

TENNECO INC
Form 10-K
February 28, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

Commission file number 1-12387

TENNECO INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

500 North Field Drive

Lake Forest, IL

(Address of principal executive offices)

76-0515284

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

60045

(Zip Code)

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

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

Title of each class

**Name of each Exchange
on which registered**

Common Stock, par value \$.01 per share

New York and Chicago Stock Exchanges

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ii

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

**Class of Common Equity and Number of Shares
held by Non-affiliates at June 30, 2010**

Market Value held by Non-affiliates*

Common Stock, 57,802,789 shares

\$1,217,326,736

* Based upon the closing sale price on the New York Stock Exchange Composite Tape for the Common Stock on June 30, 2010.

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE. Common Stock, par value \$.01 per share, 60,265,974 shares outstanding as of February 21, 2011.

Documents Incorporated by Reference:

Document	Part of the Form 10-K into which incorporated
Portions of Tenneco Inc.'s Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 18, 2011	Part III

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

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled Outlook appearing in Item 7 of this report. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and similar (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

general economic, business and market conditions, including without limitation any deterioration in the global economic environment, including the potential impact thereof on labor unrest, supply chain disruptions, weakness in demand and the collectability of any accounts receivable due to us;

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

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

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, including any shifts in consumer preferences away from light trucks, which tend to be higher margin products for our customers and us, to other lower margin vehicles, for which we may or may not have supply contracts, and other factors impacting the cyclical nature of automotive and commercial vehicle production and the sales of such vehicles which include our products, and the potential negative impact on our revenues and margins from such products;

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

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

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

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

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

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

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

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costs related to product warranties and other customer satisfaction actions;

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

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

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

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

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

customer acceptance of new products;

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

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

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

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

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

potential legislation, regulatory changes and other governmental actions, including the ability to receive regulatory approvals and the timing of such approvals, as well as any changes by International Standards Organization (ISO), Technical Specifications (TS) and other such committees in their certification processes for processes and products, which may have the effect of delaying or hindering our ability to bring new products to market;

the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, which may result in our incurrence of environmental liabilities in excess of the amount reserved, the adoption of the current mandated timelines for worldwide emission regulation, which could impact the demand for certain of our products, and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;

decisions by federal, state and local governments to provide (or discontinue) incentive programs related to automobile or other vehicle purchases;

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

potential volatility in our effective tax rate;

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

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

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

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PART I

ITEM 1. BUSINESS.

TENNECO INC.

General

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

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

Corporate Governance and Available Information

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

For more information about these matters, see our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2011.

Independence of Directors

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

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

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

Audit Committee

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

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

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

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

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Compensation/Nominating/Governance Committee

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.

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

Corporate Governance Principles

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

Stock Ownership Guidelines

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

The Stock Ownership Guidelines apply to the independent directors, the Chairman and Chief Executive Officer, and all other officers with a rank of Senior Vice President or higher.

Communication with Directors

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

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

Codes of Business Conduct and Ethics

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

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

Related Party Transactions Policy

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

Equity Award Policy

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

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Personal Loans to Executive Officers and Directors

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

Our Internet address is <http://www.tenneco.com>. We make our proxy statements, annual report to stockholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as filed with or furnished to the SEC, available free of charge on our Internet website as soon as reasonably practicable after submission to the SEC. Securities ownership reports on Forms 3, 4 and 5 are also available free of charge on our website as soon as reasonably practicable after submission to the SEC. The contents of our website are not, however, a part of this report. All such statements and reports can also be found at the Internet site maintained by the SEC at <http://www.sec.gov>.

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

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For information concerning our operating segments, geographic areas and major products or groups of products, see Note 11 to the consolidated financial statements of Tenneco Inc. included in Item 8. The following tables summarize for each of our reportable segments for the periods indicated: (i) net sales and operating revenues; (ii) earnings before interest expense, income taxes and noncontrolling interests (EBIT); and (iii) expenditures for plant, property and equipment. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 for information about certain costs and charges included in our results.

Net Sales and Operating Revenues:

	2010		2009		2008	
	(Dollar Amounts in Millions)					
North America	\$ 2,832	48%	\$ 2,099	45%	\$ 2,641	45%
Europe, South America and India	2,594	44	2,209	48	2,983	50
Asia Pacific	698	12	525	11	543	9
Intergroup sales	(187)	(4)	(184)	(4)	(251)	(4)
Total	\$ 5,937	100%	\$ 4,649	100%	\$ 5,916	100%

EBIT:

	2010		2009		2008	
	(Dollar Amounts in Millions)					
North America	\$ 155	55%	\$ 42	45%	\$ (107)	NM
Europe, South America and India	76	27	20	22	85	NM
Asia Pacific	50	18	30	33	19	NM
Total	\$ 281	100%	\$ 92	100%	\$ (3)	NM

Expenditures for plant, property and equipment:

	2010		2009		2008	
	(Dollar Amounts in Millions)					
North America	\$ 59	38%	\$ 45	38%	\$ 108	49%
Europe, South America and India	66	43	58	49	89	40
Asia Pacific	29	19	15	13	24	11
Total	\$ 154	100%	\$ 118	100%	\$ 221	100%

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

	2010	2009 (Millions)	2008
Interest expense (net of interest capitalized)	\$ 149	\$ 133	\$ 113
Income tax expense	69	13	289
Noncontrolling interests	24	19	10

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DESCRIPTION OF OUR BUSINESS

We design, manufacture and sell emission control and ride control systems and products for light, commercial and specialty vehicle applications, and generated revenues of \$5.9 billion in 2010. We serve both original equipment manufacturers (OEMs) and replacement markets worldwide through leading brands, including Monroe[®], Rancho[®], Clevite[®] Elastomers, Marzocchi[®] and Fric Rot[™] ride control products and Walker[®], Fonos[™], and Gillet[™] emission control products.

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

Overview of Automotive Parts Industry and Adjacent Markets

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

Demand for automotive parts in the OE market is generally a function of the number of new vehicles produced, which in turn is a function of prevailing economic conditions and consumer preferences. In 2010, the number of light vehicles produced by region was 11.9 million in North America, 28.9 million in Europe, South America and India and 33.4 million in Asia Pacific. The term light vehicles is comprised of two groups: (1) passenger cars and (2) light trucks. When we refer to light trucks, we are including sport-utility vehicles (SUV), crossover vehicles (CUV), pick-up trucks, vans and multi-purpose passenger vehicles. Worldwide light vehicle production is forecasted to increase to 78.0 million units in 2011 from approximately 74.2 million units in 2010. Although OE demand is tied to planned vehicle production, parts suppliers also have the opportunity to grow through increasing their product content per vehicle, by further expanding business with existing customers and by serving new customers in existing or new markets. Companies with global presence and advanced technology, engineering, manufacturing and support capabilities, such as our company, are better positioned to take advantage of these opportunities.

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

Demand for aftermarket products is driven by general economic conditions, the number of vehicles in operation, the age and distance driven of the vehicle fleet, and the average useful life and quality of vehicle parts. Although more vehicles are on the road than ever before, the aftermarket has experienced longer replacement cycles due to the improved quality of OE parts and increases in the average useful life of automotive parts as a result of technological innovation. Suppliers are increasingly being required to deliver innovative aftermarket products to drive increased aftermarket demand. Global economic downturns generally impact aftermarket sales less adversely than OE sales, as customers forego new vehicle purchases and keep their vehicles longer, thereby increasing demand for repair and maintenance services.

Industry Trends

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

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

General Economic Factors and Production Levels

The economic crisis in 2008 and 2009 materially and negatively impacted the automotive industry and our customers businesses in the U.S. and elsewhere. Automakers around the world experienced financial difficulties from a weakened economy, tightening credit markets, low consumer confidence, and reduced demand for their products. General Motors and Chrysler reorganized under bankruptcy protection in 2009, and other OE manufacturers took actions to improve profitability and remain solvent. The automotive supply base in turn also faced severe cash flow problems as a result of the significantly lower production levels of light vehicles, increased costs of certain raw materials, commodity and energy costs, and restricted access to additional liquidity through the capital markets. Consumers facing a weak job market and inadequate financing options were reluctant to purchase durable goods such as automobiles.

As a result of the lack of consumer confidence caused by the global economic downturn and credit market crisis, the industry experienced a rapid decline in light vehicle purchases in 2008 and the first half of 2009. The industry began to recover during the second half of 2009 when OE light vehicle production began to stabilize and then strengthen, tracking more closely to vehicle sales, and inventory levels began to be replenished. In 2010, light vehicle production continued to strengthen, evidenced by North America, Asia Pacific and Europe light vehicle production volumes increasing 39 percent, 30 percent and 15 percent, respectively in 2010 as compared to 2009.

Increasing Environmental Standards

OE manufacturers and their parts suppliers are designing and developing products to respond to increasingly stringent environmental requirements, growth in the diesel markets and increased demands for better fuel economy. Government regulations adopted over the past decade require substantial reductions in vehicle tailpipe emissions, longer warranties on parts of a vehicle's pollution control equipment and additional equipment to control fuel vapor emissions. Manufacturers are responding with new technologies for gasoline- and diesel-fueled vehicles that minimize pollution and improve fuel economy.

As a leading supplier of emission control systems with strong technical capabilities, we believe we are well positioned to benefit from the more rigorous environmental standards being adopted around the world. To meet stricter air quality regulations, we have develop