1987, she was Associate Director for Economic Policy for the U.S. Office of Management and Budget. Prior to that, Ms. Eickhoff-Smith spent 23 years at Townsend Greenspan & Co., Inc., an economic consulting firm, most recently as Executive Vice President and Treasurer. She is also a director of Moorings Park Institute, a non-profit retirement community in Naples, Florida.

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Ms. Eickhoff-Smith has been a director of our company since 1996 (and prior to that was a director of the former Tenneco Inc. since 1987). She also served as a member of Tenneco Inc.'s Board of Directors from 1982 until her resignation to join the Office of Management and Budget in 1985. Ms. Eickhoff-Smith is 67 years old and is a member of the Audit Committee and Three-Year Independent Director Evaluation Committee.

DENNIS G. SEVERANCE -- Dr. Severance is the Accenture Professor of Business Information & Technology at the Stephen M. Ross Business School, University of Michigan. Before joining the University of Michigan in 1978, Dr. Severance was an Associate Professor and Principal Investigator in the Management Information System Research Center at the University of Minnesota. Prior to that, he was an Assistant Professor in the Department of Operations Research at Cornell University. Dr. Severance is 63 years old and became a director of our company in July 2000. Dr. Severance is a member of the Audit Committee.

### CORPORATE GOVERNANCE

#### OVERVIEW

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

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#### INDEPENDENCE OF DIRECTORS (SEE PP. 9-10)

- Nine of our ten current directors are independent under the New York Stock Exchange ("NYSE") listing standards. Assuming all nominees presented in this Proxy Statement are elected at the Annual Meeting, seven of our eight directors will be independent under the NYSE listing standards.
- Independent directors are scheduled to meet separately in executive

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session after every regularly scheduled Board of Directors meeting.

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

### AUDIT COMMITTEE (SEE PP. 12-13 AND PP. 59-62)

- All members meet the independence standards for audit committee membership under the NYSE listing standards and applicable Securities and Exchange Commission ("SEC") rules.
- One member of the Audit Committee, Mr. Charles Cramb, has been designated as an "audit committee financial expert," as defined in the SEC rules. All members of the Audit Committee satisfy the NYSE's financial literacy requirements.
- The Audit Committee operates under a written charter that governs its duties and responsibilities, including its sole authority to appoint, review, evaluate and replace our independent auditors.
- The Audit Committee has adopted policies and procedures governing the pre-approval of all audit, audit-related, tax and other services provided by our independent auditors.

### COMPENSATION/NOMINATING/GOVERNANCE COMMITTEE AND SUBCOMMITTEE (SEE PP. 10-12 AND P. 58)

- All members meet the independence standards for compensation and nominating committee membership under the NYSE listing standards.
- The Compensation/Nominating/Governance Committee operates under a written charter that governs its duties and responsibilities, including the responsibility for executive compensation.
- In December 2005, an Executive Compensation Subcommittee was formed which has the responsibility to consider and approve equity-based compensation for our executive officers which is intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended.

### CORPORATE GOVERNANCE PRINCIPLES

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

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### STOCK OWNERSHIP GUIDELINES

- We have adopted Stock Ownership Guidelines to align the interests of our executives with the interests of stockholders and promote our commitment to sound corporate governance.
- The Stock Ownership Guidelines apply to the independent directors, the Chairman and Chief Executive Officer, all Executive Vice Presidents and all Senior Vice Presidents. Ownership levels are determined as a multiple of the participant's base salary or, in the case of an independent director, his or her Board of Directors retainer fee and then converted to a fixed number of shares.

### COMMUNICATIONS WITH DIRECTORS (SEE P. 15)

- The Audit Committee has established a process for confidential and



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anonymous submissions by our employees, as well as submissions by other interested parties, regarding questionable accounting or auditing matters.

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

### CODES OF BUSINESS CONDUCT AND ETHICS

- We have adopted a Code of Ethical Conduct for Financial Managers that applies to our Chief Executive Officer, Chief Financial Officer, Controller and other key financial managers.
- We also operate under an omnibus Statement of Business Principles that applies to all directors, officers and employees and includes provisions ranging from restrictions on gifts to conflicts of interests. All salaried employees are required to affirm in writing their acceptance of these principles.

### RELATED PARTY TRANSACTIONS POLICY (SEE PP. 15-16)

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

### EQUITY AWARD POLICY (SEE PP. 31-32)

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

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### PERSONAL LOANS TO EXECUTIVE OFFICERS AND DIRECTORS

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

Our Audit Committee, Compensation/Nominating/Governance Committee and Executive Compensation Subcommittee Charters, Corporate Governance Principles, Stock Ownership Guidelines, Audit Committee policy regarding accounting complaints, Code of Ethical Conduct for Financial Managers, Statement of Business Principles, Policy and Procedures for Transactions with Related Persons, Equity Award Policy, policy for communicating with the Board of Directors and Audit Committee policy regarding the pre-approval of audit, audit-related, tax and other services may be accessed on our website at [www.tenneco.com](http://www.tenneco.com). The contents of the website are not, however, a part of this proxy statement. In addition, we will make a copy of any of these documents available to any person, without charge, upon written request to Tenneco Inc., 500 North Field Drive, Lake Forest, Illinois 60045, Attn: General Counsel. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K and applicable NYSE rules regarding amendments to or waivers of our Code of Ethical Conduct for Financial Managers and Statement of Business Principles by posting this information on our website at [www.tenneco.com](http://www.tenneco.com).

### THE BOARD OF DIRECTORS AND ITS COMMITTEES

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GENERAL. Our Board of Directors currently comprises ten members, nine of whom are not officers of our company and one of whom is an officer of our company. As described above, two of our outside directors, Ms. M. Kathryn Eickhoff-Smith and Dr. Dennis G. Severance, will be retiring at the Annual Meeting. The Board of Directors believes that our ratio of outside directors to inside directors represents a commitment to the independence of the Board and a focus on matters of importance to our stockholders.

The Board of Directors has determined that Ms. M. Kathryn Eickhoff-Smith, Ms. Jane L. Warner and Messrs. Charles W. Cramb, Frank E. Macher, Roger B. Porter, David B. Price, Jr., Dennis G. Severance, Paul T. Stecko, and Mitsunobu Takeuchi, all of the outside directors, are "independent" as that term is defined under the listing standards of the NYSE. As part of its analysis, the Board determined that none of the outside directors has a direct or indirect material relationship with us. Under written guidelines adopted by the Board, the following commercial or charitable relationships are not considered to be material relationships that would impair a director's independence: (i) the director is an employee, director or beneficial owner of less than 10% of the shares of another company that (directly or indirectly through its subsidiaries or affiliates) does business with us and the annual sales to, or purchases from, us are less than 1% of the annual consolidated revenues of both our company and the other company; (ii) the director is an employee, director or beneficial owner of less than 10% of the shares of another company that (directly or indirectly through its subsidiaries or affiliates) is indebted to us, or to which we are indebted, and the total amount of either company's consolidated indebtedness to

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the other is less than 1% of the total consolidated assets of the indebted company; (iii) the director is an executive officer of another company in which we own a common equity interest, and the amount of our interest is less than 5% of the total voting power of the other company; or (iv) the director serves as an employee, director or trustee of a charitable organization, and our discretionary charitable contributions to the organization are less than 1% of that organization's total annual charitable receipts. No outside director has a relationship with us that is not within these guidelines. In making its determinations, the Board of Directors considered the following relationships, all of which are within these guidelines: in the case of Mr. Stecko, an ordinary course supply arrangement between our company and the company where he serves as chief executive officer; in the case of Ms. Warner, an ordinary course supply arrangement between our company and the company where she serves as group president; and in the case of Dr. Severance, fees paid to the University of Michigan for educational programs unrelated to Dr. Severance. Mr. Mark P. Frissora, our former Chairman and Chief Executive Officer, who resigned in July 2006, was an officer of our company, and not an independent director.

During 2006, the Board of Directors held eight meetings. All of our directors who served in 2006 attended, during his or her term of service, at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of the committees of the Board held and on which the director served. The Board of Directors is scheduled to meet in executive session, without management, after every regularly scheduled Board meeting. Mr. Stecko acts as lead independent director to chair these executive sessions and as primary spokesperson in communicating matters arising out of these sessions to our management.

All of the directors, other than Mr. Sherrill (who joined the Board in January 2007), attended last year's annual meeting of the stockholders. The Board of Directors has a policy that, absent unusual circumstances, all directors attend our annual stockholder meetings.

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The Board of Directors has four standing committees. These committees have the responsibilities and authority described below.

COMPENSATION/NOMINATING/GOVERNANCE COMMITTEE AND SUBCOMMITTEE. The members of the Compensation/Nominating/Governance Committee are Ms. Warner and Messrs. Porter, Stecko and Price, who is the Chairman of the Committee. The Compensation/ Nominating/Governance Committee is comprised solely of outside directors who meet the independence standards for compensation and nominating committee members as set forth in the NYSE listing standards.

The Compensation/Nominating/Governance Committee has the responsibility, among other things, to: (1) establish the salary rate of the officers and employees of our company and its subsidiaries; (2) examine periodically our compensation structure; (3) supervise our welfare and pension plans and compensation plans; and (4) produce an annual report on executive compensation for inclusion in our proxy statement in accordance with applicable rules and

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regulations of the SEC. It also has significant corporate governance responsibilities including, among other things, to: (a) review and determine the desirable balance of experience, qualifications and expertise among members of the Board; (b) review possible candidates for membership on the Board and recommend a slate of nominees for election as directors at each annual meeting of stockholders; (c) review the function and composition of the other committees of the Board and recommend membership on these committees; (d) review the qualifications of and recommend candidates for election as officers of our company; and (e) develop, recommend to the Board of Directors for approval and, as appropriate, recommend to the Board of Directors revisions to our applicable Corporate Governance Principles.

The Compensation/Nominating/Governance Committee may form and delegate authority to subcommittees when appropriate and to the extent permitted by applicable law and the rules of the NYSE. Once a subcommittee of this committee is so formed, the committee may exercise any authority in its discretion that is granted to the subcommittee.

An Executive Compensation Subcommittee, consisting of all Compensation/Nominating/ Governance Committee members except Mr. Stecko, was formed in 2005. This subcommittee has the responsibility of considering and approving equity-based compensation for our Chief Executive Officer and our other executive officers which is intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended. This subcommittee does not have the authority to further delegate its responsibilities.

Each of the Compensation/Nominating/Governance Committee and its Executive Compensation Subcommittee operates pursuant to a written charter, the current versions of which were reaffirmed by the Board of Directors and the Compensation/Nominating/Governance Committee, respectively, in March 2007 as part of their annual review process. The Compensation/ Nominating/Governance Committee held eight meetings and the Executive Compensation Subcommittee held three meetings during 2006.

The Compensation/Nominating/Governance Committee engages Hewitt Associates, LLC as its regular outside compensation consultant. Hewitt reports directly to the Compensation/ Nominating/Governance Committee and the scope of its assignment is to (i) assist in decision-making with respect to executive compensation, (ii) provide plan design advice, (iii) provide annual competitive market studies against which committee members can analyze executive compensation and (iv) apprise the committee members regarding best practices and

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pay levels in association with director compensation. For a more detailed discussion of Hewitt's role in our executive compensation process, see "Executive Compensation -- Compensation Discussion and Analysis." For our director compensation, Hewitt prepares comparative market data and presents that information directly to the committee. The committee reviews this data and establishes director compensation in consultation with Hewitt.

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From time to time, the committees will review materials prepared by other consultants to assist it with specific compensation matters. For example, in 2006 management engaged Buck Consultants, a pension actuarial firm, to provide advice concerning the restructuring of Tenneco's defined benefit and defined contribution retirement benefits plans for U.S. salaried and non-union hourly employees. This information was reviewed by the Compensation/Nominating/Governance Committee in connection with its decision to freeze future accruals under our defined benefits retirement plans at the end of 2006, as described under "Executive Compensation -- Post-Employment Compensation -- 2006 Changes in Defined Benefits."

For a discussion of the role of our executive officers in the establishment of executive officer compensation, see "Executive Compensation -- Compensation Discussion and Analysis." Our executive officers do not participate in the process for establishing director compensation.

A report of the Compensation/Nominating/Governance Committee regarding executive compensation appears elsewhere in this proxy statement. For a more detailed discussion of the Compensation/Nominating/Governance Committee's processes and procedures for considering and determining executive compensation, see "Executive Compensation -- Compensation Discussion and Analysis."

**THREE-YEAR INDEPENDENT DIRECTOR EVALUATION ("TIDE") COMMITTEE.** The members of the TIDE Committee are Ms. Eickhoff-Smith and Messrs. Price, Stecko and Porter, who is the Chairman of the Committee. The TIDE Committee, comprised solely of outside directors, has the responsibility, among other things, to review our stockholder rights plan at least every three years and, if it deems it appropriate, recommend that the full Board modify or terminate that plan. The TIDE Committee did not hold a meeting in 2006.

**AUDIT COMMITTEE.** The members of the Audit Committee are Ms. Eickhoff-Smith and Messrs. Macher, Severance, Takeuchi and Cramb, who is the Chairman of the Committee. The Audit Committee is comprised solely of directors who meet all of the independence standards for audit committee membership as set forth in the Sarbanes-Oxley Act of 2002, and the SEC rules adopted thereunder, and the NYSE listing standards. The Board of Directors has designated Mr. Cramb as an "audit committee financial expert" as that term is defined in the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002.

Management is responsible for our internal controls over the financial reporting process. The independent public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted audit standards and for issuing a report on its audit. The Audit Committee's duty is to oversee and monitor these activities on behalf of the Board of the Directors. Specifically, the Audit Committee has the responsibility, among other things, to: (1) select and approve the compensation of our independent public accountants; (2) review and approve the scope of the independent public accountants' audit activity and all non-audit services; (3) review with management and the

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independent public accountants the adequacy of our basic accounting system and the effectiveness of our internal audit plan and activities; (4) review with management and the independent public accountants our certified financial statements and exercise general oversight over the financial reporting process; (5) review with us litigation and other legal matters that may affect our financial condition and monitor compliance with business ethics and other policies; (6) review the independence, qualifications and performance of our independent public accountants; (7) provide an avenue of communication among the independent public accountants, management, the internal auditors and the Board of Directors; and (8) prepare the audit-related report required by the SEC to be included in our annual proxy statement.

In fulfilling its responsibilities, the Audit Committee reviewed with management and the independent public accountants (a) significant issues, if any, regarding accounting principles and financial statement presentations, including any significant changes in our selection or application of accounting principles, and significant issues, if any, as to the adequacy of our internal controls and any special audit steps adopted in view of material internal control deficiencies; (b) analyses prepared by management and/or the independent public accountants setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, on our financial statements; and (d) the type and presentation of information to be included in earnings press releases, as well as any financial information and earnings guidance provided to analysts and rating agencies. In addition, the Audit Committee has discussed our major risk exposures and the steps that management has taken to monitor and control such exposures. Management is required to advise the Committee of any instances of fraud relating to employees who have a significant role in our internal controls. The Committee was advised that management was not aware of any such instances of fraud.

The Audit Committee operates under a written charter, the current version of which was reaffirmed by the Board of Directors in March 2007 as part of its annual review process. The Audit Committee held 11 meetings in 2006. A report of the Audit Committee appears elsewhere in this proxy statement.

CONSIDERATION OF DIRECTOR NOMINEES. The Compensation/Nomination/Governance Committee regularly assesses the size of the Board of Directors, the need for expertise on the Board of Directors and whether any vacancies are expected on the Board of Directors due to retirement or otherwise. The Committee's process for identifying and evaluating nominees is as follows: In the case of incumbent directors, the Committee reviews annually such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance and any transactions of such directors with us during their term. In the event that vacancies are anticipated, or otherwise arise, the Compensation/Nomination/Governance Com-

mittee considers various potential candidates for director which may come to its attention through a variety of sources, including current Board members, stockholders or other persons. In addition, from time to time the Committee will retain a professional search firm to assist it in identifying director candidates, for which the firm generally receives a fee. All candidates for director are evaluated at regular or special meetings of the Compensation/Nomination/Governance Committee. In evaluating and determining whether to recommend a person as a candidate for election as a director, the Compensation/Nomination/Governance Committee considers the qualification

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standards set forth in our Corporate Governance Principles, including: (1) personal and professional ethics, integrity and values; (2) an ability and willingness to undertake the requisite time commitment to Board functions; (3) independence pursuant to the guidelines set forth in the Corporate Governance Principles and applicable rules and regulations; (4) age, which must be less than 72; (5) the potential impact of service on the board of directors of other public companies, including competitors of our company; and (6) an absence of employment at a competitor of our company.

The Compensation/Nominating/Governance Committee will consider director candidates recommended by stockholders provided the procedures set forth below are followed by stockholders in submitting recommendations. The committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether the candidate was recommended by a stockholder. A stockholder of our company may nominate persons for election to the Board of Directors at an annual meeting if the stockholder submits such nomination, together with certain related information required by our By-laws, in writing to our Corporate Secretary at our principal executive offices not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting. In the event, however, that the date of the annual meeting is more than thirty days before or more than seventy days after that anniversary date, the notice must be delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of the meeting is first made. Following verification of the stockholder's status, the Compensation/Nomination/Governance Committee will perform an initial analysis of the qualifications of the nominee pursuant to the criteria listed above to determine whether the nominee is qualified for service on our Board of Directors before deciding to undertake a complete evaluation of the nominee. Other than the verification of compliance with the procedures set forth in our By-laws and stockholder status, and the initial analysis performed by the Compensation/Nomination/Governance Committee, a person nominated by a stockholder for election to the Board of Directors is treated like any other potential candidate during the review process by the Compensation/Nomination/Governance Committee.

From October 2005 to January 2006, a third-party executive search firm, Spencer Stuart, assisted the Compensation/Nominating/Governance Committee in a search for new director

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candidates. Based on that search, the Compensation/Nominating/Governance Committee recommended the election of Mr. Takeuchi to the Board of Directors. From July 2006 to January 2007, Spencer Stuart also assisted in the search for our new Chairman and Chief Executive Officer, based on which the Compensation/Nominating/Governance Committee recommended Mr. Sherrill as our Chairman and Chief Executive Officer.

COMMUNICATIONS WITH THE DIRECTORS. Anyone who has a concern about our conduct, or about our accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Board of Directors, our lead independent director (Mr. Stecko) or any other non-employee director or the Audit Committee. All such concerns will be forwarded to the appropriate directors for their review, and all concerns related to audit or accounting matters will be forwarded to the Audit Committee. All reported concerns will be simultaneously reviewed and addressed by our Chief Compliance Officer and General Counsel, or his or her designee (unless he or she is alleged to be involved in the matter at issue). The status of all outstanding concerns addressed to the Board, the non-employee directors or the Audit Committee will

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be reported to the Board or the Audit Committee (as applicable) on a quarterly basis. The Board or any committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. Our corporate policies prohibit retaliatory action against any employee who raises concerns or questions in good faith about these matters.

Stockholders wishing to communicate with the Board of Directors, any outside director or the Audit Committee may do so by writing to our Corporate Secretary at 500 North Field Drive, Lake Forest, Illinois 60045. The Corporate Secretary will forward any communications as directed by the stockholder. We maintain a separate, internal system for the receipt of communications from employees.

### TRANSACTIONS WITH RELATED PERSONS

The Board of Directors has adopted its Policy and Procedures for Transactions with Related Persons. As a general matter, the policy requires the Audit Committee to review and approve or disapprove the entry by us or our subsidiaries into certain transactions with related persons. The policy only applies to transactions, arrangements and relationships where the aggregate amount involved could reasonably be expected to exceed \$120,000 in any calendar year and in which a related person has a direct or indirect interest. A related person is:

- any director, nominee for director or executive officer of our company;
- any immediate family member of a director, nominee for director or executive officer; and
- any person, and his or her immediate family members, or entity, including affiliates, that was a beneficial owner of five percent or more of any of our outstanding equity securities at the time the transaction occurred or existed.

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If advance approval of a transaction subject to the policy is not obtained, it must be promptly submitted to the committee for possible approval, amendment, termination or rescission. In reviewing any transaction, the committee will take into account, among other factors the committee deems appropriate, whether the transaction is on terms no less favorable than terms generally available to a third party in similar circumstances and the extent of the related person's interest in the transaction. The Board of Directors has delegated to the chair of the committee the authority to approve, disapprove or ratify any transaction with a related person in which the aggregate amount involved is expected to be less than \$1,000,000.

The policy provides that the following transactions are pre-approved for the purposes of the policy:

- Employment of executive officers and compensation of directors and executive officers that is otherwise being reported in our annual proxy statement (as these transactions are otherwise subject to approval by the Board of Directors or one of its committees);
- A transaction where the related person's only interest is as an employee, director or owner of less than 10% of the other company's shares, and if the transaction involves the sale of purchase or sale of goods or services, the annual sales to or purchases from our company are less than 1% of the annual consolidated revenue for both our company and the other company, or, if the transaction involves lending or borrowing, the total

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amount of either company's indebtedness is less than 1% of the total consolidated assets of the indebted company;

- Contributions to charitable organizations, foundations or universities at which a related person's only relationship is as an employee, director or trustee, if the aggregate amount does not exceed 1% of the charitable organization's total annual receipts;
- Transactions where the related person's only interest arises solely from the ownership of our company's common stock, and where all stockholders of our company receive benefits on a pro rata basis;
- Transactions involving competitive bidding;
- Transactions where the related person renders services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority; and
- Transactions involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

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### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and beneficial owners of 10 percent or more of a registered class of our equity securities to file with the SEC initial reports of beneficial ownership (Form 3) and reports on changes in beneficial ownership (Form 4 or 5). SEC rules adopted pursuant to Section 16(a) require that such persons furnish us with copies of all such forms they file with the SEC.

Based solely upon our review of such forms furnished to us during 2006, and upon the written representations received by us from certain of our directors and executive officers that no Forms 5 were required, we believe that our directors, executive officers and 10% or greater stockholders complied with all Section 16(a) filing requirements on a timely basis during 2006.

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### OWNERSHIP OF COMMON STOCK

#### MANAGEMENT

The following table shows, as of March 13, 2007, the number of shares of our common stock, par value \$.01 per share (the only class of voting securities outstanding), beneficially owned by: (1) each director and nominee for director; (2) each person who is named in the Summary Compensation Table, below; and (3) all directors and executive officers as a group.

SHARES OF COMMON STOCK OWNED				PERCENT OF COMMON STOCK OUTSTANDING
(1)	(2)	(3)	(4)	
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#### DIRECTORS



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Charles W. Cramb.....	24,475	*
M. Kathryn Eickhoff-Smith.....	42,374	*
Frank E. Macher.....	42,804	*
Roger B. Porter.....	46,652	*
David B. Price, Jr. ....	75,824	*
Dennis G. Severance.....	44,804	*
Gregg Sherrill.....	180,000	*
Paul T. Stecko.....	30,796	*
Mitsunobu Takeuchi.....	7,000	*
Jane L. Warner.....	14,502	*

## NAMED EXECUTIVE OFFICERS

Timothy R. Donovan.....	35,569	*
Hari N. Nair.....	224,116	*
Kenneth R. Trammell.....	164,670	*
Neal Yanos.....	114,380	*
All executive officers and directors as a group (20 individuals).....	1,713,556 (5)	3.7 %

\* Less than one percent.

- (1) Each director and executive officer has sole voting and investment power over the shares beneficially owned (or has the right to acquire shares as described in note (2) below) as set forth in this column, except for restricted shares.

(Notes continued on following page.)

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- (2) Includes restricted shares. At March 13, 2007, Ms. Eickhoff-Smith and Messrs. Donovan, Nair, Sherrill, Trammell and Yanos held 22,203, 28,000, 28,000, 180,000, 26,000 and 18,666 restricted shares, respectively. At March 13, 2007, each outside director, other than Ms. Eickhoff-Smith (described above) and Mr. Takeuchi, held 3,500 restricted shares. At March 13, 2007, Mr. Takeuchi held 7,000 restricted shares. Also includes shares that are subject to options that are exercisable within 60 days of March 13, 2007 for Ms. Eickhoff-Smith, Ms. Warner and Messrs. Cramb, Macher, Porter, Price, Severance, Stecko, Nair, Trammell and Yanos to purchase 10,000, 6,502, 16,475, 32,500, 35,000, 35,000, 32,500, 10,000, 171,667, 108,750 and 67,834 shares, respectively.
- (3) Each of the individuals listed in the table owns less than 1% of the outstanding shares of our common stock, respectively, except for all directors and executive officers as a group, who beneficially own approximately 3.7% of the outstanding common stock.
- (4) For outside directors, does not include common stock equivalents received in payment of director fees. These common stock equivalents are payable in cash or, at our option, shares of common stock after an outside director ceases to serve as a director. At March 13, 2007, the total number of common stock equivalents held by Ms. Eickhoff-Smith, Ms. Warner and Messrs. Cramb, Macher, Porter, Price, Severance, Stecko and Takeuchi was 25, 618, 5,232, 19,935, 17,816, 68,189, 43,416, 46,181, 43,416 and 2,665, respectively.
- (5) Includes 907,912 shares that are subject to options that are exercisable within 60 days of March 13, 2007 by all executive officers and directors as a group. Includes 422,091 restricted shares.

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### CERTAIN OTHER STOCKHOLDERS

The following table sets forth, as of March 13, 2007, certain information regarding the persons known by us to be the beneficial owner of more than 5% of our outstanding common stock (the only class of voting securities outstanding).

NAME AND ADDRESS OF BENEFICIAL OWNER(1)	SHARES OF COMMON STOCK OWNED(1)	PERCENT OF COMMON STOCK OUTSTANDING
-----	-----	-----
Franklin Advisers, Inc.(2)..... One Franklin Parkway San Mateo, California 94403-1906	2,333,270	5.1%
Jeffrey L. Gendell and various entities related to Tontine Capital Management, L.L.C.(3)..... 55 Railroad Avenue Greenwich, Connecticut 06830	3,132,450	6.8%

(Notes continued on following page.)

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- (1) This information is based on information contained in filings made with the SEC regarding the ownership of our common stock.
- (2) Franklin Advisers, Inc. has sole voting power for 2,318,470 shares and sole dispositive power for 2,333,270 shares. Franklin Resources, Inc., Charles B. Johnson and Rupert H. Johnson, Jr. disclaimed beneficial ownership of the shares.
- (3) Tontine Capital Management, L.L.C. has shared voting power and shared dispositive power with Tontine Capital Partners, L.P. with respect to 2,747,050 shares. Tontine Overseas Associates, L.L.C. has shared voting power and shared dispositive power with respect to 385,400 shares. Jeffrey L. Gendell is the managing member of Tontine Overseas Associates, L.L.C. and Tontine Capital Management, L.L.C., which is the general partner of Tontine Capital Partners, L.P.

(Notes continued on following page.)

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### EXECUTIVE COMPENSATION

#### COMPENSATION DISCUSSION AND ANALYSIS

##### INTRODUCTION

Our executive compensation philosophy, policies, plans and programs are under the supervision of the Compensation/Nominating/Governance Committee of our board of directors. In late 2005, the committee formed an Executive Compensation Subcommittee, which is responsible for making executive compensation determinations with respect to stock options and other equity-based compensation that may qualify as "performance-based compensation" under Section 162(m) of the

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Internal Revenue Code of 1986, as amended. For a description of the composition, authority and responsibilities and ability to delegate of the committee and subcommittee, see "Corporate Governance -- The Board of Directors and Its Committees -- Compensation/Nominating/Governance Committee and Subcommittee." Unless the context requires otherwise, in this Compensation Discussion and Analysis when we refer to the "committee," we are also referring to the subcommittee with respect to performance-based compensation under Section 162(m), and when we refer to "executives," we are referring to the executive officers whose compensation is shown in this proxy statement under "-- Summary Compensation Table."

### COMPENSATION PROCESS

In determining competitive compensation, the committee engages a nationally recognized, independent compensation consulting firm that reports directly to the committee. For more information regarding this consulting firm and the scope of its assignment, see "Corporate Governance -- The Board of Directors and Its Committees -- Compensation/Nominating/ Governance Committee and Subcommittee." For our Chief Executive Officer, the consulting firm generally provides market data regarding salary, bonus targets and equity-based awards, and provides counsel directly to the committee as it makes decisions with respect to compensation. For the other executives, our management formulates the initial recommendations regarding salary, bonus targets and equity-based awards. The committee reviews the recommendations, in consultation with the consulting firm, in light of market data prepared by the consulting firm. For other forms of compensation and benefits, management generally makes initial recommendations that are reviewed by the committee in consultation with the consulting firm as appropriate.

### COMPENSATION OBJECTIVES

The basic philosophy underlying our executive compensation policies, plans and programs is that (1) executive and stockholder financial interests should be aligned as closely as possible, and (2) compensation packages should be based on delivering pay in line with performance.

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Accordingly, our executive compensation program has been structured to:

- Reinforce a results-oriented management culture with executive pay that varies according to performance.
- Focus executives on annual and long-term business results with the overarching goal of enhancing stockholder value.
- Align the interests of our executives and stockholders through equity-based compensation awards.
- Provide executive compensation packages that attract, retain and motivate executives of the highest qualifications, experience and ability.

Based on these objectives, our executive compensation program is designed to provide competitive levels of compensation derived from several sources: salaries; annual cash incentive awards; stock ownership opportunities through stock options and restricted stock; and stock equivalent units. We also offer other benefits typically offered to executives by major U.S. corporations, including defined benefit retirement plans (future benefit accruals under which were substantially eliminated for senior management in 2006 as described below), defined contribution retirement plans, perquisites, employment agreements (in limited cases), severance and change-in-control benefits and welfare benefits.

Our policy is to provide salary, annual cash incentive payments and equity-based incentive compensation to executives based on performance that is competitive and at market levels with comparable companies when financial and qualitative targets are met. In making its determinations regarding these elements of compensation, the committee regularly reviews data regarding compensation practices at other companies that it determines to be relevant to compensation matters affecting our company. Historically, we have not regularly engaged in any form of benchmarking regarding other elements of compensation. As described below, however, we did examine some benchmarking data in connection with our 2006 decision to substantially eliminate future accruals to our defined benefit retirement plans.

The benchmarking information we use in establishing salary, annual cash incentive payments and equity-based incentive compensation typically includes data regarding companies believed to be comparable to our company in terms of industry (automotive parts manufacturing) and/or size (total revenues, number of employees, capitalization or other factors). For 2006, the committee examined specific data regarding a comparison group of nineteen companies selected to reflect a balance of automotive sector and other traditional manufacturing

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companies.(1) The data was weighted based on the size of revenues of the comparison companies. In addition, the committee reviewed aggregate data regarding a broad group of durable goods manufacturers (that were not specifically identified to the committee). This data was prepared by the consulting firm and compared average compensation paid by these companies to their executive officers in specified positions to the compensation we pay to executives in the same or similar positions.

Our compensation program generally provides that, as an executive's level of responsibility increases, a greater portion of his or her potential total compensation is based on corporate performance and varies in accordance with the market price of our common stock. This results in greater potential variability in the individual's total compensation from year-to-year. In designing and administering the components of the executive compensation program, the committee strives to balance short- and long-term incentive objectives and to employ prudent judgment when establishing performance criteria, evaluating performance and determining actual incentive payments.

#### DESIGN AND ELEMENTS OF COMPENSATION

##### Total Executive Compensation

Consistent with our compensation objectives described above, our executive compensation program is designed to be typical of the compensation programs that companies of similar size and in similar industries offer to their executive officers. The committee has examined "tally sheets" -- spreadsheets that attempt to capture all elements of an executive's compensation in one quantifiable format -- to understand all elements of executive compensation, although decisions regarding one element of compensation are not specifically tied to decisions regarding other elements of compensation.

The following is a description of each element of our executive compensation program, along with a discussion of the decisions of and action taken by the committee in 2006 with respect to that aspect of compensation.

##### Salary and Bonus/Non-Equity Incentive Plan Compensation

An executive's basic cash compensation package consists primarily of a base

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salary, amounts paid in lieu of 401(k) plan contributions and payments under the Tenneco Value Added

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1 The companies comprising the comparison group for 2006 compensation were: ArvinMeritor, Inc., BorgWarner Inc., Briggs & Stratton Corporation, Cummins Inc., Dana Corporation, Eastman Chemical Company, FMC Technologies, Inc., The Goodyear Tire & Rubber Company, W.W. Grainger, Inc., Johnson Controls, Inc., Lear Corporation, Lennox International Inc., A.O. Smith Corporation, Steelcase Inc., Stewart & Stevenson Services, Inc., Teleflex Incorporated, Temple-Inland Inc., Whirlpool Corporation and Worthington Industries, Inc.

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Incentive Compensation Plan, which we call the TAVA Plan. The TAVA Plan provides for annual discretionary bonuses and annual incentive payments based on the achievement of corporate performance. We offer these elements of compensation because they are customary within our industry.

Each year, our CEO and senior human resources executive reviews with the committee an annual salary and TAVA Plan target for our executives and other key management personnel (excluding the CEO). The committee approves that plan with changes that the committee deems appropriate. The salary and TAVA Plan target that is developed for each of these executives is based on competitive market data and on the CEO's subjective recommendations regarding the executive's overall contributions. The committee also reviews separately, with the assistance of the consulting firm, and sets the salary and TAVA Plan target of the CEO based on competitive market data as well as the committee's assessment of the CEO's past performance and anticipated future contributions. For 2006, the committee specifically considered the CEO's performance against objectives established for 2005 in areas such as execution of our annual operating plan, winning new business awards, debt reduction and implementation of key business processes.

The 2006 salary levels established for our executives were designed to be, in general, in the 50th percentile range when compared to the salaries set by the companies in the compensation surveys reviewed by the committee as described above. For 2006, the committee's standard executive merit increase was 3.5%, although its average executive merit increase was 8.2% due to promotions of certain executives and the implementation of the overall 50th percentile design described above. The TAVA Plan target payment levels established for our executives for 2006 were also designed to be, in general, in the 50th percentile range when compared to target levels for similar payments set by the companies in the compensation surveys reviewed by the committee. However, under the TAVA Plan our executives had the opportunity to earn payouts above or below the targeted 50th percentile based on our corporate performance.

Annual performance goals for the TAVA Plan are generally developed, initially, by Stern Stewart & Co., an independent consulting firm with expertise in EVA-based incentive programs. The firm's recommended performance goals are reviewed by the committee. The committee approves the goals with any changes the committee determines appropriate. At the conclusion of each year, the committee approves incentive award payments to executives based on the degree of achievement of the goals established for that year and on judgments of performance as follows: (i) 75% of an individual's award is tied to our corporate achievement of pre-established EVA(R) objectives, and (ii) 25% of an individual's award is based on the committee's discretionary determination of corporate performance. EVA is after-tax operating profit minus the annual cost of capital and is a registered trademark of Stern Stewart & Co.

For years prior to 2006, the 75% portion of an individual's payout under

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the TAVA Plan that was tied to EVA performance was calculated as follows: Each year, the individual's "bonus

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bank" under the TAVA Plan -- which is the amount (if any) of awards declared in prior years but not yet paid -- was credited with an accrual equal to 75% of his or her total TAVA Plan target multiplied by a corporate performance factor. This performance factor, which could be positive or negative, was based upon our corporate EVA performance against the committee's pre-established goal. For any year, an individual's payout was equal to the sum of: (i) his or her EVA-based award for that year, if positive (but not exceeding 120% of the portion of his or her TAVA Plan target tied to EVA performance), plus (ii) one-third of the individual's remaining bonus bank as of the end of that year, if any. The declared award, as well as the value of an individual's bonus bank reserve account, could be positive or negative. Except for certain circumstances, such as disability, death or retirement, any bonus bank is forfeited when an individual terminates employment.

In January 2006, the committee amended the TAVA Plan to eliminate the bonus banking provisions with respect to awards paid for periods beginning January 1, 2006. We did this largely in response to new legislation which imposed significant new rules, regulations and limitations on deferred compensation. As a result, our executives now receive their full EVA-based payout for any year within 2 1/2 months after the end of that year. Amounts credited to individual bonus banks for prior periods are being paid out in accordance with the TAVA Plan terms as they existed prior to the amendment, which generally provide for one-third of the bonus bank to be paid each year.

The 25% portion of an individual's payout that is discretionary under the TAVA Plan is determined by the committee based on factors which take into account, but are not limited to, the relative performance of our company versus our peers in key strategic and operational areas. The factors considered may change from year to year.

For 2006 performance, awards under the TAVA Plan were declared at approximately 102.5% of the aggregate TAVA Plan targeted amount for each executive. Because the TAVA Plan had a bonus bank feature prior to 2006, individuals also received cash payouts in amounts equal to one-third of their remaining bonus bank.

As described above, our corporate performance against EVA objectives accounted for 75% of each executive's 2006 TAVA Plan award. Our EVA performance for 2006 resulted in this portion of executives' TAVA Plan awards being declared at 100% of the executives' 2006 EVA-based target. Payout of the remaining 25% of each executive's TAVA Plan award is discretionary and was established by the committee based on the various subjective factors described above. Weighing these factors, the committee determined that the 25% discretionary portion of each executive's TAVA Plan award would be declared at 110% of the targeted amount. After giving effect to the 2006 payouts to eligible participants, an aggregate of approximately \$0.4 million remained credited to the bonus bank for executives under the TAVA Plan.

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In making its determinations regarding the discretionary portion of 2006 bonuses, the committee considered in particular our strong financial performance during 2006 in light of challenging operating conditions, including the nine percent decrease in North American production of SUVs and light trucks during 2006 and our former Chief Executive Officer's resignation in July 2006.

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During our search for our new Chief Executive Officer, four of our executives -- Messrs. Trammell, Donovan, Nair and Yanos -- served as a committee that performed the functions of the chief executive. This committee was known as the Office of the Chief Executive. In recognition of these executives' contributions to this committee, they were awarded an additional bonus of \$50,000 each.

### Long-Term and Stock-Based Incentives

Our long-term and stock-based incentive plans have been designed to align a significant portion of executive compensation with stockholder interests. The current plan -- the 2006 Long-Term Incentive Plan -- permits a variety of awards including stock options, restricted stock, stock equivalent units and performance units.

These awards are based on an analysis of competitive levels of similar awards. As an individual's level of responsibility increases, a greater portion of variable performance-related compensation will be in the form of long-term and stock-based awards.

The committee has implemented a long-term and stock-based compensation program for our executives that is comprised of (1) stock options which generally vest in 1/3 increments over three years, (2) awards of restricted stock which vest in 1/3 increments over three years, and (3) cash-settled stock equivalent units which were originally awarded in 2004 and were payable in cash in 1/3 increments after the end of each of 2004, 2005 and 2006 based on the achievement of EVA and stock price performance targets. Our former CEO, Mark Frissora, received only annual stock equivalent unit awards, as the committee wanted to have the opportunity to annually evaluate award size and structure. Each year, the committee reviews previously granted long-term and stock based awards for our executives, typically at its meeting held in January.

In January 2006, the committee granted awards of the type described above to our executives as set forth under the "Executive Compensation" section of this Proxy Statement. In making its award determinations for 2006, the committee noted in particular our success in winning new business awards during 2005, a \$40 million reduction in long-term debt during 2005 and the achievement of cost savings through the ongoing implementation of Lean, Six Sigma and other key business processes. Based on the committee's assumptions regarding future corporate performance, interest rates and other factors, the 2006 grants were designed to place our executives at approximately the 50th percentile range when compared to the value of similar awards granted by peer companies to their executives. Our executives had the opportunity for

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the value actually realized from these awards to be above or below the 50th percentile based on our corporate performance.

For 2006 performance, the annually scheduled cash payout under the stock equivalent unit awards described above was made in early 2007. Based on our achievement of corporate EVA and stock price appreciation targets established for 2006, award holders received cash payouts equal to approximately 39.1% of the maximum amount they could have been paid for 2006 under the stock equivalent awards based on stock price appreciation over the measurement period of 14.2%. For the executives to receive payouts at the 100% level, our stock price needed to increase by 140% over the measurement period.

### Allocation Among Forms of Compensation

In general, we allocate between currently paid compensation and long-term

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compensation (excluding retirement benefits) based on the benchmarking data analyzed by the committee as described above. Our preference in establishing equity-based incentives is to deliver as much value in awards that result in the issuance of stock as is possible (specifically, options and restricted stock). However, since emerging as a stand alone company in 1999, we have been constrained in the amount of stock available for issuance under our equity incentive plans. As a result, we use the stock equivalent unit awards to deliver to our executives the overall value we intend to deliver based on the benchmarking described above, payable in cash rather than stock. Awards deliverable in stock are then allocated between options and restricted stock in line with the market data described above.

### Actual Versus Targeted Compensation Levels

As a result of our corporate performance in 2006, our executives' salary, TAVA Plan payments and equity-based awards placed them at approximately the 70th percentile when compared to total compensation of similar types paid to executives by the companies in the compensation surveys reviewed by the committee.

### Employment Agreements

For 2006, we had three executives with employment agreements that established various terms and conditions of their employment as described under "-- Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table -- Employment Agreements." All of these agreements were entered into in connection with the series of transactions in 1999 that resulted in the separation of Tenneco Inc.'s automotive, packaging and administrative services businesses. In late 1999, we emerged as an independent, stand-alone public company focused solely on our automotive operations. The separation transactions caused substantial changes in our management, as the senior management of the automotive operations became the executive officers of our company and the previous executive officers resigned. In addition, the separation transactions left us with a highly leveraged balance sheet in an extremely

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competitive industry that has, historically, faced cycles of exceptionally difficult operating conditions.

In the face of these challenges, we recognized the importance of ensuring the continuation of top-notch managerial talent and the risk our executives were taking in light of our balance sheet and the cyclicity of the automotive industry. As a result, we entered into the employment agreements described above with those who were, at the time, our top eight executive officers. In addition to our recognition of the importance of these agreements as a recruiting and retention tool, they were consistent with the types of employment agreements historically offered by the consolidated Tenneco Inc. and were viewed as customary. Since then, five of these officers have left our employ and, in most cases, other managers have been promoted into positions vacated by them. We have not, however, extended these type of employment agreements to these employees, except with respect to our new Chief Executive Officer who was hired in January 2007.

In January 2007, Gregg Sherrill joined us as our Chief Executive Officer. We entered into an employment agreement with him that is described under "-- Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table -- Employment Agreements." We offered him an employment agreement because we believe such agreements are customary for chief executive officers and necessary to attract the highest quality candidates.



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### Retirement Plans

For those hired before April 1, 2005, we offered defined benefit retirement plans to our executives that we believed were customary for the automotive industry and were consistent with similar plans maintained by the consolidated Tenneco Inc. prior to our becoming a stand-alone public company in 1999. These plans included a customary tax-qualified retirement plan that provided benefits as described under "-- Post Employment Compensation." In addition, we maintained a supplemental executive retirement plan, which we call the "SERP," that provided benefits as described under "-- Post Employment Compensation -- Tenneco Supplemental Retirement Plan."

We also offer customary, tax-qualified defined contribution retirement (ESOP/401(k)) plans that provide benefits as described under "-- Summary Compensation Table." We provide a 50% company match on an executive's contributions (up to 8% of salary), which we established to be in line with prevailing practices for major U.S. corporations. As to executives hired on or after April 1, 2005, we also provide an additional 2% company contribution. We established this company contribution when we closed our defined benefit retirement plans to new participants in 2005. We decided to do this because, in general, our industry has been eliminating traditional defined benefit retirement plans from compensation packages being offered to new employees.

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At the time of the 1999 separation transactions, five employees were considered to be of key importance to our successful transition to being a stand-alone company and were granted participation in a key executive pension plan, which we call the "KEPP." The KEPP provided benefits as described under "-- Post Employment Compensation -- Tenneco Supplemental Pension Plan." We modeled the KEPP after the key executive pension plan maintained by the former consolidated Tenneco Inc. prior to the separation transactions.

In August 2006, we froze, effective December 31, 2006, our defined benefit retirement plans for certain employees and replaced them with additional benefits under defined contribution retirement plans. Prior earned benefits under the defined benefit retirement plans were, however, preserved. With the exception of certain officers who had employment contracts providing for specified benefits (all of whom voluntarily accepted a benefits reduction as described below), this freeze impacted all U.S.-based salaried employees (including executives) and non-union hourly employees who participated in any of the plans.

To address the loss of future benefits associated with the freeze, we amended our existing qualified defined contribution retirement plans, effective January 1, 2007, to provide for additional annual company contributions in amounts that increase with the employee's age. These additional contributions, which we refer to as "DB Replacement Contributions," are payable for each employee who ceased to accrue benefits or whose benefits were otherwise modified under any defined benefit retirement plan in connection with the freeze. In addition, effective January 1, 2007 there will be a new, unfunded non-qualified defined contribution retirement plan. In general, our executives and other senior managers will be eligible to participate in this new plan, with allocations under the plan calculated the same as under the applicable existing defined contribution retirement plan (as amended), except that (i) the compensation limit in Section 401(a)(17) of the Internal Revenue Code will be disregarded and awards under the TAVA Plan or any successor plan will be included in calculating compensation, and (ii) there will be an offset for the DB Replacement Contributions.

We decided to freeze our defined benefit retirement plans consistent with

an industry trend towards eliminating traditional defined benefits. We decided to offer additional defined contribution retirement benefits to remain competitive in the overall employment marketplace. Specifically, the committee reviewed information presented by Buck Consultants, a pension actuarial firm, regarding the industry trends in retirement compensation, the cost savings to our company of a revised retirement compensation structure and the degree of benefit replacement to be achieved through new defined contribution retirement plans.

Three of our executive officers -- Timothy R. Donovan, Hari N. Nair and Timothy E. Jackson -- had employment agreements that provided for their participation in the SERP and/or KEPP. As a result, we did not freeze the KEPP and SERP for these officers. Instead, each individual officer voluntarily agreed to a reduction in his retirement benefit payable under those plans and to an offset to benefits payable under those plans for DB Replacement Contributions

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received under the existing or new defined contribution plans. The benefits reduction increases to a maximum of 5% of the benefit that would have otherwise been paid, depending on the officer's age at retirement.

One of our executive officers -- Mr. Richard P. Schneider -- had achieved maximum service under the KEPP when we froze our defined benefits. We amended the KEPP to provide, as an offset to Mr. Schneider's benefits, the value of any DB Replacement Contributions he receives.

#### Perquisites

Each of our executives receives a modest perquisite allowance designed to avoid any discussion regarding specific perquisites for specific individuals. Each executive may spend his perquisite allowance on those items he deems appropriate.

#### Severance Benefits

We provide severance benefits to enable us to attract, retain and motivate highly qualified employees by eliminating, to the maximum practicable extent, any concern that their job security or benefit entitlements will be jeopardized by a reduction in force or other termination that is not for cause.

If any of our executives with an employment agreement is terminated by us other than in connection with a change-in-control or for death, disability or nonperformance of duties, he will be paid two times the total of his then current salary and bonus for the immediately preceding year, all outstanding stock-based awards will be vested, subject to approval by our board of directors, his stock options will remain exercisable for at least 90 days and he will receive one year of post-termination health and welfare benefits. We established these severance benefits at the time of the 1999 separation transaction based on the severance offered by the former consolidated Tenneco Inc. We viewed these benefits as customary and a key element of the recruiting and retention of executives at the time in light of company and industry specific factors. See "-- Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table -- Employment Agreements."

For other executives who do not have employment agreements, we maintain a Severance Benefit Plan that applies to all salaried, full-time employees with at least one month of service who are terminated by us in connection with a reduction in force or similar layoff. The benefits payable under this plan are described under "-- Other Potential Post-Employment Compensation -- Other Severance Benefits." This plan was originally adopted in the 1990s based on prevailing practices at other major U.S. corporations and, after several

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amendments, we continue to believe it reflects these prevailing practices.

### Change-in-Control Plan

We maintain a Change-in-Control Severance Benefit Plan for Key Executives to enable us to retain and motivate highly qualified employees by eliminating, to the maximum practicable

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extent, any concern that their job security or benefit entitlements will be jeopardized by a "change-in-control" of our company. Benefits are payable under the plan as described in "-- Other Potential Post-Employment Compensation -- Change in Control Severance Benefit Plan for Key Executives."

We adopted the plan in connection with the 1999 separation transactions based substantially on the change-in-control benefits offered by the former consolidated Tenneco Inc. We viewed these benefits as a key element of the recruiting and retention of executives and other senior management at the time in light of company and industry specific factors.

### Relocation and Expatriate Compensation

For those of our executives on overseas assignments, we provide an expatriate package and relocation expenses at the end of the assignment. We determine the amount of our expatriate and relocation packages in accordance with prevailing practices identified in national surveys. We believe this compensation is customary in connection with U.S. citizens who accept foreign assignments.

### Welfare Benefits

In addition to the compensation described above, we offer executives welfare benefits that we believe are customary for our industry such as health, life and disability insurance benefits.

### EQUITY AWARD POLICY

We have adopted a formal policy regarding compensatory awards in the form of our common stock or any common stock derivative, such as options, stock appreciation rights and stock equivalent units.

Under the policy, in general, equity awards must be approved by the committee or the full board of directors. Typically, the committee will make annual awards that it determines to be appropriate at its meeting held in January. The committee also has the authority to make interim awards in its discretion. The strike price of any option or stock appreciation right must be the fair market value of a share of our common stock on the date of grant.

Our policy also permits a committee of management to make awards in certain cases. The management committee consists of our Chief Executive Officer, General Counsel and Senior Vice President of Global Administration (or their respective designees). The management committee has to the authority to make equity awards to (i) newly hired employees and (ii) employees who are promoted during the course of a year. The awards can be made only in amounts necessary to provide the employee with awards consistent with the amount of awards most recently made to employees of the same salary grade level, pro-rated based on when the employee was hired or promoted. The awards are pro-rated to and take effect on the first day of the calendar quarter beginning after the employee's hire or promotion date, as applicable, and any strike price for an option or stock appreciation right will be the fair market value of a share of our common stock

on

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that date. The total number of shares that can be issued under awards granted by the management committee is 100,000. The management committee is not authorized to make awards to new or promoted employees whom we would typically consider to be at the most senior management or executive officer level.

#### STOCK OWNERSHIP GUIDELINES

We maintain stock ownership guidelines that apply to all directors and most of our executive officers. The requirements are determined as a multiple of the officer's base salary or, in the case of a non-management director, his or her board of directors retainer fee and then converted to a fixed number of shares. The individual guidelines are:

- 5x annual base salary for Chairman/Chief Executive Officer;
- 3x annual retainer fee for Non-Management Members of the Board of Directors; and
- 3x annual base salary for Sr. Vice Presidents and Executive Vice Presidents.

That product is divided by our closing common stock price on January 31, 2005.

Once established, a participant's guideline generally does not change as a result of changes in his or her base salary (or retainer fee) or fluctuations in our common stock price. The committee may, however, from time to time, reevaluate and revise participants' guidelines to give effect to changes in our common stock price or capitalization.

Our stock that counts towards satisfaction of the guidelines includes (i) shares owned outright by the participant or his or her immediate family members residing in the same household; (ii) stock held in our 401(k) plans; (iii) restricted stock issued and held as part of an officer's long term compensation, whether or not vested; (iv) shares underlying vested stock options; and (v) shares acquired upon stock option exercises that the participant continues to hold.

The committee has the authority to review each participant's compliance (or progress towards compliance) with the guidelines from time to time. In its discretion, the committee may impose conditions, restrictions or limitations on any non-compliant participant as the committee determines to be necessary or appropriate.

#### IMPACT OF REGULATORY REQUIREMENTS ON COMPENSATION

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a \$1 million limit on the amount that a publicly-traded corporation may deduct for compensation paid to the Chief Executive Officer or one of the company's other four most highly compensated executives who is employed on the last day of the year. Non-discretionary "performance-based compensation," as defined under Internal Revenue Service rules and regulations, is excluded from this \$1 million limitation.

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In late 2005, the committee established the Executive Compensation Subcommittee, comprised of all committee members except Mr. Stecko. The

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subcommittee considers and approves compensation for the Chief Executive Officer and our other executive officers that is intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code.

Our compensation programs are structured to support organizational goals and priorities and stockholder interests. The committee has not in the past had, and does not currently have, a policy requiring all compensation to be deductible under Section 162(m). Amounts payable under the TAVA Plan do not qualify for the performance-based compensation exemption under Section 162(m), as the committee retains discretion in making bonus awards. In addition, the TAVA Plan was not submitted to stockholders for approval. Additionally, our restricted stock is not considered performance-based compensation under Section 162(m) because it vests on the basis of the individual's continued employment over a defined period of time. The subcommittee makes grants of stock equivalent units and stock option awards that are generally designed to incorporate the applicable requirements for "performance-based compensation" under IRS rules and regulations. However, we seek to preserve the tax deductibility of executive compensation only to the extent practicable and consistent with our overall compensation philosophies.

We do not make compensation determinations based on the accounting treatment of any particular type of award.

### SUMMARY

In addition to its stated policies and its written charter, the committee's guidelines are evolving to include compensation practices that:

- Promote creativity, innovation and calculated risk-taking to achieve outstanding business results.
- Encourage reward systems that are simple, credible and common across all segments of the organization.
- Make our company a great place to work that values diversity and inclusiveness in order to attract world-class employees at all levels around the globe.

The committee believes that the caliber and motivation of management and the leadership of its Chief Executive Officer are critical factors in our ability to achieve sustainable competitive advantage, which should result in maximum stockholder value. The committee will continue to emphasize long-term and stock-based incentives for executives as the most important component of total compensation.

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### SUMMARY COMPENSATION TABLE

The following table shows the compensation that we paid, for 2006, to: (1) our former Chief Executive Officer, who resigned in July 2006; (2) our Chief Financial Officer; and (3) each of our next three most highly compensated executive officers who were serving at the end of 2006 based on total compensation less the increase in actuarial value of defined benefits and any above market or preferential earnings on non tax-qualified deferred compensation. We refer to these individuals collectively as the "Named Executives." The table shows amounts paid to the Named Executives for all services provided to our company and its subsidiaries.

### SUMMARY COMPENSATION TABLE

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NAME AND PRINCIPAL POSITION -----	YEAR ----	SALARY (\$) -----	BONUS (1) (\$) -----	STOCK AWARDS (2) (\$) -----	OPTION AWARDS (2) (\$) -----
Mark P. Frissora(6)..... Chairman, CEO and President	2006	\$486,080	\$ --	\$ (398,041)	\$152,934
Kenneth R. Trammell..... Executive Vice President and CFO	2006	395,000	125,075	719,400	109,857
Timothy R. Donovan(7)..... Executive Vice President and General Counsel	2006	439,662	125,075	777,355	120,733
Hari Nair..... Executive Vice President and President, International	2006	414,000	125,075	777,355	120,733
Neal Yanos..... Senior Vice President/General Manager North American Original Equipment Ride Control and Aftermarket	2006	327,484	111,325	639,983	80,899

NAME AND PRINCIPAL POSITION -----	ALL OTHER COMPENSATION (5) (\$) -----	TOTAL (\$) -----
Mark P. Frissora(6)..... Chairman, CEO and President	\$130,305	\$ 489,752
Kenneth R. Trammell..... Executive Vice President and CFO	46,229	1,721,565
Timothy R. Donovan(7)..... Executive Vice President and General Counsel	48,831	2,225,103
Hari Nair..... Executive Vice President and President, International	256,678	2,026,334
Neal Yanos..... Senior Vice President/General Manager North American Original Equipment Ride Control and Aftermarket	43,602	1,474,328

(1) The amounts under the column entitled "Bonus" in the table above are comprised of the discretionary portion of the Named Executive's bonus under our TAVA Plan. See "-- Compensation Discussion and Analysis -- Salary and Bonus/Non-Equity Incentive Plan Compensation." In addition, the bonus amounts for Messrs. Trammell, Donovan, Nair and Yanos include \$50,000 paid to each of these Named Executives for serving in the Office of the Chief Executive, the executive committee we formed to oversee the company during our search for a new Chief Executive Officer, during 2006.

(2) See note 8 to our consolidated financial statements for the year ended December 31, 2006 for a description of how we compute this value. During 2006, amounts reflected for Mr. Frissora give effect to his forfeiture of the following awards in connection with his resignation in July 2006: options to purchase 25,000 shares and 75,000 shares of restricted stock

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granted on January 20, 2004, options to purchase 50,000 shares and 50,000 shares of restricted stock granted on January 17, 2005, options to purchase 70,000 shares and 70,000 shares of restricted stock granted on January 16, 2006 and 150,000 stock equivalent units granted on January 16, 2006.

- (3) Reflects only earnings for services during 2006, and no earnings on outstanding awards.

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- (4) As described below under "Post-Employment Compensation," we have traditionally maintained defined benefit and supplemental pension plans for our senior management (although future benefit accruals were frozen for most employees as of December 31, 2006 as described below under "-- Post-Employment Compensation -- 2006 Changes in Defined Benefits"). The amount for each Named Executive in the table above reflects solely the change in actuarial present value of the Named Executive's accumulated benefit under all defined benefit plans from September 30, 2005 to September 30, 2006.
- (5) The amounts under the column entitled "All Other Compensation" in the table above are comprised of the following:

NAME	PERQUISITES AND OTHER PERSONAL BENEFITS (A)	EARNINGS ON DEFERRED COMPENSATION (B)	TAX REIMBURSEMENT
----	-----	-----	-----
Mr. Frissora.....	\$91,129	\$ 0	\$19,733
Mr. Trammell.....	30,384	0	116
Mr. Donovan.....	30,384	849	116
Mr. Nair.....	83,536	0	156,582
Mr. Yanos.....	30,384	0	118

- (a) Perquisites and other personal benefits consist of: (a) for Mr. Frissora, perquisite allowance (\$40,000), gifts and the value of travel and spousal travel; (b) for Mr. Trammell, perquisite allowance (\$30,000) and gifts; (c) for Mr. Donovan, perquisite allowance (\$30,000) and gifts; (d) for Mr. Nair, perquisite allowance (\$30,000) and costs and expenses relating to his expatriate assignment, such as home travel, cost of living allowances and automobile benefits (\$38,536), gifts and the value of other travel (\$14,616); and (e) for Mr. Yanos, perquisite allowance of (\$30,000) and gifts. For purposes hereof, such perquisites and personal benefits are valued at their aggregate incremental cost to our company based on the following methodology: since each of the perquisites involved actual cash expenditure by our company, that cash expenditure is what is reflected as the value of the perquisites.

- (b) We maintain unfunded, non-qualified deferred compensation plans pursuant to which our senior management may elect to defer receipt of all or a specified portion of their incentive compensation. The plans provide participants with various investment options, including stock

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equivalent units of our common stock, and their deferrals are credited (or debited) as if funds had actually been invested in the option selected. Amounts credited under the plans are paid in a single lump sum as soon as practicable after the participant's death or termination, or on the date otherwise specified in the participant's deferral election. However, for amounts deferred by the Named Executives that are subject to the recently adopted rules under Section 409A of the Internal Revenue Code, no payment may be made earlier than six months after the executive's separation from service with our company. The amount reflected in the table above represents

(Notes continued on following page.)

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the increase in the executive's deferred compensation account for 2006 based on his selected investment alternative.

- (c) In the case of Mr. Nair, substantially all of the tax reimbursements relate to his expatriate assignment.
- (d) For 2006, we offered retirement benefits to our senior management through a 401(k) savings plan entitled the Tenneco Employee Stock Ownership Plan for Salaried Employees. Under the plan, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75% 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 50% of each employee's contribution up to eight percent of the employee's salary. As to executives hired after April 1, 2005 (when we closed our defined benefit plans to new participants), we provide an additional 2% company contribution. All contributions vest immediately. This plan will continue in effect for 2007. In addition, as described below under "-- Post-Employment Compensation -- 2006 Changes in Defined Benefits," we will implement additional company contributions and a new excess defined contribution plan for 2007 in connection with the December 31, 2006 freezing of our defined benefit plans.
- (e) Represents amounts paid in lieu of matching contributions to our 401(k) plan.

(6) Mr. Frissora resigned in July 2006.

(7) Mr. Donovan resigned in February 2007.

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### GRANTS OF PLAN-BASED AWARDS DURING 2006

The following table shows certain information regarding grants of plan-based awards we made to the Named Executives during 2006.

#### GRANTS OF PLAN-BASED AWARDS DURING 2006

ESTIMATED FUTURE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS (1)	ESTIMATED FUTURE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS (2)	ALL OTHER STOCK AWARDS: NUMBER OF SHARES OF	AL A NU SE
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NAME	GRANT DATE	TARGET (\$)	TARGET (\$)	MAXIMUM (\$)	STOCK OR UNITS (3) (#)	UN OP
Mr. Frissora.....	1/16/2006	\$663,750				
	1/16/2006		\$842,697	\$3,707,865	70,000	
	1/16/2006					
Mr. Trammell.....	1/16/2006	204,750				
	1/16/2006		28,090	126,405	15,000	
	1/16/2006					
Mr. Donovan.....	1/16/2006	204,750			15,000	
	1/16/2006					
Mr. Nair.....	1/16/2006	204,750			15,000	
	1/16/2006					
Mr. Yanos.....	1/16/2006	167,250			10,000	
	1/16/2006					

NAME	CLOSING PRICE ON GRANT DATE (4) (\$/SH)	GRANT DATE FAIR VALUE OF STOCK AND OPTION AWARDS
Mr. Frissora.....		\$1,459,500
		1,491,000
	\$21.30	659,400
Mr. Trammell.....		48,650
		319,500
	21.30	141,300
Mr. Donovan.....		319,500
	21.30	141,300
Mr. Nair.....		319,500
	21.30	141,300
Mr. Yanos.....		213,000
	21.30	94,200

(1) Represents targeted incentive payouts that are paid based on our corporate performance against Economic Value Added ("EVA") goals under the Tenneco Value Added Incentive Plan as described below under "-- Bonus and Non-Equity Incentive Plan Awards." There is no threshold or maximum payout.

(2) Represents awards of stock equivalent units under our 2006 Long-Term Incentive Plan as described below under "-- Stock Awards." For Mr. Frissora, represents his annual award as described in "-- Compensation Discussion and Analysis." For Messrs. Trammell and Yanos, represents a pro-rata award in

connection with a promotion designed to increase each individual's overall holdings of stock equivalent units for 2006 to a level commensurate with the level of awards made to executives of the same salary grade when the units were originally awarded in 2004. We are presenting estimates of future payment in dollars rather than units because the awards have a minimum total dollar value that is payable if the EVA-based performance criteria is met (which also is the Compensation/Nominating/ Governance Committee's expectation of future payout if the EVA-based performance criteria is met) and a maximum total value that is payable if stock price performance was well in excess of expectations. See "-- Compensation Discussion and Analysis -- Design and Elements of Compensation -- Long-Term and Stock-Based Incentives."

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- (3) Represents awards of restricted stock and stock options under our 2006 Long-Term Incentive Plan. One-third of the options and restricted stock vest on each of the first three anniversaries of the grant date.
- (4) The difference in the exercise price and closing price on the grant date results from the application of the provisions of our 2006 Long-Term Incentive Plan. The plan requires that options be granted with a strike price equal to the fair market value of a share of our common stock on the date of grant. Fair market value is defined by taking the average of the high and low sales price of our common stock on the date in question.

NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE AND GRANTS OF  
PLAN-BASED AWARDS TABLE

BONUS AND NON-EQUITY INCENTIVE PLAN AWARDS

Amounts reflected in the Summary Compensation Table under the column entitled "Bonus" and "Non-Equity Incentive Plan Compensation" are payments under the Tenneco Value Added Incentive Plan ("TAVA Plan"), plus a \$50,000 bonus paid to each Named Executive for service in the Office of the Chief Executive. Under the TAVA Plan, (i) 25% of an individual's bonus is based on the Compensation/Nominating/Governance committee's discretionary determination of performance (reflected in the "Bonus" column) and (ii) 75% of an individual's bonus is tied to our achievement of pre-established EVA(R) objectives (represented in the "Non-Equity Incentive Plan Compensation" column).

Annual performance goals for the TAVA Plan are generally developed, initially, by Stern Stewart & Co., an independent consulting firm with expertise in EVA-based incentive programs. The firm's recommended performance goals are reviewed by the committee. The committee approves the goals with any changes the committee determines appropriate. At the conclusion of each year, the committee approves incentive award payments to executives based on the degree of achievement of the goals established for that year and on judgments of performance as follows: (i) 75% of an individual's award is tied to our corporate achievement of pre-established EVA(R) objectives, and (ii) 25% of an individual's award is based on the committee's discretionary determination of corporate performance. EVA is after-tax operating profit minus the annual cost of capital and is a registered trademark of Stern Stewart & Co.

For years prior to 2006, the 75% portion of an individual's payout under the TAVA Plan that was tied to EVA performance was calculated as follows: Each year, the individual's "bonus bank" under the TAVA Plan -- which is the amount (if any) of awards declared in prior years but not yet paid -- was credited with an accrual equal to 75% of his or her total TAVA Plan target multiplied by a corporate performance factor. This performance factor, which could be positive

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or negative, was based upon our corporate EVA performance against the committee's pre-established goal. For any year, an individual's payout was equal to the sum of: (i) his or her EVA-based award for that year, if positive (but not exceeding 120% of the portion of his or her TAVA Plan target tied to EVA performance), plus (ii) one-third of the individual's remaining bonus

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bank as of the end of that year, if any. The declared award, as well as the value of an individual's bonus bank reserve account, could be positive or negative. Except for certain circumstances, such as disability, death or retirement, any bonus bank is forfeited when an individual terminates employment.

In January 2006, we amended the TAVA Plan to eliminate the bonus banking provisions with respect to awards paid for periods beginning January 1, 2006. We did this largely in response to new legislation which imposed significant new rules, regulations and limitations on deferred compensation. As a result, our executives now receive their full EVA-based payout for any year within 2 1/2 months after the end of that year. Amounts credited to individual bonus banks for prior periods are being paid out in accordance with the TAVA Plan terms as they existed prior to the amendment, which generally provide for one-third of the bonus bank to be paid each year.

The 25% portion of an individual's payout that is discretionary under the TAVA Plan is determined by the committee based on factors which take into account, but are not limited to, the relative performance of our company versus our peers in key strategic and operational areas. The factors considered may change from year to year.

See "-- Compensation Discussion and Analysis" for a discussion of specific determinations under the TAVA Plan for 2006.

In addition to the payments described above for 2006, \$37,102 for Mr. Trammell, \$53,083 for Mr. Donovan, \$53,083 for Mr. Nair and \$30,448 for Mr. Yanos was paid in respect of amounts held in the individual's bonus bank after giving effect to 2005 payments. After giving effect to the 2006 payments reflected above, \$74,203, \$106,167, \$106,167 and \$60,896 remained credited to the bonus bank of Messrs. Trammell, Donovan, Nair and Yanos, respectively. Each of Messrs. Frissora and Donovan forfeited his bonus bank when he left our employment.

### STOCK AWARDS

Amounts reflected in the Summary Compensation Table under the column entitled "Stock Awards" represent awards of restricted common stock and stock equivalent units granted to each Named Executive under our 2006 Long-Term Incentive Plan. See "-- Grants of Plan Based Awards During 2006."

In general, our restricted stock awards vest one-third per year during the three years after the grant date, subject to the officer's continued employment. One outstanding tranche of awards vests 100% on the third anniversary of the grant date. Holders of restricted shares are entitled to receive dividends if we were to declare and pay them. Subject to the terms of any employment agreement, the unvested portion of these awards is generally forfeited by a participant if his or her employment is terminated other than due to death, disability or retirement. Accordingly, each of Messrs. Frissora and Donovan forfeited his unvested awards when he left our employment. All restrictions lapse upon death, disability or retirement.

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Except in the case of Mr. Frissora, stock equivalent unit awards were made at the beginning of 2004 and are earned and payable one-third each year. In each case, stock equivalent units pay out based on the achievement of a corporate performance goal based on EVA improvement and a corporate performance goal based on stock price appreciation. To earn any portion of the yearly scheduled vesting under the awards, we must at least meet our EVA performance goal for that year. If that goal is met, the stock equivalent units are earned (up to a maximum of 100% of the units) based on our stock price appreciation over the year. Stock equivalent units are payable yearly in cash in an amount equal to the number of units earned multiplied by the value per share of our common stock at the time of payment (as determined in accordance with the terms of the grant). The program was designed so that an aggregate amount could be earned over the three-year life of the program. For example, a shortfall due to failures to fully realize goals in the first year would result in greater earning potential under the program for the remaining two years. Mr. Frissora's stock equivalent units were generally earned and payable at the end of one year, based on the EVA and stock price criteria described above, reflecting the committee's desire to re-evaluate Mr. Frissora's awards on an annual basis. Subject to the terms of any employment agreement, the unvested portion of these awards is generally forfeited by a participant if his or her employment is terminated other than due to death, disability or retirement. Accordingly, Mr. Frissora forfeited his awards when he left our employment. In the event of termination due to death, disability or retirement, the award is treated as fully vested and is paid based on our prevailing stock price at the time.

#### OPTION AWARDS

Amounts reflected in the Summary Compensation Table under the column entitled "Option Awards" represent awards of nonqualified options to purchase common stock granted to each Named Executive under our 2006 Long-Term Incentive Plan. See "-- Grants of Plan Based Awards During 2006." The awards vest one-third per year during the three years after the grant date and have a seven-year term. Subject to the terms of any employment agreement, the unexercised portion of these awards is generally forfeited by a participant on the date his or her employment is terminated other than due to death, disability or retirement. Accordingly, each of Messrs. Frissora and Donovan forfeited his unvested awards when he left our employment. In the event of death, disability or retirement, the options become fully exercisable and remain exercisable for a period specified in the applicable award agreement.

#### EMPLOYMENT AGREEMENTS

In January 2007, we entered into an agreement with our new Chairman and Chief Executive Officer -- Mr. Gregg Sherrill -- that sets forth certain terms and conditions of his employment with our company. The agreement provides, among other things, for an annual salary for 2007 of \$875,000 and a target bonus for 2007 of \$875,000. As an inducement for Mr. Sherrill to accept his offer, we agreed to (i) pay Mr. Sherrill \$1,325,000 within seven days of his first day of

employment and (ii) grant Mr. Sherrill 125,000 shares of restricted stock on his first day of employment (which will vest in three equal installments on each of the first three anniversaries of the date of grant or, if earlier, upon his involuntary termination of employment for reasons other than cause). The agreement also provides that he would be entitled to specified equity incentive awards when made for our other executives for 2007 (100,000 options, 55,000 restricted shares and stock equivalent units covering a three-year performance period with a targeted value of \$700,000). The agreement provides that, under

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our Change-in-Control Severance Benefit Plan for Key Executives, Mr. Sherrill's cash payment in connection with a change-in-control termination will equal three times the total of his then current base salary plus the higher of (i) his highest annual target bonus over the prior three years and (ii) his average bonuses for the prior three years (or if shorter, his period of service to the company). See "-- Post-Employment Compensation -- Other Potential Post-Employment Compensation" for a discussion of the other benefits afforded under the Change-in-Control Severance Benefit Plan for Key Executives. The agreement also provides that, other than in connection with a change-in-control, if Mr. Sherrill's employment is terminated by us other than for disability or nonperformance of duties, he will be paid two times his then current annual salary. The employment agreement also provides for participation in an excess non-qualified defined contribution plan which, prior to offset for amounts contributed under the qualified plan, is equal to 150% of the standard age-graded benefit under the plan and for participation in other benefit plans we offer our employees generally.

Messrs. Frissora and Donovan were, and Mr. Nair is, party to an agreement with us that sets forth certain terms and conditions of his employment with our company. Each of the employment agreements provides that, under our Change-in-Control Severance Benefit Plan for Key Executives, the relevant Named Executive's cash payment in connection with a change-in-control termination would equal three times the total of his then current base salary plus the higher of (i) his highest annual target bonus over the prior three years and (ii) his average bonuses for the prior three years (or if shorter, his period of service to the company). Each of the employment agreements also provides that, other than in connection with a change-in-control, if the relevant Named Executive's employment is terminated by us other than for death, disability or nonperformance of duties, he will be paid two times the total of his then current salary and bonus for the immediately preceding year, all outstanding stock-based awards would be vested, subject to Board approval, his stock options would remain exercisable for at least 90 days and he would receive one year of post-termination health and welfare benefits. Pursuant to the terms of their employment agreements, Messrs. Frissora and Donovan were, and Mr. Nair is, guaranteed a minimum annual base salary/minimum annual target bonus as follows: Mr. Frissora, \$640,000/\$590,000; Mr. Donovan, \$455,000/\$273,000 and Mr. Nair, \$428,490/\$273,000. The employment agreements also provide for participation in benefit plans we offer to our employees generally, as well as continued participation in supplemental retirement benefit plans as described under "-- Post-Employment Compensation."

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### OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2006

The following table shows certain information regarding the outstanding equity awards held by the Named Executives at the end of 2006.

#### OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2006

OPTION AWARDS			STOCK A
NUMBER OF SECURITIES UNDERLYING UNEXERCISED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED	OPTION	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE