

IRWIN FINANCIAL CORP

Form 10-Q

November 10, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2008**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number 0-6835**

**IRWIN FINANCIAL CORPORATION**

**(Exact Name of Corporation as Specified in its Charter)**

**Indiana**

**35-1286807**

(State or Other Jurisdiction of Incorporation or  
Organization)

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

**500 Washington Street Columbus, Indiana**

**47201**

(Address of Principal Executive Offices)

(Zip Code)

**(812) 376-1909**

**www.irwinfinancial.com**

(Corporation's Telephone Number, Including Area Code)

(Web Site)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant 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 ☒

As of November 6, 2008, there were outstanding 29,707,227 common shares, no par value, of the Registrant.

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**About Forward-Looking Statements**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We are including this statement for purposes of invoking these safe harbor provisions.

Forward-looking statements are based on management's expectations, estimates, projections, and assumptions. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. In addition, our past results of operations do not necessarily indicate our future results. Words that convey our beliefs, views, expectations, assumptions, estimates, forecasts, outlook and projections or similar language, or that indicate events we believe could, would, should, may or will occur (or will not or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements. These may include, among other things, statements and assumptions about:

- our projected revenues, earnings or earnings per share, as well as management's short-term and long-term performance goals;

- projected trends or potential changes in asset quality (particularly with regard to loans or other exposures including loan repurchase risk, in sectors in which we deal in real estate or residential mortgage lending), loan delinquencies, charge-offs, reserves, asset valuations, capital ratios or financial performance measures;

- our plans and strategies, including the expected results or costs and impact of implementing or changing such plans and strategies;

- potential litigation developments and the anticipated impact of potential outcomes of pending legal matters;

- predictions about conditions in the national or regional economies, housing markets, industries associated with housing, mortgage markets or mortgage industry;

- the anticipated effects on results of operations or financial condition from recent developments or events; and

- any other projections or expressions that are not historical facts.

We qualify any forward-looking statements entirely by these and the following cautionary factors.

Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to:

- potential deterioration or effects of general economic conditions, particularly in sectors relating to real estate and/or mortgage lending or small business-based manufacturing and services;

- potential effects related to the Corporation's decision to suspend the payment of dividends on its common, preferred and trust preferred securities.

- difficulties in completing the transactions for the disposition of our home equity business including: selling or otherwise reducing risk associated with home equity loans on our balance sheet; selling the assets or platform of our home equity business, including the completion of due diligence satisfactory to potential purchasers; obtaining third party consents for the transfer of assets, platforms or servicing; satisfying conditions necessary to release purchase price proceeds from escrow; obtaining the desired tax treatment for any dispositions; or encountering regulatory constraints;

- the inability to garner sufficient support for our capital raising efforts, including a failure to obtain, or a delay in obtaining, any necessary regulatory approvals;

potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer and commercial demand for our products and the management and success of our interest rate risk management strategies;

competition from other financial service providers for experienced managers as well as for customers;

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staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

the relative profitability of our lending and deposit operations;

the valuation and management of our portfolios, including the use of external and internal modeling assumptions we embed in the valuation of those portfolios and short-term swings in the valuation of such portfolios;

borrowers' refinancing opportunities, which may affect the prepayment assumptions used in our valuation estimates and which may affect loan demand;

unanticipated deterioration in the credit quality or collectibility of our loan and lease assets, including deterioration resulting from the effects of natural disasters;

difficulties in accurately estimating any future repurchases of residential mortgage, home equity, or other loans or leases due to alleged violations of representations and warranties we made when selling these loans and leases to the secondary market or in securitizations;

unanticipated deterioration or changes in estimates of the carrying value of our other assets, including securities;

difficulties in delivering products to the secondary market as planned;

difficulties in expanding our businesses and obtaining or retaining deposit or other funding sources as needed;

changes in the value of our lines of business, subsidiaries, or companies in which we invest;

changes in variable compensation plans related to the performance and valuation of lines of business where we tie compensation systems to line-of-business performance;

unanticipated lawsuits or outcomes in litigation;

legislative or regulatory changes, including changes in laws, rules or regulations that affect tax, consumer or commercial lending, corporate governance and disclosure requirements, and other laws, rules or regulations affecting the rights and responsibilities of our Corporation, bank or thrift;

regulatory actions that impact our Corporation, bank or thrift, including the written agreement the Corporation and its state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions on October 10, 2008, and the written agreement the Corporation's federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into with the Office of Thrift Supervision on the same day;

the application of or changes in the interpretation of regulatory capital or other rules;

the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

changes in applicable accounting policies or principles or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the

implementation of new accounting methods;

the final disposition of the remaining assets and obligations of our discontinued mortgage banking segment, and, after completion of transactions involving the recent sale of assets, our home equity and small-ticket leasing segments; or

governmental changes in monetary or fiscal policies.

We undertake no obligation to update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission (SEC).

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**Explanatory Note**

Throughout this Report on Form 10-Q we discuss our announced plan to pursue a rights offering to shareholders and a possible exchange of trust preferred securities for common stock. A registration statement relating to the rights offering has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. The rights offer remains subject to the registration statement being approved by the Securities and Exchange Commission.

The rights offering will be made only by means of a prospectus which will contain the specific terms of the transaction and which will be provided to Irwin shareholders at the commencement of the offer.

This filing also is not an offer or the solicitation of an offer to exchange the Corporation's trust preferred securities. Any such offers will only be made by registration under federal and state securities laws, or pursuant to an applicable exemption from registration thereunder.

**Table of Contents****PART I. FINANCIAL INFORMATION.****Item 1. Financial Statements.**

**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Unaudited)**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Dollars in thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 250,415	\$ 78,212
Interest-bearing deposits with financial institutions	27,018	31,841
Residual interests	9,008	12,047
Investment securities- held-to-maturity (Fair value: \$18,911 September 30, 2008 and \$18,134 at December 31, 2007) Note 2	18,690	18,123
Investment securities- available-for-sale Note 2	36,140	59,684
Investment securities- other Note 2	62,588	62,588
Loans and leases held for sale Note 3	43,643	6,134
Loans and leases, net of unearned income Note 4	4,651,506	5,696,230
Less: Allowance for loan and lease losses Note 5	(231,802)	(144,855)
	4,419,704	5,551,375
Servicing assets Note 6	20,003	23,234
Accounts receivable	33,608	38,710
Accrued interest receivable	21,392	26,291
Premises and equipment	34,537	38,178
Other assets Note 7	282,678	219,688
Total assets	\$ 5,259,424	\$ 6,166,105
<b>Liabilities and Shareholders Equity:</b>		
Deposits		
Noninterest-bearing	\$ 325,676	\$ 306,820
Interest-bearing	2,070,745	2,357,050
Certificates of deposit over \$100,000	769,450	661,618
	3,165,871	3,325,488
Other borrowings Note 8	526,657	802,424
Collateralized debt Note 9	946,269	1,213,139
Other long-term debt	233,868	233,873
Other liabilities	113,210	131,881
Total liabilities	4,985,875	5,706,805
Commitments and contingencies Note 14 and Note 15		
Shareholders equity		
Preferred stock, no par value authorized 4,000,000 shares;		
Noncumulative perpetual preferred stock - 15,000 authorized and issued;	14,441	14,441
	116,667	116,542

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Common stock, no par value authorized 40,000,000 shares; issued 29,902,483 as of September 30, 2008 and 29,896,464 as of December 31, 2007; 509,565 and 670,169 shares in treasury as of September 30, 2008 and December 31, 2007, respectively

Additional paid-in capital		2,557
Accumulated other comprehensive (loss) income, net of deferred income tax benefit of \$3,704 and \$4,367 as of September 30, 2008 and December 31, 2007	(1,612)	1,032
Retained earnings	153,878	337,524
	283,374	472,096
Less treasury stock, at cost	(9,825)	(12,796)
Total shareholders' equity	273,549	459,300
Total liabilities and shareholders' equity	\$ 5,259,424	\$ 6,166,105

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	For the Three Months Ended September 30,	
	2008	2007
	(Dollars in thousands, except per share)	
<b>Interest income:</b>		
Loans and leases	\$ 95,185	\$ 126,180
Loans and leases held for sale	2,663	585
Residual interests	160	268
Investment securities	2,016	2,738
Federal funds sold	478	79
Total interest income	100,502	129,850
<b>Interest expense:</b>		
Deposits	24,362	34,747
Short-term borrowings	5,663	7,436
Collateralized debt	18,250	18,563
Other long-term debt	4,009	3,958
Total interest expense	52,284	64,704
Net interest income	48,218	65,146
Provision for loan and lease losses Note 5	58,033	28,493
Net interest (expense) income after provision for loan and lease losses	(9,815)	36,653
<b>Other income:</b>		
Loan servicing fees	3,133	4,415
Amortization and impairment of servicing assets Note 6	(1,747)	(2,686)
Gain from sales of loans and loans held for sale	2,165	3,329
Trading (losses) gains	(979)	876
Derivative losses, net	(3,494)	(5,673)
Other than temporary impairment Note 2	(2,325)	
Other	6,771	6,771
	3,524	7,032
<b>Other expense:</b>		
Salaries	22,866	24,043
Pension and other employee benefits	6,094	6,478
Office expense	2,164	2,126
Premises and equipment	15,747	5,500
Marketing and development	952	1,354
Professional fees	4,181	2,086
Other	18,325	4,758
	70,329	46,345

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Loss before income taxes from continuing operations	(76,620)	(2,660)
Provision for income taxes	(22,190)	(1,857)
Net loss from continuing operations	(54,430)	(803)
Loss from discontinued operations, net of \$11,540 income tax benefit		(17,227)
Net loss	\$ (54,430)	\$ (18,030)
<b>Loss per share from continuing operations: Note 12</b>		
Basic	\$ (1.85)	\$ (0.04)
Diluted	\$ (1.85)	\$ (0.05)
<b>Loss per share: Note 12</b>		
Basic	\$ (1.85)	\$ (0.63)
Diluted	\$ (1.85)	\$ (0.64)
Dividends per share	\$	\$ 0.12

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	For the Nine Months Ended September 30,	
	2008	2007
	(Dollars in thousands, except per share)	
<b>Interest income:</b>		
Loans and leases	\$ 322,030	\$ 369,727
Loans held for sale	2,817	6,663
Residual interests	629	817
Investment securities	6,341	7,757
Federal funds sold	678	602
Total interest income	332,495	385,566
<b>Interest expense:</b>		
Deposits	79,820	103,178
Other borrowings	18,825	22,054
Collateralized debt	47,123	51,491
Other long-term debt	12,199	11,726
Total interest expense	157,967	188,449
Net interest income	174,528	197,117
Provision for loan and lease losses Note 5	260,384	71,155
Net interest (expense) income after provision for loan and lease losses	(85,856)	125,962
<b>Other income:</b>		
Loan servicing fees	8,424	15,443
Amortization and impairment of servicing assets Note 6	(4,027)	(9,924)
Gain from sales of loans and loans held for sale	10,169	690
Trading (losses) gains	(3,156)	868
Derivative losses, net	(1,449)	(10,014)
Other than temporary impairment Note 2	(22,320)	
Other	17,948	18,736
	5,589	15,799
<b>Other expense:</b>		
Salaries	65,501	73,688
Pension and other employee benefits	19,768	20,912
Office expense	6,399	7,002
Premises and equipment	26,803	16,468
Marketing and development	3,292	3,931
Professional fees	9,607	6,853
Other	34,910	16,839

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	166,280	145,693
Loss before income taxes from continuing operations	(246,547)	(3,932)
Provision for income taxes	(63,220)	(2,507)
Loss from continuing operations	(183,327)	(1,425)
Loss from discontinued operations, net of \$18,250 income tax benefit		(27,123)
Net loss	\$ (183,327)	\$ (28,548)
<b>Loss per share from continuing operations: Note 12</b>		
Basic	\$ (6.25)	\$ (0.08)
Diluted	\$ (6.25)	\$ (0.11)
<b>Loss per share: Note 12</b>		
Basic	\$ (6.25)	\$ (1.01)
Diluted	\$ (6.25)	\$ (1.03)
Dividends per share	\$	\$ 0.36

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
**For the Nine Months Ended September 30, 2008, and 2007**

	Accumulated Other Comprehensive									
	Income					Defined Additional			Perpetual	
		Retained	Foreign	Unrealized		Benefit	Paid in	Common	Treasury	Preferred
	Total	Earnings	Currency	Gain/Loss	Derivatives	Plans	Capital	Stock	Stock	Stock
	(Dollars in thousands)									
Balance at										
January 1, 2008	\$ 459,300	\$ 337,524	\$ 9,158	\$(1,445)	\$(1,576)	\$(5,105)	\$ 2,557	\$ 116,542	\$(12,796)	\$ 14,441
Net loss	(183,327)	(183,327)								
Unrealized gain on investment securities net of \$663 tax liability	995			995						
Unrealized loss on derivatives net of \$206 tax benefit	(310)				(310)					
Foreign currency adjustment	(3,329)		(3,329)							
Other comprehensive loss	(2,644)									
Total comprehensive loss	(185,971)									
Stock compensation expense	1,851						1,851			
Subsidiary stock purchase	(2,313)						(2,313)			
Stock:										
Purchase of 6,102 shares	(92)								(92)	
Sales of 166,706 shares	774	(319)					(2,095)	125	3,063	
Balance at September 30, 2008	\$ 273,549	\$ 153,878	\$ 5,829	\$ (450)	\$(1,886)	\$(5,105)	\$	\$ 116,667	\$ (9,825)	\$ 14,441

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Balance at											
January 1, 2007	\$ 530,502	\$ 405,835	\$ 2,884	\$ (344)	\$ (30)	\$ (6,874)	\$ 1,583	\$ 116,192	\$ (3,262)	\$ 14,518	
Net loss	(28,548)	(28,548)									
Unrealized loss on investment securities net of \$300 tax benefit	(450)			(450)							
Unrealized loss on derivatives net of \$318 tax benefit	(477)				(477)						
Foreign currency adjustment	6,623		6,623								
Other comprehensive income	5,696										
Total comprehensive loss	(22,852)										
Cash dividends common stock	(10,543)	(10,543)									
Cash dividends preferred stock	(1,004)	(1,004)									
FAS 156 adoption	1,743	1,743									
Tax benefit on stock option exercises	91						91				
Stock compensation expense	1,296						1,296				
Stock issuance costs	(77)										(77)
Stock: Purchase of 671,186 shares	(12,781)								(12,781)		
Sales of 117,715 shares	2,421						(198)	100	2,519		
Balance at September 30, 2007	\$ 488,796	\$ 367,483	\$ 9,507	\$ (794)	\$ (507)	\$ (6,874)	\$ 2,772	\$ 116,292	\$ (13,524)	\$ 14,441	

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

	<b>For the Nine Months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>	
Loss from continuing operations	\$ (183,327)	\$ (1,425)
Loss from discontinued operations		(27,123)
<b>Net loss</b>	(183,327)	(28,548)
<b>Adjustments to reconcile net loss to cash provided by operating activities:</b>		
Depreciation, amortization, and accretion, net	9,657	7,742
Other than temporary impairment	22,320	
Amortization and impairment of servicing assets	4,027	10,174
Valuation allowance on deferred taxes	32,700	
Provision for loan and lease losses	260,384	71,155
(Loss) gain from sales of loans held for sale	(18,200)	11,279
Originations and purchases of loans held for sale	(218,142)	(497,707)
Proceeds from sales and repayments of loans held for sale	633,116	622,568
Net decrease in residuals	3,668	132
Net decrease in accounts receivable	5,102	163,494
Other, net	(116,068)	(64,945)
<b>Net cash provided by operating activities</b>	<b>435,237</b>	<b>295,344</b>
<b>Investing activities:</b>		
Proceeds from maturities/calls of investment securities:		
Held-to-maturity	3,153	2,438
Available-for-sale	2,973	2,818
Purchase of investment securities:		
Held-to-maturity	(3,286)	(2,167)
Available-for-sale	(513)	(17,316)
Net decrease in interest-bearing deposits	4,822	20,265
Net decrease (increase) in loans, excluding sales	437,489	(337,626)
Other, net	(1,422)	(7,739)
<b>Net cash provided (used) by investing activities</b>	<b>443,216</b>	<b>(339,327)</b>
<b>Financing activities:</b>		
Net decrease in deposits	(159,617)	(48,445)
Net decrease in short-term borrowings	(275,767)	(63,170)
Proceeds from issuance of collateralized debt	218,051	364,579
Repayments of collateralized debt	(486,571)	(249,514)
Repayments of long term debt	(5)	(11)
Subsidiary stock purchase	(2,313)	
Purchase of treasury stock for employee benefit plans	(92)	(12,781)
Proceeds from sale of stock for employee benefit plans	774	2,512

Dividends paid		(11,547)
Net cash used by financing activities	(705,540)	(18,377)
Effect of exchange rate changes on cash	(710)	2,268
Net increase (decrease) in cash and cash equivalents	172,203	(60,092)
Cash and cash equivalents at beginning of period	78,212	145,765
Cash and cash equivalents at end of period	\$ 250,415	\$ 85,673
<b>Supplemental disclosures of cash flow information:</b>		
Cash flow during the period:		
Interest paid	\$ 147,448	\$ 187,623
Income taxes paid	\$ 4,266	\$ 12,001
Noncash transactions:		
Adoption of FAS 156	\$	\$ 2,905
Other real estate owned	\$ 14,327	\$ 12,729

The accompanying notes are an integral part of the consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Accounting Policies, Management Judgments and Accounting Estimates**

*Consolidation:* Irwin Financial Corporation and its subsidiaries (the Corporation) provide financial services throughout the United States (U.S.). We are engaged in commercial banking, commercial finance and home equity lending. We have exited the mortgage banking segment, maintaining a limited staff to manage our residual liabilities and responsibilities from past activities. In July, 2008, we sold the majority of the leases associated with our small ticket equipment leasing portion of our commercial finance line of business and sold or closed down the associated platforms, retaining the franchise finance portion of this line of business.

Our direct and indirect subsidiaries include Irwin Union Bank and Trust Company, Irwin Union Bank, F.S.B., Irwin Commercial Finance Corporation, Irwin Home Equity Corporation and Irwin Mortgage Corporation. Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the financial statements reflect all material adjustments necessary for a fair presentation. The Corporation does not meet the criteria as primary beneficiary for our wholly-owned trusts holding our company-obligated mandatorily redeemable preferred securities established by Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. As a result, these trusts are not consolidated.

For the mortgage banking line of business that we have exited, the financial statement and notes within this report conform to the presentation required in Statement of Financial Accounting Standard (SFAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets for discontinued operations.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Foreign Currency:* Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at rates prevailing on the balance sheet dates; income and expenses are translated at average rates of exchange for the reporting period. Unrealized foreign currency translation gains and losses are recorded in accumulated other comprehensive income in shareholders' equity.

*Cash and Cash Equivalents:* For purposes of the consolidated balance sheets, we consider cash and due from banks to be cash equivalents.

*Investment Securities:* Those investment securities that we have the positive intent and ability to hold until maturity are classified as held-to-maturity and are stated at cost adjusted for amortization of premiums and accretion of discounts (adjusted cost). All other investment securities are classified as available-for-sale and are stated at fair value. Unrealized gains and losses on available-for-sale investment securities, net of the future tax impact, are reported as a separate component of shareholders' equity until realized. Investment securities gains and losses are based on the amortized cost of the specific investment security determined on a specific identification basis. Fair values are determined based upon dealer quotes and discounted cash flow modeling. A decline in value lasting an extended period of time or of significant magnitude is evaluated for impairment that may be deemed other-than-temporary.

*Residual Interests:* Residual interests are stated at fair value. Unrealized gains and losses are included in earnings. To obtain fair value of residual interests, quoted market prices would be used if available. However, quotes are generally not available for residual interests, so we estimate fair value based on the present value of expected cash flows using estimates of the key assumptions prepayment speeds, credit losses, forward yield curves, and discount rates commensurate with the risks involved that management believes market participants would use to value similar assets. Adjustments to carrying values are recorded as trading gains or losses.

*Loans Held For Sale:* Loans held for sale are carried at the lower of cost or market, determined on an aggregate basis for both performing and nonperforming loans. Cost basis includes deferred origination fees and costs. Fair value is determined based on the contract price at which the loans will be sold. At the time of origination, loans which management believes will be sold prior to maturity are classified as loans held for sale.

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*Loans:* Loans are carried at amortized cost. Loan origination fees and costs are deferred and the net amounts are amortized as an adjustment to yield using the interest method. When loans are sold, deferred fees and costs are included with outstanding principal balances to determine gains or losses. Interest income on loans is computed daily based on the principal amount of loans outstanding.

The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest or earlier should credit analysis prior to 90 days suggest collection of such amounts is unlikely to occur. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to cover the principal balance and accrued interest and the loan is in the process of collection.

*Allowance for Loan and Lease Losses:* The allowance for loan and lease losses is an estimate based on management's judgment applying the principles of SFAS 5, Accounting for Contingencies, SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The allowance is maintained at a level we believe is adequate to absorb probable losses inherent in the loan and lease portfolio. We perform an assessment of the adequacy of the allowance on a quarterly basis.

Within the allowance, there are specific and expected loss components. The specific loss component is assessed for loans we believe to be impaired in accordance with SFAS 114. We have defined impairment as nonaccrual loans. For loans determined to be impaired, we measure the level of impairment by comparing the loan's carrying value to fair value using one of the following fair value measurement techniques: present value of expected future cash flows, observable market price, or fair value of the associated collateral. An allowance is established when the fair value implies a value that is lower than the carrying value of that loan. In addition to establishing allowance levels for specifically identified impaired loans, management determines an allowance for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are segregated by major product type, and in some instances, by aging, with an estimated loss ratio applied against each product type and aging category. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

It is our policy to promptly charge off any loan, or portion thereof, which is deemed to be uncollectible. This includes, but is not limited to, any loan rated Loss by the regulatory authorities. Impaired commercial credits are considered on a case-by-case basis. The amount charged off includes any accrued interest. Consumer loans are charged off when deemed uncollectible, but generally no later than when a loan is past due 180 days.

*Servicing Assets:* When we securitize or sell loans, we may retain the right to service the underlying loans sold. For cases in which we retain servicing rights, a portion of the cost basis of loans sold is allocated to a servicing asset based on its fair value.

For servicing assets associated with second mortgages and high loan-to-value first mortgages, the fair value measurement method of reporting these servicing rights was elected beginning January 1, 2007, in accordance with SFAS 156, Accounting for Servicing of Financial Assets. Under the fair value method, we measure servicing assets at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. All remaining servicing rights follow the amortization method for subsequent measurement whereby these servicing rights are amortized in proportion to and over the period of estimated net servicing income.

We use a combination of observed pricing on similar, market-traded servicing rights and internal valuation models that calculate the present value of future cash flows to determine the fair value of the servicing assets. These models are supplemented and calibrated to market prices using inputs from independent servicing brokers, industry surveys and valuation experts. In using this valuation method, we incorporate assumptions that we believe market participants would use in estimating future net servicing income, which include, among other items, estimates of the cost of servicing per loan, the discount rate, float value, an inflation rate, ancillary income per loan, prepayment speeds, and default rates.

*Incentive Servicing Fees:* For whole loan sales of certain home equity loans, in addition to our normal servicing fee, we have the right to an incentive servicing fee (ISF) that will provide cash payments to us if a pre-established return for the certificate holders and certain structure-specific loan credit and servicing performance metrics are met. Generally the structure-specific metrics involve both a delinquency and a loss test. The delinquency test is satisfied if,

as of the last business day of the preceding month, delinquencies on the current pool of mortgage loans are less than or equal to a given percentage. The loss test is satisfied if, on the last business day of the preceding month, the percentage of cumulative losses on the original pool of mortgage loans is less than or equal to the applicable percentage as outlined in the specific deal documents. We receive ISF payments monthly, once the pre-established return has been paid to the certificate holder, if the delinquency and loss percentages are within guidelines. If we are terminated or replaced for cause as servicer under the securitization, the cash flow stream under the ISF contract terminates.

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We account for ISFs similar to management contracts under Emerging Issues Task Force Topic No. D-96, *Accounting for Management Fees Based on a Formula*. Accordingly, we recognize revenue on a cash basis as the pre-established performance metrics are met and cash is due.

*Derivative Instruments:* All derivative instruments have been recorded at fair value and are classified as other assets or other liabilities in the consolidated balance sheets in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. Fair values for derivatives are determined based upon dealer quotes.

Derivative instruments that are used in our risk management strategy may qualify for hedge accounting if the derivatives are designated as fair value, cash flow or foreign currency hedges and applicable hedge criteria are met. Changes in the fair value of a derivative that is highly effective (as defined by SFAS 133) and qualifies as a fair value hedge, along with changes in the fair value of the underlying hedged item, are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective (as defined by SFAS 133) and qualifies as a cash flow hedge or foreign currency hedge, to the extent that the hedge is effective, are recorded in other comprehensive income until earnings are recognized from the underlying hedged item. Net gains or losses resulting from hedge ineffectiveness are recorded in current period earnings.

We use certain derivative instruments that do not qualify for hedge accounting treatment under SFAS 133. These derivatives are classified as other assets or other liabilities and marked to market in the consolidated income statements. While we do not seek hedge accounting treatment for these instruments, their economic purpose is to manage the risk of existing exposures to either interest rate risk or foreign currency risk.

*Premises and Equipment:* Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is determined by the straight-line method over the estimated useful lives of the assets.

*Other Assets:* Included in other assets are real estate properties acquired as a result of foreclosure. These real estate properties are carried at the lower of the recorded investment in the related loan or fair value of the property less estimated costs to sell.

*Income Taxes:* A consolidated tax return is filed for all eligible entities. In accordance with SFAS 109, *Accounting for Income Taxes*, deferred income taxes are computed using the liability method, which establishes a deferred tax asset or liability based on temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

*Recent Accounting Developments:* On January 1, 2008 we adopted SFAS 157, *Fair Value Measurements*. This statement defines fair value, establishes a consistent framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 requires, among other things, our valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, SFAS 157 requires the recognition of trade-date gains related to certain derivative trades that use unobservable inputs in determining the fair value. This guidance supersedes the guidance in EITF Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, which prohibited the recognition of day-one gains on certain derivative trades when determining the fair value of instruments not traded in an active market. There was no cumulative effect adjustment to retained earnings as a result of adopting this statement.

On January 1, 2008, we adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure certain financial instruments at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings in the current period. SFAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. During the third quarter of 2008, we entered into a secured financing transaction with respect to certain home equity loans. We elected to measure the \$91 million of collateralized debt associated with this transaction at fair value in accordance with SFAS 159. See Note 11 to the Consolidated Financial Statements for further detail.

In March 2008 the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods

beginning after November 15, 2008. We will begin making the required disclosures in 2009.

**Table of Contents****Note 2 Investment Securities**

The following table shows the composition of our investment securities at the dates indicated:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Dollars in thousands)</b>	
Held-to-Maturity:		
U.S. Treasury and government obligations	\$ 14,443	\$ 13,970
Obligations of states and political subdivisions	3,321	3,436
Mortgage-backed securities	926	717
Total held-to-maturity	18,690	18,123
Available-for-Sale:		
Mortgage-backed securities	22,912	45,499
Other	13,228	14,185
Total available-for-sale	36,140	59,684
Federal Home Loan Bank and Federal Reserve Bank stock	62,588	62,588
Total investment securities	\$ 117,418	\$ 140,395

At September 30, 2008, we held four mortgage-backed securities that were issued by entities other than government-sponsored enterprises and backed by first mortgage liens. These securities have an estimated fair value of \$5 million at September 30, 2008. While interest payments on these securities continue to be current, the decline in fair value related to these securities is deemed to be other-than-temporary. Accordingly, we recognized other-than-temporary impairment charges of \$2 million and \$22 million, respectively, during the three and nine month periods ended September 30, 2008.

**Note 3 Loans and Leases Held for Sale**

We had loans and leases held for sale of \$44 million at September 30, 2008 compared to \$6 million at December 31, 2007. During the third quarter we sold \$0.3 billion of small ticket leases that were classified as held for sale at June 30, 2008.

**Note 4 Loans and Leases**

Loans and leases are summarized as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Dollars in thousands)</b>	
Commercial, financial and agricultural	\$ 1,972,507	\$ 2,099,451
Real estate-construction & land development	512,971	586,037
Real estate-mortgage	1,517,294	1,691,450
Consumer	26,608	32,232
Commercial financing		
Franchise financing	904,666	925,741
Domestic leasing	12,506	306,301
Foreign leasing		462,036

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Unearned income		
Franchise financing	(293,677)	(306,681)
Domestic leasing	(1,369)	(42,723)
Foreign leasing		(57,614)
Total	\$4,651,506	\$5,696,230

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Commercial loans are extended primarily to local regional businesses in the market areas of our commercial banking line of business. To a lesser extent, we also provide consumer loans to the customers in those markets. Franchise related loans, real estate loans, and direct financing leases are extended throughout the United States.

At September 30, 2008, mortgage loans with a carrying value of \$1.2 billion were pledged as collateral for bonds payable to investors (See Note 9).

Federal Home Loan Bank of Indianapolis (FHLBI) borrowings are collateralized by \$1.3 billion in loans at September 30, 2008.

**Note 5 Allowance for Loan and Lease Losses**

Changes in the allowance for loan and lease losses are summarized below:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>			
Balance at beginning of period	\$ 215,714	\$ 92,140	\$ 144,855	\$ 74,468
Provision for loan and lease losses	58,033	28,493	260,384	71,155
Charge-offs	(42,865)	(18,782)	(176,595)	(48,619)
Recoveries	1,318	2,555	4,325	7,881
Reduction due to reclassification and sales of loans	(449)	(210)	(1,087)	(1,006)
Foreign currency adjustment	51	247	(80)	564
Balance at end of period	\$ 231,802	\$ 104,443	\$ 231,802	\$ 104,443

Nonperforming loans and leases are summarized below:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Dollars in thousands)</b>	
Accruing loans past due 90 days or more	\$ 622	\$ 857
Nonaccrual loans and leases	178,779	75,453
Total nonperforming loans and leases	\$ 179,401	\$ 76,310

**Note 6 Servicing Assets**

Changes in our fair value servicing assets are shown below:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>And the Nine Months Then Ended</b>	<b>And the Year Then Ended</b>
	<b>(Dollars in thousands)</b>	
Beginning balance	\$ 19,724	\$ 27,725
Gain from initial adoption of SFAS 156		2,905

Changes in fair value:			
Due to changes in valuation inputs or assumptions <sup>(1)</sup>	490		(1,589)
Other changes in fair value <sup>(2)</sup>	(3,640)		(9,317)
Balance at the end of the period	\$ 16,574	\$	19,724

(1) Principally reflects changes in discount rates and prepayment spread assumptions, primarily due to changes in interest rates.

(2) Represents changes due to realization of expected cash flows.

	September 30, 2008 And the Nine Months Then Ended (Dollars in thousands)	December 31, 2007  And the Year Then Ended
Beginning balance	\$ 3,510	\$ 31,949
Initial adoption of SFAS 156		(27,725)
Additions	796	530
Sales		(5)
Amortization	(885)	(1,199)
Recovery (impairment)	8	(40)
Balance at the end of the period	\$ 3,429	\$ 3,510

	September 30, 2008 And the Nine Months Then Ended	December 31, 2007  And the Year Then Ended
	(Dollars in thousands)	
Balance at beginning of year	\$ 191	\$ 483
Transfer of assets from amortizing to fair value (Recovery) impairment	(8)	(332) 40
Balance at the end of the period	\$ 183	\$ 191

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	2007		2008	
	(Dollars in thousands)			
Income taxes computed at the statutory rate	\$(26,817)	\$ (930)	\$(86,292)	\$(1,376)

Increase (decrease) resulting from:

Nontaxable interest from investment securities and loans	(23)	(29)	(81)	(88)
Nontaxable income from bank owned life insurance	(57)	(216)	(407)	(487)
State tax, net of federal benefit	(2,546)	(133)	(8,450)	(197)
Foreign operations	83	(8)	127	(75)
Reserve adjustment <sup>(1)</sup>	(127)	(382)	219	184
Federal tax credits	(602)	(264)	(1,323)	(793)
Other items net	99	105	287	325
Valuation allowance <sup>(2)</sup>	7,800		32,700	
	\$(22,190)	\$(1,857)	\$(63,220)	\$(2,507)

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(1) Tax reserves are adjusted as we align our tax liability to a level commensurate with our current identified tax exposures.

(2) During the nine month period ended September 30, 2008, we recorded a valuation allowance to reduce our deferred tax asset to an amount that is more likely than not to be realized.

**Note 8 Other Borrowings**

Other borrowings are summarized as follows:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Federal Home Loan Bank borrowings	\$526,657	\$574,424
Federal funds		228,000
Total	\$526,657	\$802,424
Weighted average interest rate	3.70%	5.20%

Federal Home Loan Bank of Indianapolis borrowings (FHLBI) are collateralized by \$1.3 billion of loans and loans held for sale at September 30, 2008.

In addition, we have an unused credit line available from the FHLBI of \$0.3 billion to fund loans. The interest rate on this line of credit is 2.3% at September 30, 2008.

**Note 9 Collateralized Debt**

We pledged loans and leases in transactions structured as secured financings at our home equity lending and commercial finance lines of business. Sale treatment is precluded on these transactions because we fail the true-sale requirements of SFAS 140 as we maintain effective control over the loans and leases securitized. This type of structure results in cash being received, debt being recorded, and the loans and leases being retained on the balance

sheet. The notes associated with these transactions are collateralized by \$1.2 billion in home equity loans and home equity lines of credit at September 30, 2008. This collateral balance on home equity loans and lines of credit increased by approximately \$0.2 billion in the third quarter of 2008 due to a securitization transaction entered into during the quarter. The principal and interest on these debt securities are paid using the cash flows from the underlying loans and leases. Accordingly, the timing of the principal payments on these debt securities is dependent on the payments received on the underlying collateral. The interest rates on the bonds are both fixed and floating.

In July, 2008, we sold the majority of our Canadian small-ticket leases removing approximately \$0.3 billion of these assets from our balance sheet and the repaying \$0.3 billion of collateralized debt. In addition, we added \$91 million of collateralized debt at our home equity line of business in connection with the securitization transaction that closed during the third quarter. We elected to measure this debt at fair value in accordance with SFAS 159. See Note 11 for further detail.

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Collateralized debt is summarized as follows:

	<b>Contractual Maturity</b>	<b>Weighted Average Interest Rate at September 30, 2008</b>	<b>September 30, 2008 (Dollars in thousands)</b>	<b>December 31, 2007</b>
Commercial finance line of business				
Canadian asset backed notes:				
Note 1			\$	\$ 46,183
Note 2				192,103
Note 3				4,120
Home equity line of business				
2004-1 variable rate asset backed notes:	12/2024-12/2034	3.1	53,570	58,508
2005-1 variable and fixed rate asset backed notes:	6/2025-6/2035	4.9	124,474	145,805
2006-1 variable and fixed rate asset backed notes:	9/2035	5.1	145,076	165,115
2006-2 variable and fixed rate asset backed notes:	2/2036	4.9	161,369	184,313
2006-3 variable and fixed rate asset backed notes:	1/2037-9/2037	4.5	147,127	168,324
2007-1 variable and fixed rate asset backed notes:	8/2037	4.3	223,735	248,668
2008-1 variable and fixed rate asset backed notes:	9/2048	7.3	7,594	
2008-2 fixed rate asset backed notes:	9/2048	19.0	74,872	
2008-3 fixed rate asset backed notes:	9/2048	19.4	8,452	0
Total			\$ 946,269	\$ 1,213,139

**Note 10 Employee Retirement Plans**

Below are components of net periodic cost of the Pension and Supplemental Executive Retirement Plan (SERP) benefits:

**Employee Pension Plan:**

	<b>Three Months Ended September 30, 2008</b>		<b>Nine Months Ended September 30, 2008</b>	
		<b>2007</b>		<b>2007</b>
	<b>(Dollars in thousands)</b>			
Service cost	\$ 1,167	\$ 1,014	\$ 3,501	\$ 3,040
Interest cost	683	606	2,048	1,819
Expected return on plan assets	(657)	(627)	(1,971)	(1,880)

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Amortization of prior service cost	9	9	28	28
Amortization of actuarial loss	71	136	213	409
Net periodic benefit cost	\$ 1,273	\$ 1,138	\$ 3,819	\$ 3,416

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**Table of Contents****Supplemental Executive Retirement Plan:**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>			
Service cost	\$ 22	\$ 58	\$ 65	\$ 175
Interest cost	81	101	243	302
Amortization of transition obligation	3	3	8	8
Amortization of prior service cost			1	1
Amortization of actuarial loss		20		59
Net periodic benefit cost	\$ 106	\$ 182	\$ 317	\$ 545

As of September 30, 2008, we have not made any cash contributions to our pension plan in the current year and no cash contribution is required to this plan in the remainder of 2008 to maintain its funding status due to credit balances. We do anticipate making cash contributions to the plan in 2009.

**Note 11 Fair Value**

Effective January 1, 2008, we adopted SFAS 157 Fair Value Measurements. This statement defines fair value, establishes a consistent framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 requires, among other things, our valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, SFAS 157 requires the recognition of trade-date gains related to certain derivative trades that use unobservable inputs in determining the fair value. This guidance supersedes the guidance in Emerging Issues Task Force Issue No. 02-3,

Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF Issue 02-3), which prohibited the recognition of day-one gains on certain derivative trades when determining the fair value of instruments not traded in an active market.

Effective January 1, 2008, we adopted SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities. Subsequent changes in fair value for designated items are required to be reported in earnings in the current period. SFAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. During the third quarter of 2008, we entered into a secured financing transacting with respect to certain home equity loans. We elected to measure the \$91 million of collateralized debt associated with this transaction at fair value in accordance with SFAS 159.

This collateralized debt is principally in the form of asset-backed securities collateralized by the underlying second lien mortgage loans held for investment. Due to the nature of the underlying collateral and current market conditions, observable prices for these or similar instruments are typically not available in active markets. As a result, we valued this debt using valuation models (discounted cash flows) that utilize significant internal inputs. These inputs include such market observable inputs such as prepayment speeds, credit losses, and discount rates. Fair value option collateralized debt is classified as Level 3 (see definition below) as a result of the reliance on significant assumptions and estimates for model inputs. Given the reduced liquidity in the financial markets, the value of the collateralized debt could be volatile.

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. In accordance with SFAS 157, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

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Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

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This hierarchy requires the use of observable market data when available. The following table presents the hierarchy level for each of our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2008.

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
September 30, 2008				
Assets				
Residual interests	\$	\$	\$ 9,008	\$ 9,008
Investment securities available-for-sale		21,267	14,873	36,140
Servicing assets			16,574	16,574
Total assets	\$	\$21,267	\$40,455	\$61,722
Liabilities				
Collateralized debt	\$	\$	\$90,918	\$90,918
Derivatives		4,315		4,315
Total liabilities	\$	\$ 4,315	\$90,918	\$95,233

We classify financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table presents the changes in the Level 3 fair value category for the nine months ended September 30, 2008.

	<b>January 1, 2008</b>	<b>Net realized/unrealized gain(losses) included in earnings <sup>(1)</sup> <sub>(2)</sub> (Dollars in thousands)</b>	<b>Purchases, issuances and settlements</b>	<b>September 30, 2008</b>	<b>Unrealized gains (losses) still held <sup>(3)</sup></b>
<b>Assets</b>					
Residual interests	\$12,047	\$ (3,077)	\$ 38	\$ 9,008	\$ (3,077)
Investment securities available-for-sale	37,682	(22,748)	(61)	14,873	(22,748)
Servicing assets	19,724	(3,150)		16,574	
Total assets	\$69,453	\$(28,975)	\$ 38	\$ 40,455	\$ (28,975)
<b>Liabilities</b>					
Collateralized borrowings	\$	\$ 278	\$90,640	\$ 90,918	\$ 278
Total liabilities	\$	\$ 278	\$90,640	\$ 90,918	\$ 278

- (1) Unrealized gains (losses) on residual interests are recorded in Trading gains (losses) on the statement of income
- (2) Unrealized gains (losses) on servicing assets are recorded in Amortization and impairment of servicing assets on the statement of income
- (3) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets classified as Level 3 that are still held at September 30, 2008

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The following table presents the hierarchy level for each of our assets that are measured at fair value on a nonrecurring basis at September 30, 2008.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3 (Dollars in thousands)</b>	<b>Total</b>
<b>September 30, 2008</b>				
<b>Assets</b>				
Loans held for investment <sup>(1)</sup>	\$	\$	\$ 98,822	\$ 98,822
Loans and leases held for sale <sup>(2)</sup>			43,643	43,643
Mortgage servicing assets <sup>(3)</sup>			3,429	3,429
Total assets	\$	\$	\$ 145,894	\$ 145,894

(1) Represents the carrying amount of impaired loans (i.e., unpaid principal balance less specific loan loss reserves) with impairment calculated based on appraised collateral values

(2) Represents the carrying value of loans and leases held for sale which are valued at lower of cost or market value. Market value is determined based upon open market bids and discounted cash flow models adjusted for prepayment assumptions

(3) Represents the carrying value

of mortgage  
servicing assets  
which are  
valued at lower  
of cost or  
market. Market  
value is  
determined  
based upon  
observed pricing  
on similar,  
market-traded  
servicing rights  
or discounted  
cash flow  
models

**Note 12 Loss Per Share**

Loss per share calculations are summarized as follows:

	Three Months ended September 30, 2008				
	Net	Preferred	Basic	Effect of	Diluted
	Income		Earnings	Stock	Earnings
	(Loss)	Dividends	Per Share	Options	Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:	\$(54,430)	\$	\$(54,430)	\$	\$(54,430)
Shares			29,378		29,378
Per-share amount			\$ (1.85)	\$	\$ (1.85)

	Three Months ended September 30, 2007				
	Net	Preferred	Basic	Effect of	Diluted
	Income	Dividends	Earnings	Stock	Earnings
	(Loss)		Per Share	Options	Per Share
(Dollars in thousands, except per share amounts)					
Net loss available to common shareholders:					
From Continuing Operations	\$ (803)	\$(326)	\$ (1,129)	\$ (279)	\$ (1,408)
From Discontinued Operations	(17,227)		(17,227)		(17,227)
Total Net Loss for All Operations	\$(18,030)	\$(326)	(18,356)	(279)	(18,635)
Shares			29,191		29,191
Per-share from Continuing Operations			\$ (0.04)	\$ (0.01)	\$ (0.05)

Per-Share amount for all  
Operations

\$ (0.63)      \$ (0.01)      \$ (0.64)

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	Nine Months ended September 30, 2008				
	Net	Preferred	Basic	Effect of	Diluted
	Loss	Dividends	Earnings	Stock	Earnings
			Per Share	Options	Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:	\$(183,327)	\$	\$(183,327)	\$	\$(183,327)
Shares			29,314		29,314
Per-share amount			\$ (6.25)	\$	\$ (6.25)

	Nine Months ended September 30, 2007				
	Net	Preferred	Basic	Effect of	Diluted
	Loss	Dividends	Earnings	Stock	Earnings
			Per Share	Options	Per Share
	(Dollars in thousands, except per share amounts)				
Net loss available to common shareholders:					
From Continuing Operations	\$ (1,425)	\$(1,004)	\$ (2,429)	\$ (683)	\$ (3,112)
From Discontinued Operations	(27,123)		(27,123)		(27,123)
Total Net Loss for All Operations	\$(28,548)	\$(1,004)	(29,552)	(683)	(30,235)
Shares			29,390		29,390
Per-share from Continuing Operations			\$ (0.08)	\$ (0.03)	\$ (0.11)
Per-share amount for All Operations			\$ (1.01)	\$ (0.02)	\$ (1.03)

At September 30, 2008 and 2007, there were 2.6 million and 2.3 million shares, respectively, related to stock options that were not included in the dilutive earnings per share calculation because of our net loss position and because they had exercise prices above the stock price as of the respective dates.

**Note 13 Industry Segment Information**

We have three principal business segments that provide a broad range of banking products and services, including commercial banking, commercial finance, and home equity lending. In the third quarter, we substantially exited two channels within our commercial finance segment (small ticket equipment leasing in the US and Canada), retaining only our franchise finance channel within this segment. Our other segment primarily includes the parent company, unsold portions of businesses in which we no longer engage, and eliminations. The accounting policies of each segment are the same as those described in Note 1 Accounting Policies, Management Judgments and Accounting Estimates.

In the table below, the conforming, conventional mortgage banking line of business is shown in the table below as Discontinued Operations for 2007. Due to its diminishing significance, in 2008 this former segment is reported in

Parent and Other.

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Following is a summary of each segment's revenues, net income, and assets for the years indicated:

	<b>Commercial Banking</b>	<b>Commercial Finance</b>	<b>Home Equity Lending</b>	<b>Parent and Other</b>	<b>Consolidated</b>
	<b>(Dollars in thousands)</b>				
<b>For the Three Months Ended September 30, 2008</b>					
Net interest income	\$ 29,300	\$ 18,764	\$ 18,295	\$ (18,141)	\$ 48,218
Intersegment interest	(3,522)	(9,546)	(3,608)	16,676	
Provision for loan and leases losses	(29,400)	(1,694)	(26,940)	1	(58,033)
Other revenues	4,414	3,134	539	(4,563)	3,524
Intersegment revenues					
Total net revenues	792	10,658	(11,714)	(6,027)	(6,291)
Other expense	25,496	13,926	26,891	4,016	70,329
Intersegment expenses	1,129	376	652	(2,157)	
Loss before taxes	(25,833)	(3,644)	(39,257)	(7,886)	(76,620)
Provision for taxes	(10,728)	(1,465)	(15,698)	5,701	(22,190)
Net loss	\$(15,105)	\$ (2,179)	\$(23,559)	\$(13,587)	\$(54,430)

	<b>Commercial Banking</b>	<b>Commercial Finance</b>	<b>Home Equity Lending</b>	<b>Parent and Other</b>	<b>Continuing Operations</b>	<b>Discontinued Operations</b>	<b>Consolidated</b>
	<b>(Dollars in thousands)</b>						
<b>For the Three Months Ended September 30, 2007</b>							
Net interest income	\$30,918	\$ 23,779	\$ 28,280	\$(17,831)	\$ 65,146	\$ (550)	\$ 64,596
Intersegment interest	(929)	(10,521)	(4,875)	16,325			
Provision for loan and leases losses	(3,100)	(2,860)	(22,533)		(28,493)		(28,493)
Other revenues	4,099	3,480	2,150	(2,697)	7,032	(4,577)	2,455
Intersegment revenues			1,058	(1,058)			
Total net revenues	30,988	13,878	4,080	(5,261)	43,685	(5,127)	38,558
Other expense	22,650	7,199	16,968	(472)	46,345	23,640	69,985
Intersegment expenses	932	400	670	(2,002)			
Income (loss) before taxes	7,406	6,279	(13,558)	(2,787)	(2,660)	(28,767)	(31,427)

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Provision for taxes	2,697	2,471	(5,420)	(1,605)	(1,857)	(11,540)	(13,397)
Net income (loss)	\$ 4,709	\$ 3,808	\$ (8,138)	\$ (1,182)	\$ (803)	\$(17,227)	\$(18,029)

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	<b>Commercial Banking</b>	<b>Commercial Finance</b>	<b>Home Equity Lending</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>(Dollars in thousands)</b>					
<b>For the Nine Months Ended September 30, 2008</b>					
Net interest income	\$ 90,439	\$ 69,551	\$ 72,355	\$ (57,817)	\$ 174,528
Intersegment interest	(9,917)	(32,929)	(12,677)	55,523	
Provision for loan and leases losses	(60,461)	(54,551)	(145,371)	(1)	(260,384)
Other revenue	13,482	12,248	958	(21,099)	5,589
Intersegment revenues			76	(76)	
Total net revenues	33,543	(5,681)	(84,659)	(23,470)	(80,267)
Other expense	69,922	28,545	53,600	14,213	166,280
Intersegment expenses	3,279	1,281	1,864	(6,424)	
Loss before taxes	(39,658)	(35,507)	(140,123)	(31,259)	(246,547)
Provision for taxes	(16,846)	(14,356)	(56,053)	24,035	(63,220)
Net loss	\$ (22,812)	\$ (21,151)	\$ (84,070)	\$ (55,294)	\$ (183,327)
Assets at September 30, 2008	\$3,048,492	\$687,926	\$1,216,206	\$306,800	\$5,259,424

	<b>Commercial Banking</b>	<b>Commercial Finance</b>	<b>Home Equity Lending</b>	<b>Parent and Other</b>	<b>Consolidated</b>		
					<b>Continuing Operations</b>	<b>Discontinued Operations</b>	<b>Consolidated</b>
<b>(Dollars in thousands)</b>							
<b>For the Nine Months Ended September 30, 2007</b>							
Net interest income	\$ 90,551	\$ 67,087	\$ 90,670	\$ (51,191)	\$ 197,117	\$ (1,766)	\$ 195,351
Intersegment interest	(1,084)	(28,898)	(18,228)	48,210			
Provision for loan and leases losses	(8,541)	(9,392)	(53,222)		(71,155)		(71,155)
Other revenue	12,234	9,218	(851)	(4,802)	15,799	(12,037)	3,762
Intersegment revenues			2,024	(2,024)			
Total net revenues	93,160	38,015	20,393	(9,807)	141,761	(13,803)	127,958
Other expense	68,097	21,458	52,121	4,017	145,693	31,570	177,263
Intersegment expenses	2,700	1,209	1,966	(5,875)			

Income							
(loss) before taxes	22,363	15,348	(33,694)	(7,949)	(3,932)	(45,373)	(49,305)
Provision for taxes	8,149	6,013	(13,456)	(3,213)	(2,507)	(18,250)	(20,757)
Net income (loss)	\$ 14,214	\$ 9,335	\$ (20,238)	\$ (4,736)	\$ (1,425)	\$ (27,123)	\$ (28,548)
Assets at September 30, 2007	\$ 3,131,124	\$ 1,251,874	\$ 1,561,817	\$ 217,033			\$ 6,161,848

## Note 14 Commitments and Contingencies

### *Litigation in Connection with Loans Purchased from Community Bank of Northern Virginia*

Our subsidiary, Irwin Union Bank and Trust Company, is a defendant in several actions in connection with loans Irwin Union Bank purchased from Community Bank of Northern Virginia (Community).

*Hobson v. Irwin Union Bank and Trust Company* was filed on July 30, 2004 in the United States District Court for the Northern District of Alabama. As amended on August 30, 2004, the *Hobson* complaint, seeks certification of both a plaintiffs and a defendants class, the plaintiffs class to consist of all persons who obtained loans from Community and whose loans were purchased by Irwin Union Bank. *Hobson* alleges that defendants violated the Truth-in-Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), the Real Estate Settlement Procedures Act (RESPA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). On October 12, 2004, Irwin fice of Management and Budget. Prior to that, Ms. Eickhoff 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 AT&T Corp., where she is a member of the Audit Committee and the Nominating and Governance Committee, and The Moorings, Inc., a non-profit retirement community in Naples, Florida. Ms. Eickhoff 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 is a member of our Audit Committee and Three-Year Independent Director Evaluation Committee.

*Mark P. Frissora* Mr. Frissora was named our Chairman in March 2000. See below under Executive officers for a summary of his background.

*Frank E. Macher* 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 as Chairman of Federal Mogul from October 2001 to 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 was named a director of our company in July 2000. He is also a director of Decoma International, Inc., where he serves on the Audit Committee, and a member of the Board of Trustees of Kettering University and the Detroit Renaissance. Mr. Macher is a member of our Audit Committee.

*Sir David Plastow* Sir David was Chairman of the Medical Research Council, which promotes and supports research and postgraduate training in the biomedical and other sciences, from

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1990 until his retirement in 1998. Sir David was Chairman of Inchcape plc, a multinational marketing and distribution company, from June 1992 to December 1995. From 1971 he was Managing Director of Rolls-Royce Motors Ltd. until 1980. When that company merged with Vickers plc, an engineering and manufacturing company headquartered in London, he became Managing Director and then Chairman of Vickers plc until his retirement in 1992. Sir David has been a director of our company since 1996. He previously served as a member of the Board of Directors of the former Tenneco Inc. from 1985 until 1992. Sir David is a member of our Compensation/ Nominating/ Governance 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 National Life Insurance Company (where he serves on the Executive and Finance Committees and is Chairman of the Nominations and Governance Committee), Zions Bancorporation (where he serves on the Audit and Compensation Committees) and Pactiv Corporation (where he serves on the Compensation/Nominating/ Governance Committee). Mr. Porter has been a director of our company since 1998. Mr. Porter is the Chairman of our Compensation/Nominating/Governance Committee and a member of our Three-Year Independent Director Evaluation Committee.

*David B. Price, Jr.* Mr. Price has served as Chief Executive Officer of Birdet Price, LLC, an investment and consulting firm, 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 also a director of CH2M HILL. Mr. Price was named a director of our company in 1999. Mr. Price is a member of our Three-Year Independent Director Evaluation Committee and the Chairman of our Compensation/ Nominating/ Governance Committee.

*Dennis G. Severance* Dr. Severance is the Accenture Professor of Computer and Information Systems of the University of Michigan Business School. 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 became a director in July 2000. Dr. Severance is a member of our Audit Committee.

*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

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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 has been a director of our company since 1998. He is also a director of State Farm Mutual Insurance Company, American Forest and Paper Association 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 Chairman of our Three-Year Independent Director Evaluation Committee.

The present term of office for the directors named above will generally expire at the 2004 annual meeting of stockholders, subject to their earlier retirement, resignation or removal.

## **Executive officers**

*Mark P. Frissora* Mr. Frissora became our Chief Executive Officer in connection with the 1999 spin off of Pactiv Corporation and has been serving as President of the automotive operations since April 1999. In March 2000, he was also named our Chairman. From 1996 to April 1999, he held various positions within our automotive operations, including Senior Vice President and General Manager of the worldwide original equipment business. Mr. Frissora joined us in 1996 from AeroquipVickers Corporation, where he served since 1991 as a Vice President. In the 15 years prior to joining AeroquipVickers, he served for ten years with General Electric and five years with Philips Lighting Company in management roles focusing on product development and marketing. He is a member of The Business Roundtable and the World Economic Forum's Automotive Board of Governors. He is also a director of NCR Corporation, where he serves on its Compensation Committee, and FMC Corporation, where he serves on its Audit Committee. Mr. Frissora became a director of our company in 1999.

*Timothy R. Donovan* Mr. Donovan was named Managing Director of our International Group in May 2001 with responsibility for all operations in Asia and South America, as well as our Japanese OE business worldwide. He was named our Senior Vice President and General Counsel in August 1999. He was promoted to Executive Vice President in December 2001. Mr. Donovan also is in charge of our worldwide Environmental, Health and Safety Program. Prior to joining us, Mr. Donovan was a partner in the law firm of Jenner & Block from 1989, and at the time of his resignation in September 1999 was serving as the Chairman of its Corporate and Securities Department and as a member of its Executive Committee. He is also a director of John B. Sanfilippo & Son, Inc., where he is a member of its Compensation Committee and is the Chairman of its Audit Committee. Mr. Donovan was elected to our Board of Directors on March 9, 2004.

*Hari N. Nair* Mr. Nair was named our Executive Vice President and Managing Director - Europe effective June 2001. Previously he was Senior Vice President and Managing Director - International. Prior to December 2000, Mr. Nair was the Vice President and Managing Director - Emerging Markets. Previously, Mr. Nair was the Managing Director for Tenneco Automotive Asia, based in Singapore and responsible for all operations and development projects in Asia. He began his career with the former Tenneco Inc. in 1987, holding various positions in strategic planning, marketing, business development, quality and finance. Prior to joining Tenneco, Mr. Nair was a senior financial analyst at General Motors Corporation focusing on European operations.

*Richard P. Schneider* Mr. Schneider was named as our Senior Vice President - Global Administration in connection with the 1999 spin off and is responsible for the development

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

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

*Kenneth R. Trammell* Mr. Trammell was named our Senior Vice President and Chief Financial Officer in September 2003, having served as our Vice President and Controller from September 1999. From April 1997 to November 1999 he served as Corporate Controller of Tenneco Inc. He joined Tenneco Inc. in May 1996 as Assistant Controller. Before joining Tenneco Inc., Mr. Trammell spent 12 years with the international public accounting firm of Arthur Andersen LLP, last serving as a senior manager.

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

*Paul Schultz* Mr. Schultz was named our Senior Vice President Global Supply Chain Management in April 2002. Prior to joining the company, Mr. Schultz was the Vice President, Supply Chain Management at Ingersoll-Rand Company. Mr. Schultz joined Ingersoll-Rand in 1998 as Vice President, Strategic Sourcing for their joint venture company, Ingersoll Dresser Pump. He was later promoted to Vice President, Manufacturing Operations, where he successfully introduced and led the Six Sigma initiative. Prior to joining Ingersoll-Rand, Mr. Schultz was with AlliedSignal (now Honeywell International) where he served for 25 years in staff and management positions. Most recently, he was our Corporate Director, Global Commodity Management.

*Neal Yanos* Mr. Yanos was named our Senior Vice President and General Manager North American Original Equipment Ride Control and North American Aftermarket on May 8, 2003. He joined our Monroe ride control division as a process engineer in 1988 and since that time has served in a broad range of assignments including product engineering, strategic planning, business development, finance, program management and marketing, including Director of our North American original equipment GM/VW business unit and most recently as our Vice President and General Manager North American Original Equipment Ride Control from December 2000. Before joining our company, Mr. Yanos was employed in various engineering positions by Sheller Globe Inc. (now part of Lear Corporation) from 1985 to 1988.

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*James A. Perkins, Jr.* Mr. Perkins joined us as Vice President and Controller in February of 2004. Prior to joining the company, Mr. Perkins spent fifteen years with General Electric in various management positions in acquisitions integration, finance and corporate audit. Most recently, from 2001 to 2003, he was Director, Commercial Operations for GE Medical Systems Information Technology, a provider of products and services for the medical industry. Prior to that, he served as Chief Financial Officer and Vice President for GE-Fanuc Corporation from 1999 to 2000 (manufacturing related products) and for GE-Medical Systems Ultrasound from 1998 to 1999 (medical-related devices and services).

The present term of office for the officers named above will generally expire on the earliest of their retirement, resignation or removal.

For information regarding our director and officer compensation and benefits, please refer to our periodic filings with the Commission under the Securities Exchange Act of 1934.

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## Security ownership of certain other beneficial owners and management

### Management

The following table shows, as of March 19, 2004, 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; (2) each of our five most highly compensated executive officers for 2003; and (3) all current directors and executive officers as a group.

	Shares of common stock(1)(2)(3)(4)
<b>Directors</b>	
Charles W. Cramb	0
M. Kathryn Eickhoff	46,188
Frank E. Macher	24,386
Sir David Plastow	32,306
Roger B. Porter	30,117
David B. Price, Jr.	57,406
Dennis G. Severance	26,386
Paul T. Stecko	32,538
<b>Named executive officers</b>	
Mark P. Frissora	863,630
Timothy R. Donovan	271,043
Hari N. Nair	250,337
Richard P. Schneider	205,212
Brent J. Bauer	123,569
All executive officers and directors as a group (18 individuals)	2,354,325(5)

(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.

(2) Includes restricted shares. At March 19, 2004, Ms. Eickhoff and Messrs. Donovan, Frissora, Nair, Schneider and Bauer held 16,436, 28,000, 100,000, 28,000, 17,500 and 17,500 restricted shares, respectively. Also includes shares that are subject to options that are exercisable within 60 days of March 19, 2004 for Ms. Eickhoff and Messrs. Cramb, Donovan, Frissora, Macher, Plastow, Porter, Price, Severance, Stecko, Nair, Schneider and Bauer to purchase 25,000, 0, 198,334, 666,666, 22,500, 28,764, 26,882, 25,000, 22,500, 25,000, 186,669, 140,000 and 90,834 shares, respectively.

(3) Mr. Frissora beneficially owns approximately 2.0 percent of the outstanding common stock. Each of the other individuals listed in the table owns less than 1 percent of the outstanding shares of our common stock, respectively, except for all directors and executive officers as a group, who beneficially own approximately 5.4 percent of the outstanding common stock.

(4) For non-management directors, does not include common stock equivalents received in payment of director fees. These common stock equivalents are payable in cash or, at the Company's option, shares of common stock after a non-management director ceases to serve as a director. At March 19, 2004, the total number of common stock equivalents held by Ms. Eickhoff and Messrs. Cramb, Macher, Plastow, Porter, Price, Severance and Stecko was 20,941, 13,969, 25,647, 31,875, 57,453, 38,739, 41,504 and 38,739, respectively.

(5) Includes 1,723,853 shares that are subject to options that are exercisable within 60 days of March 19, 2004 by all executive officers and directors as a group. Includes 274,019 restricted shares.



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The following table sets forth, as of March 19, 2004, certain information regarding the persons known by us to be the beneficial owner of more than 5 percent 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
Dimensional Fund Advisors, Inc.	2,499,200(2)	5.97%(2)
Barclays Global Investors, NA and related entities	2,343,156(3)	5.60%(3)

(1) This information is based on information contained in filings made with the Commission regarding the ownership of our common stock.

(2) Dimensional Fund Advisors Inc. ( Dimensional ), 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401, has indicated that it has sole voting and dispositive power over 2,499,200 shares. Dimensional has also advised us that it is a registered investment advisor and these shares are held on behalf of various advisory clients.

(3) Barclays Global Investors, NA and various related entities (collectively, Barclays ), 45 Fremont Street, San Francisco, California 94105, have indicated that they have sole voting and dispositive power over 2,249,570 shares in the aggregate. Barclays has also advised the Company that all shares reflected above are held in trust accounts on behalf of the beneficiaries of those accounts.

**Certain relationships and related transactions**

Prior to August 12, 2003, Mr. Frissora was indebted to our company for amounts incurred in connection with his 1999 relocation from Ohio to our headquarters in Lake Forest, Illinois. This loan was made prior to the adoption of the prohibition on loans to directors and executive officers included in the Sarbanes-Oxley Act of 2002. The terms of that loan provided for no interest and that principal was only payable in full upon termination of his employment prior to August 2003, except for a termination without cause or following a change in control. In accordance with the terms of the loan, the aggregate outstanding balance (\$400,000) was forgiven on August 12, 2003 based on Mr. Frissora's continued employment at that time. This amount was included in Mr. Frissora's taxable compensation for 2003.

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## **Description of capital stock**

### **Authorized capital stock**

Under our certificate of incorporation, our authorized capital stock consists of 135,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, par value \$.01 per share. We have designated 2,000,000 shares of preferred stock as Series B Participating Junior Preferred Stock, par value \$.01 per share, and reserved 2,000,000 shares of this junior preferred stock for issuance in connection with our stockholder rights plan. See Antitakeover effects of certain provisions Rights plan.

### **Common stock**

The holders of common stock are entitled to one vote for each share on all matters on which stockholders generally are entitled to vote, and except as otherwise required by law or provided in any resolution adopted by our Board of Directors with respect to any series of preferred stock, the holders of common stock possess 100% of the voting power. Our certificate of incorporation does not provide for cumulative voting.

Subject to the preferential rights of any outstanding preferred stock which may be created by our Board of Directors, the holders of common stock are entitled to such dividends as may be declared from time to time by the Board and paid from funds legally available therefor, and the holders of common stock will be entitled to receive pro rata all assets of our company available for distribution upon liquidation. All shares of common stock received in the offering will be fully paid and nonassessable, and the holders thereof will not have any preemptive rights.

The common stock is listed on the New York Stock Exchange and trades under the symbol TEN.

The declaration of dividends on our common stock is at the discretion of our Board of Directors. See Dividend policy.

### **Preferred stock**

Under our certificate of incorporation, our Board of Directors is authorized to issue preferred stock, in one or more series, and to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. See Antitakeover effects of certain provisions.

### **Antitakeover effects of certain provisions**

Our certificate of incorporation, by-laws and stockholder rights plan, and Delaware statutory law, contain certain provisions that could make the acquisition of our company by means of a tender offer, a proxy contest or otherwise more difficult. The description set forth below is intended as a summary only and is qualified in its entirety by reference to our certificate of incorporation, by-laws and stockholder rights plan, which are filed as exhibits to our Registration Statement on Form S-3 relating to this offering.

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*Number of directors, removal; filling vacancies.* Our certificate of incorporation provides that the business and affairs of our company will be managed by or under the direction of a Board of Directors, consisting of not less than eight nor more than sixteen directors, the exact number thereof to be determined from time to time by affirmative vote of a majority of the entire Board of Directors. In addition, the certificate of incorporation provides that any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

Notwithstanding the foregoing, the certificate of incorporation provides that whenever the holders of any one or more series of preferred stock have the right, voting separately as a class or series, to elect directors, the election, removal, term of office, filling of vacancies and other features of such directorships will be governed by the terms of the certificate of incorporation applicable to that preferred stock.

*Special meeting.* Our by-laws provide that special meetings of stockholders will be called by the Board of Directors, subject to the rights of any holders of preferred stock. Moreover, the business permitted to be conducted at any special meeting of stockholders is limited to the purposes specified in the notice of meeting given by our company.

*Advance notice provisions for stockholder nominations and stockholder proposals.* Our by-laws establish an advance notice procedure for stockholders to make nominations of candidates for election of directors, or to bring other business before an annual meeting of stockholders.

The stockholder notice procedure provides that only persons who are nominated by, or at the direction of, our Board of Directors, or by a stockholder who has given timely written notice to the Secretary of our company prior to the meeting at which directors are to be elected, will be eligible for election as directors. The stockholder notice procedure provides that at an annual meeting only such business may be conducted as has been brought before the meeting by, or at the direction of, our Board of Directors or by a stockholder who has given timely written notice to the Secretary of our company of such stockholder's intention to bring that business before the meeting. Under the stockholder notice procedure, for stockholder notice in respect of the annual meeting of our stockholders to be timely, such notice must be received 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. However, in the event that the date of the annual meeting is more than thirty days before or more than seventy days after the 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 10th day following the day on which public announcement of the date of such meeting is first made.

Under the stockholder notice procedure, a stockholder's notice to our company proposing to nominate a person for election as a director must contain certain information, including, without limitation, the identity and address of the nominating stockholder, the class and number of shares of stock of our company which are beneficially owned by such stockholder, and as to each person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of our company which are beneficially owned by the person and (iv) any other information

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relating to the person that is required to be disclosed in a solicitation for proxies for election of directors pursuant to Rule 14A under the Securities Exchange Act. Under the stockholder notice procedure, a stockholder's notice relating to the conduct of business other than the nomination of directors must contain certain information about the proposed business and about the proposing stockholder, including, without limitation, a brief description of the business the stockholder proposes to bring before the meeting, the reasons for conducting such business at such meeting, the name and address of such stockholder, the class and number of shares of stock of our company beneficially owned by such stockholder, and any material interest of such stockholder in the business so proposed. If the Chairman of the meeting determines that a person was not nominated, or other business was not brought before the meeting, in accordance with the stockholder notice procedure, such person will not be eligible for election as a director, or such business will not be conducted at any such meeting, as the case may be.

By requiring advance notice of nominations by stockholders, the stockholder notice procedure affords our Board of Directors an opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by the Board of Directors, to inform stockholders about those qualifications. By requiring advance notice of other proposed business, the stockholder notice procedure also provides a more orderly procedure for conducting annual meetings of stockholders and, to the extent deemed necessary or desirable by the Board of Directors, provides the Board of Directors with an opportunity to inform stockholders, prior to meetings, of any business proposed to be conducted at the meetings, together with any recommendations as to the Board's position regarding action to be taken with respect to such business, so that stockholders can better decide whether to attend such a meeting or to grant a proxy regarding the disposition of any such business.

Although our by-laws do not give the Board of Directors any power to approve or disapprove stockholder nominations for the election of directors or proper stockholder proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to our company and stockholders.

*Record date procedure for stockholder action by written consent.* Our by-laws establish a procedure for the fixing of a record date in respect of action proposed to be taken by our stockholders by written consent in lieu of a meeting. The by-laws provide that any person seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice addressed to the Secretary and delivered to our company, request that a record date be fixed for such purpose. The by-laws state that the Board of Directors may fix a record date for such purpose which shall be no more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board and shall not precede the date such resolution is adopted. If the Board of Directors fails within 10 days after we receive such notice to fix a record date for such purpose, the by-laws provide that the record date shall be the day on which the first written consent is delivered to us unless prior action by the Board of Directors is required under the Delaware General Corporation Law (the "DGCL"), in which event the record date shall be at the close of business on the day on which our Board of Directors adopts the resolution taking such prior action. The by-laws also provide that the Secretary of our company or, under certain circumstances, two

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inspectors designated by the Secretary shall promptly conduct the ministerial review of the sufficiency of any written consents of stockholders duly delivered to us and of the validity of the action to be taken by stockholder consent as he or she deems necessary or appropriate, including, without limitation, whether the holders of a number of shares having the requisite voting power to authorize or take the action specified in the written consents have given consent.

*Stockholder meetings.* Our by-laws provide that the Board of Directors and the Chairman of a meeting may adopt rules for the conduct of stockholder meetings and specify the types of rules that may be adopted (including the establishment of an agenda, rules relating to presence at the meeting of persons other than stockholders, restrictions on entry at the meeting after commencement thereof and the imposition of time limitations for questions by participants at the meeting).

*Preferred stock.* Our certificate of incorporation authorizes the Board of Directors to provide for series of preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series.

We believe that the ability of our Board of Directors to issue one or more series of preferred stock provides us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of the preferred stock, as well as shares of common stock, will be available for issuance without further action by our stockholders, unless action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. The New York Stock Exchange currently requires stockholder approval as a prerequisite to listing shares in several instances, including in some cases where the present or potential issuance of shares could result in a 20% increase in the number of shares of common stock outstanding or in the amount of voting securities outstanding. If the approval of our stockholders is not required for the issuance of shares of preferred stock or common stock, the Board of Directors may determine not to seek stockholder approval.

Although the Board of Directors has no intention at the present time of doing so, it could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. The Board of Directors will make any determination to issue such shares based on its judgment as to the best interests of our company and stockholders. The Board of Directors, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of the Board, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then current market price of such stock.

*Business combinations.* Our certificate of incorporation prohibits Business Combinations (as defined in the certificate of incorporation) with Interested Stockholders (as defined in the certificate of incorporation) without the approval of the holders of a least 66 2/3% in voting power of the outstanding shares of stock entitled to vote in the election of directors ( Voting Stock ) not owned by an Interested Stockholder unless (i) approved by a majority of the Continuing Directors (as defined in the certificate of incorporation) or (ii) certain detailed

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requirements as to, among other things, the value and type of consideration to be paid to our stockholders, the maintenance of our dividend policy, the public disclosure of the Business Combination and the absence of any major change in our business or equity capital structure without the approval of a majority of the Continuing Directors, have been satisfied. The certificate of incorporation generally defines an

Interested Stockholder as any person (other than us or any subsidiary, any employee benefit plan of us or any subsidiary or any trustee or fiduciary with respect to any such plan or holding Voting Stock for the purpose of funding any such plan or funding other employee benefits for employees of us or any subsidiary when acting in such capacity) who (a) is or has announced or publicly disclosed a plan or intention to become the beneficial owner of Voting Stock representing five percent or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock or (b) is an affiliate or associate of our company and at any time within the two-year period immediately prior to the date in question was the beneficial owner of Voting Stock representing five percent or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock. The certificate of incorporation defines a Continuing Directors as any member of the Board of Directors, while such person is a member of the Board of Directors, who is not an affiliate or associate or representative of the interested Stockholder and was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor thereto who is not an affiliate or associate or representative of the Interested Stockholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

*Amendment of certain provisions of the certificate of incorporation and by-laws.* Under the DGCL, the stockholders of a corporation have the right to adopt, amend or repeal the by-laws and, with the approval of the board of directors, the certificate of incorporation of a corporation. In addition, if the certificate of incorporation so provides, the by-laws may be adopted, amended or repealed by the board of directors. Our certificate of incorporation provides that the by-laws may be amended by our Board of Directors or by the stockholders.

The certificate of incorporation also provides that, in addition to approval by the Board of Directors and notwithstanding that a lesser percentage or separate class vote may be specified by law, the certificate of incorporation or the by-laws, any proposal to amend or repeal, or adopt any provision inconsistent with, the provisions of the certificate of incorporation regarding Business Combinations proposed by or on behalf of an Interested Stockholder or affiliate thereof requires the affirmative vote of the holders of 66 2/3% in voting power of the outstanding shares of Voting Stock, excluding Voting Stock beneficially owned by any Interested Stockholder, unless the amendment or repeal of or the adoption of any provision inconsistent with, the provisions regarding Business Combinations is unanimously recommended by the members of our Board of Directors and each of the members of the Board qualifies as a Continuing Director. Approval by the Board of Directors, together with the affirmative vote of the holders of a majority in voting power of the outstanding shares of Voting Stock, is required to amend all other provisions of the Certificate. The Business Combination supermajority voting requirement could have the effect of making more difficult any amendment by stockholders of the Business Combination provisions of the certificate of incorporation described above, even if a majority of our stockholders believe that such amendment would be in their best interest.

*Stockholder Rights Plan.* On September 9, 1998, our Board of Directors declared a dividend of one preferred share purchase right (a Right) for each outstanding share of our common stock. The dividend was payable on September 21, 1998 (the Record Date) to the

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stockholders of record on that date. The description and terms of the Rights are set forth in a Rights Agreement dated as of September 9, 1998, as amended March 14, 2000 and February 5, 2001, as the same may be amended from time to time (the "Rights Agreement"), between us and First Union National Bank, as Rights Agent (as successor to First Chicago Trust Company of New York as rights agent). The Rights will expire on September 9, 2008 (the "Final Expiration Date"), unless the Final Expiration Date is advanced or extended or unless the Rights are earlier redeemed or exchanged by us, in either case as described below.

Effective as of 7:58 a.m., eastern standard time, on November 5, 1999, we effected a 1-for-5 reverse stock split, whereby each five issued shares of common stock as of 7:58 a.m., eastern standard time, on November 5, 1999 were reclassified into one share of common stock, with fractional shares settled in cash. Under Section 11(n) of the Rights Agreement, we adjusted the number of Rights associated with each share of common stock from one Right to five Rights in connection with the reverse stock split.

As amended, each Right entitles the registered holder to purchase from us one one-thousandth of a share of Series B Junior Participating Preferred Stock, par value \$.01 per share, of the Registrant (the "Junior Preferred Stock") at a price of \$8.80 per one-thousandth of a share of Junior Preferred Stock (the "Purchase Price"), subject to adjustment. This reflects an aggregate Purchase Price of \$44.00 for the five Rights associated with each share of common stock.

In connection with the adoption of the Rights Agreement, the Board of Directors also adopted a TIDE (Three-year Independent Director Evaluation) mechanism. Under the TIDE mechanism, an independent Board committee will review, on an ongoing basis, the Rights Agreement and developments in rights plans generally, and, if it deems appropriate, recommend modification or termination of the Rights Agreement. This independent committee will report to our Board at least every three years as to whether the Rights Agreement continues to be in the best interests of our stockholders.

The Rights are not exercisable until the Distribution Date. Under the Rights Agreement, a Distribution Date occurs upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons has become an Acquiring Person or (ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated or associated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding shares of common stock. Except in certain situations, a person or group of affiliated or associated persons becomes an Acquiring Person upon acquiring beneficial ownership of 15% or more of the outstanding shares of common stock. Until the Distribution Date, the Rights will be evidenced, with respect to any of the common stock certificates outstanding as of the Record Date, by such common stock certificate.

The Rights Agreement provides that, until the Distribution Date (or earlier expiration of the Rights), the Rights will be transferred with and only with the common stock. Until the Distribution Date or earlier expiration of the Rights), new common stock certificates issued after the Record Date upon transfer or new issuances of common stock will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date (or earlier expiration of the Rights), the surrender for transfer of any certificates for shares of common stock outstanding as of the Record Date, even without such notation, will also constitute the

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transfer of the Rights associated with the shares of common stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ( Right Certificates ) will be mailed to holders of record of the common stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Purchase Price payable, and the number of shares of Junior Preferred Stock or other securities or property issuable, upon exercise of the Rights is subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) upon the grant to holders of the Junior Preferred Stock of certain rights or warrants to subscribe for or purchase Junior Preferred Stock at a price, or securities convertible into Junior Preferred Stock with a conversion price, less than the then-current market price of the Junior Preferred stock or (iii) upon the distribution to holders of the Junior Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Junior Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding Rights is subject to adjustment in the event of a stock dividend on the common stock payable in shares of common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the Distribution Date.

Shares of Junior Preferred Stock purchasable upon exercise of the Rights will not be redeemable. Each share of Junior Preferred Stock will be entitled, when, as and if declared, to a minimum preferential quarterly dividend payment of \$25.00 per share but will be entitled to an aggregate dividend of 200 times the dividend declared per share of common stock. In the event of liquidation, dissolution or winding up of our company, the holders of the Junior Preferred Stock will be entitled to a minimum preferential payment of \$500.00 per share (plus any accrued but unpaid dividends) but will be entitled to an aggregate payment of 200 times the payment made per share of common stock. Each share of Preferred Stock will have 200 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which outstanding shares of common stock are converted or exchanged, each share of Junior Preferred Stock will be entitled to receive 200 times the amount received per share of common stock. These right are protected by customary antidilution provisions.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a Right that number of shares of common stock having a market value of two times the exercise price of the Right.

In the event that, after a person or group has become an Acquiring Person, we are acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provisions will be made so that each holder of a Right (other than Rights beneficially owned by an Acquiring Person which will have become void) will thereafter have the right to receive upon the exercise of a Right that number of shares of common stock of the person with whom we have engaged in the foregoing transaction (or its parent) that at the time of such transaction have a market value of two times the exercise price of the Right.

At any time after any person or group becomes an Acquiring Person and prior to the earlier of one of the events described in the previous paragraph or the acquisition by such Acquiring

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Person of 50% or more of the outstanding shares of common stock, our Board of Directors may exchange the Rights (other than Rights owned by such Acquiring Person which will have become void), in whole or in part, for shares of common stock or Junior Preferred Stock (or a series of our preferred stock having equivalent rights, preferences and privileges), at an exchange ratio of one-fifth of one share of common stock, or a fractional share of Junior Preferred Stock (or other preferred stock) equivalent in value thereto, per Right.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Junior Preferred Stock or common stock will be issued (other than fractions of Junior Preferred Stock which are integral multiples of one one-thousandth of a share of Junior Preferred Stock, which may, at our election, be evidenced by depositary receipts), and in lieu thereof an adjustment in cash will be made based on the current market price of the Junior Preferred Stock or the common stock.

At any time prior to the time an Acquiring person becomes such, our Board of Directors may redeem the Rights in whole, but not in part, at a price of \$.002 per Right (the Redemption Price) payable, at our option, in cash, shares of common stock or such other form of consideration as our Board of Directors shall determine. The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

For so long as the Rights are then redeemable, we may, except with respect to the Redemption Price, amend the Rights Agreement in any manner. After the Rights are no longer redeemable, we may, except with respect to the Redemption Price, amend the Rights Agreement in any manner that does not adversely affect the interests of holders of the Rights.

Until a Right is exercised or exchanged, the holder thereof, as such, will have no rights as a stockholder of our company, including, without limitation, the right to vote or to receive dividends.

As of December 31, 2003, there were 40,872,604 shares of common stock outstanding, with each share carrying five Rights. Until the Distribution Date, the Registrant will issue five Rights with each share of common stock that shall become outstanding so that all such shares will have attached rights. Two million shares of Junior Preferred Stock have been reserved for issuance upon exercise of the Rights.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to any person or group that attempts to acquire us, without the approval of our Board of Directors. The Rights should not interfere with any merger or other business combination approved by our Board of Directors since the Board of Directors may, at its option, at any time until an Acquiring Person becomes such, redeem all, but not less than all, of the then outstanding Rights at the applicable redemption price.

This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement (which includes as Exhibit B the Form of Rights Certificate), as the same may be amended from time to time, which is filed as an exhibit to the Registration Statement on Form S-3 of which this prospectus is a part.

The Rights Agreement is designed to protect the stockholders of our company in the event of unsolicited offers to acquire our company and other coercive takeover tactics which, in the

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opinion of our board of directors, could impair its ability to represent stockholder interests. The provisions of the rights agreement may render an unsolicited takeover of our company more difficult or less likely to occur, even though such takeover may offer our stockholders the opportunity to sell their stock at a price above the prevailing market rate and may be favored by a majority of our stockholders.

*Antitakeover legislation.* Section 203 of the DGCL provides that, subject to certain exceptions specified therein, a corporation shall not engage in any business combination with any interested stockholder for a three-year period following the time that such stockholder becomes an interested stockholder unless (i) prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding certain shares) or (iii) on or subsequent to such time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 of the DGCL generally defines an interested stockholder to include (x) any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date and (y) the affiliates and associates of any such person. Section 203 of the DGCL generally defines a business combination to include (1) mergers and sales or other dispositions of 10% or more of the assets of the corporation with or to an interested stockholder, (2) certain transactions resulting in the issuance or transfer to the interested stockholder of any stock of the corporation or its subsidiaries, (3) certain transactions which would result in increasing the proportionate share of the stock of the corporation or its subsidiaries owned by the interested stockholder and (4) receipt by the interested stockholder of the benefit (except proportionately as a stockholder) of any loans, advances, guarantees, pledges, or other financial benefits.

Under certain circumstances, Section 203 of the DGCL makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period, although the certificate of incorporation or stockholder-adopted by-laws may exclude a corporation from the restrictions imposed thereunder. Neither our certificate of incorporation nor our by-laws exclude our company from the restrictions imposed under Section 203 of the DGCL. It is anticipated that the provisions of Section 203 of the DGCL may encourage companies interested in acquiring our company to negotiate in advance with our board of directors since the stockholder approval requirement would be avoided if the board of directors approves, prior to the time the stockholder becomes an interested stockholder, either the business combination or the transaction which results in the stockholder becoming an interested stockholder.

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## **Description of indebtedness and other obligations**

### **Recent refinancing transactions**

This offering is one component of a transaction designed to reduce our leverage and interest expense by refinancing our outstanding 11 5/8 percent senior subordinated notes due 2009. See Use of proceeds. In 2003, we completed a series of transactions that resulted in the full refinancing of our senior credit facility.

Our 2003 financing transactions began in June 2003, with our offering and sale of an initial \$350 million of 10 1/4 percent senior secured notes due 2013 in a private offering. We used the net proceeds of that offering, which totaled approximately \$338 million, to prepay \$251 million of term loans and \$87 million of revolving credit borrowings outstanding under our senior credit facility at that time. In October 2003, those \$350 million of senior secured notes were exchanged for \$350 million of senior secured notes that had been registered under the Securities Act.

Subsequently, in December 2003, we completed the refinancing of our senior credit facility through an amendment and restatement of our senior credit agreement. At that time, we received \$136 million of net proceeds from the offering and sale of an additional \$125 million principal amount of 10 1/4 percent senior secured notes due 2013 in a private offering, after deducting underwriting discounts and commissions and other expenses and including a 13 percent price premium over principal amount. Also at that time, we received \$391 million in net proceeds from the new term loan B borrowings under our amended and restated senior credit facility, after deducting fees and other expenses. We used the combined net proceeds of these December 2003 transactions, which were approximately \$527 million, to repay the \$514 million outstanding under term loans A, B and C under our senior credit facility immediately prior to the completion of the transactions. The remaining \$13 million of net proceeds were used for general corporate purposes. In , 2004, \$ of the \$125 million of senior secured notes issued in December 2003 were exchanged for \$ million of senior secured notes that had been registered under the Securities Act. See Senior credit facility, Senior secured notes and Capitalization.

We expect that this offering and the related refinancing of our outstanding senior subordinated notes, together with the refinancing transactions we completed in 2003, will have a substantial impact on the nature of our outstanding debt, as well as our liquidity, leverage, debt amortization requirements and interest expense. Prior to the June 2003 transaction, we had (i) approximately \$765 million of term loans under our senior credit facility with remaining principal payments of approximately \$94 million, \$93 million, \$7 million, \$253 million and \$248 million in 2004, 2005, 2006, 2007 and 2008, respectively, (ii) a \$450 million revolving credit facility expiring in November 2005, and (iii) \$500 million of senior subordinated notes maturing in 2009.

Upon completion of this offering and the related refinancing of our outstanding senior subordinated notes, on a pro forma basis as of December 31, 2003 we would have had (a) \$400 million of term loans under our senior credit facility with remaining principal payments of \$4 million annually through 2009 and \$376 million in 2010, (b) a \$220 million revolving credit facility expiring in December 2008 and a \$180 million tranche B letter of credit/ revolving loan facility expiring in December 2010 (which, under current accounting rules, will not be reflected on our balance sheet unless we have outstanding thereunder revolving loans or payments by the facility in respect of letters of credit), (c) \$475 million of senior secured

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notes maturing in 2013, and (d) \$413 million of senior subordinated notes maturing in 2014. On a pro forma basis, the net effect of the 2003 refinancing of our senior credit facility, this offering and the related refinancing of our outstanding senior subordinated notes would have been to reduce our annual interest expense by approximately \$16 million for 2003 if all of these transactions had been completed at the beginning of that year. See Unaudited pro forma consolidated financial statements.

In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an aggregate of \$150 million of fixed interest rate debt with a per annum rate of 10 1/4 percent to floating interest rate debt at a per annum rate of LIBOR plus a spread of 5.68 percent. Each agreement requires semi-annual settlements through July 15, 2013. Based on a LIBOR rate of 1.24 percent, these swaps would reduce our annual interest expense by approximately \$5 million, which is not reflected in the pro forma information presented elsewhere in this prospectus.

## **Senior credit facility**

### **General**

As amended and restated in December 2003, our senior credit facility is a committed senior secured financing arrangement with a group of banks and other financial institutions, with J.P. Morgan Securities Inc. and Deutsche Bank Securities Inc. as co-lead arrangers and joint book-runners, Bank of America, N.A. and Citicorp North America, Inc., as co-documentation agents, Deutsche Bank Securities Inc. as syndication agent, and JPMorgan Chase Bank, as administrative agent. J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. are representatives of the underwriters of this offering and certain of our lenders under the senior credit facility are affiliates of certain of the underwriters.

The senior credit facility consists of:

- a seven-year, \$400 million term loan B facility maturing in December 2010;
- a five-year, \$220 million revolving credit facility expiring in December 2008; and
- a seven-year, \$180 million tranche B letter of credit/revolving loan facility expiring in December 2010.

As part of the amendment and restatement, in addition to the amendments described below, the terms of our senior credit facility were also revised to: (i) extend the period of time during which we can exclude up to \$60 million of cash charges and expenses before taxes, related to our cost reduction initiatives from the calculation of the financial covenant ratios by another two years through 2006; (ii) permit the refinancing of our senior subordinated notes and/or our senior secured notes using the net cash proceeds from the issuance of similarly structured debt; (iii) permit the repurchase of our senior subordinated notes and/or our senior secured notes using the net cash proceeds from the issuance of shares of common stock of Tenneco Automotive Inc.; and (iv) delete the mandatory prepayment of term loans from excess cash flow in 2003 and reduce the percentage of excess cash flow that must be used to prepay term loans in subsequent years from 75 percent to 50 percent.

### **Term loan B facility**

Subject to early repayment events specified in our senior credit facility and summarized below, the \$400 million term loan B facility is repayable in consecutive equal quarterly installments of \$1,000,000 during the first six years after the funding date beginning on March 31, 2004, the balance being payable in equal quarterly installments during the last year (with the due date of the final payment occurring on December 12, 2010). Borrowings under the term loan B

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facility bear interest at a rate per annum equal to the London Interbank Offered Rate ( LIBOR ) plus 325 basis points in the case of LIBOR loans, or an agreed base rate plus 225 basis points in the case of base rate loans, in each case subject to adjustment following the first anniversary of the effectiveness of our amended and restated senior credit facility based on a leverage-based financial test. Although the term loan facility matures in 2010, such facility is subject to mandatory prepayment in full (a) on April 15, 2009, if by that date our senior subordinated notes are not refinanced or extended with a maturity not earlier than April 15, 2011, and (b) on the date which is six months prior to the date to which the senior subordinated notes have been refinanced or had their maturity extended, if our the senior subordinated notes have been refinanced or had their maturity extended to a date prior to April 15, 2011.

### **Revolving credit facility**

Subject to early repayment and termination events specified in our senior credit facility and summarized below, the new \$220 million revolving credit facility requires that it be repaid on or prior to, and will expire on, the fifth anniversary of the funding date. Prior to that date, funds may be borrowed, repaid and reborrowed under the revolving credit facility without premium or penalty. Borrowings under the revolving credit facility will bear interest at the rate of LIBOR plus 325 basis points, in the case of LIBOR loans, or an agreed base rate plus 225 basis points, in the case of base rate loans, in each case subject to adjustment following the first anniversary of the effectiveness of the amended senior credit facility based on a leverage-based financial test. Letters of credit issued thereunder accrue a letter of credit fee at a per annum rate of 325 basis points for the pro rata account of the lenders under such facility (subject to adjustment following the first anniversary of the effectiveness of the amended and restated senior credit facility based on a leverage-based financial test) and a fronting fee for the account of each of the issuers thereof in an amount to be agreed upon. We may request that the lenders or other entities provide additional commitments to the revolving credit facility up to an aggregate facility size of \$275 million. Up to \$100 million of the revolving credit facility is available for the issuance of letters of credit. We are required to pay a commitment fee on a quarterly basis with respect to the average daily unused portion of the revolving loan commitments in an amount equal to 50 basis points, subject to adjustment following the first anniversary of the effectiveness of our amended senior credit facility based on a leverage-based financial test.

### **Tranche B letter of credit/revolving loan facility**

Subject to early repayment and termination events specified in our senior credit facility and summarized below, the new \$180 million tranche B letter of credit/revolving loan facility are available for borrowings of revolving loans and to support letters of credit issued from time to time under our senior credit facility and expire on the seventh anniversary of the funding date. On the funding date, participating lenders deposited \$180 million with the administrative agent, who was obligated to invest that amount in time deposits. Revolving loans can be drawn, repaid and reborrowed thereunder. Such revolving loans will be funded from such deposits and such repayments will be redeposited with the administrative agent. If a letter of credit is paid under this facility and not reimbursed in full by us, each participating lender's ratable share of the deposit will be applied automatically in satisfaction of the reimbursement obligation. We do not and will not have an interest in any such funds on deposit and we have not and will not account for such funds as our indebtedness when deposited with the administrative agent until drawn by us as described below. Revolving loans borrowed under

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such facility will be funded with the funds on deposit in such accounts and accrue interest at a rate per annum equal to LIBOR plus 325 basis points, or if an event of default has occurred thereunder and the lenders holding the majority of the credit extensions thereunder so require, an agreed base rate plus 225 basis points, in each case payable monthly in arrears and subject to adjustment following the first anniversary of the effectiveness of our amended and restated senior credit facility based on a leverage-based financial test. Letters of credit issued thereunder accrue a letter of credit fee at a per annum rate of 325 basis points for the pro rata account of the lenders under such facility (subject to adjustment following the first anniversary of the effectiveness of our amended and restated senior credit facility based on a leverage-based financial test) payable monthly in arrears and a fronting fee for the ratable account of the issuers thereof at a per annum rate in an amount to be agreed upon payable monthly in arrears. The administrative agent pays on a monthly basis to the lenders under the facility a return on their funds actually on deposit in such accounts in an amount equal to a per annum rate of monthly LIBOR (reset every business day during such monthly period) minus 10 basis points. We are obligated to pay such lenders on a monthly basis a fee equal to the excess of (x) a per annum rate equal to monthly LIBOR (reset at the start of the applicable month) plus 325 basis points on the size of such facility (i.e., \$180 million initially) over (y) the sum of (1) the amount of such return for such month, (2) the amount of interest accrued on such loans under such facility for such month and (3) the letter of credit fees (but not the fronting fees) accrued on such letters of credit under such facility for such month; provided, that except in certain circumstances, the aggregate amount of such interest and fees shall not exceed the amount determined pursuant to clause (x) above minus such return. Although the tranche B letter of credit/ revolving loan facility matures in 2010, the facility is subject to mandatory prepayment in full and cash collateralization in full of letters of credit issued thereunder, (a) on April 15, 2009, if our senior subordinated notes are not refinanced or extended with a maturity not earlier than April 15, 2011, and (b) on the date which is six months prior to the date to which the senior subordinated notes have been refinanced or had their maturity extended, if our the senior subordinated notes have been refinanced or had their maturity extended to a date prior to April 15, 2011.

Under current accounting rules, the tranche B letter of credit/revolving loan facility will be reflected as debt on our balance sheet only if we have outstanding thereunder revolving loans or payments by the facility in respect of letters of credit. We will not be liable for any losses to or misappropriation of any (i) return due to the administrative agent's failure to achieve the return described above or to pay all or any portion of such return to any lender under such facility or (ii) funds on deposit in such account by such lender (other than the obligation to repay funds released from such accounts and provided to us as revolving loans under such facility).

## **Collateral and guarantees**

Our senior credit facility is jointly and severally guaranteed on a first priority basis by each of our material direct and indirect domestic subsidiaries, subject to some exceptions. Our senior credit facility is also secured by substantially all of the tangible and intangible assets of us and our subsidiary guarantors and is collateralized by a perfected security interest in all of the capital stock of our and the subsidiary guarantors direct domestic subsidiaries and up to 66 percent of the capital stock of our and the subsidiary guarantors' direct foreign subsidiaries.

**Table of Contents****Representations, warranties and covenants**

Our senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated leverage ratios (consolidated indebtedness divided by consolidated EBITDA as defined therein), consolidated interest coverage ratios (consolidated EBITDA divided by consolidated cash interest paid as defined therein) and fixed charge coverage ratios (consolidated EBITDA less consolidated capital expenditures, divided by consolidated cash interest paid as defined therein) at the end of each period indicated.

	Quarters ending							
	September 30, March 31 - June 30, 2004	2004 - June 30, 2005	September 30, - December 31, 2005	March 31 - December 31, 2006	March 31 - December 31, 2007	March 31 - December 31, 2008	March 31 - December 31, 2009	March 31 - December 31, 2010
Leverage Ratio (maximum)	5.00	4.75	4.50	4.25	3.75	3.50	3.50	3.50
Interest Coverage Ratio (minimum)	2.00	2.00	2.00	2.10	2.20	2.35	2.50	2.75
Fixed Charge Coverage Ratio (minimum)	1.10	1.10	1.10	1.15	1.25	1.35	1.50	1.75

Our senior credit facility agreement also contains customary representations and warranties and restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions described above); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees except for specified permitted debt; (v) capital expenditures; (vi) dividends; (vii) mergers and consolidations; and (viii) prepayments and modifications of subordinated and other debt instruments. Compliance with these requirements and restrictions is a condition for any incremental borrowings under our senior credit facility and failure to meet these requirements enables the lenders to require repayment of any outstanding loans.

Our senior credit facility does not contain any terms that specifically provide for the acceleration of the payment of the facility as a result of a credit rating agency downgrade.

The agreement for our senior credit facility may be further amended at any time in accordance with the terms thereof, without the consent of any noteholders.

As of December 31, 2003, we were in compliance with both the financial covenants and operational restrictions of the facility.

**Prepayments**

Our senior secured credit facility requires that the following be used first, to prepay the term loan B facility and second, to prepay and cash collateralize the tranche B letter of credit/revolving loan facility:

- 100 percent of the net proceeds of any issuance or incurrence of indebtedness by us or our subsidiaries, subject to some exceptions;
- 50 percent of the net proceeds of any issuance of equity by us or our subsidiaries, subject to some exceptions;
- 100 percent of the net proceeds of any sale or other disposition by us or our subsidiaries of any assets, subject to some exceptions;
- 50 percent of annual excess cash flow as defined in our senior credit facility; and
- 100 percent of the net proceeds of casualty insurance, condemnation awards or other recoveries, subject to some exceptions.

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The mandatory prepayment percentages listed above, other than the percentage relating to issuance of equity, will be reduced if we achieve certain performance measures established in our senior credit facility. In addition, each of the term loan facility and the tranche B letter of credit/revolving loan facility is subject to mandatory prepayment in full and, in the case of letters of credit under the tranche B letter of credit/revolving loan facility, mandatory cash collateralization in full, (a) on April 15, 2009, if our senior subordinated notes are not refinanced or extended with a maturity not earlier than April 15, 2011, and (b) on the date which is six months prior to the date to which the senior subordinated notes have been refinanced or maturity extended, if our senior subordinated notes have been refinanced or had their maturity extended to a date prior to April 15, 2011.

### **Events of default**

Events of default under our senior credit facility include, but are not limited to:

- our failure to pay principal or interest when due (subject to a grace period for interest);
- our material breach of any representation or warranty;
- covenant defaults; and
- events of bankruptcy.

In addition, a change of control of our company will permit the senior lenders to make all amounts outstanding under our senior credit facility immediately due and payable.

### **Senior secured notes**

As part of the refinancing transactions described above, we issued \$350 million of 10 1/4 percent senior secured notes due 2013 in June 2003, and an additional \$125 million of 10 1/4 percent senior secured notes due 2013 in December 2003. The senior secured notes were issued under an indenture dated June 19, 2003, as supplemented under a supplemental indenture dated December 12, 2003, by and between us and Wachovia Bank, National Association, as trustee, and are treated as a single class of securities for all purposes under the indenture. In October 2003 and , 2004, respectively, 100 percent of the \$350 million of senior secured notes issued in June 2003 and of the \$125 million of senior secured notes issued December 2003, were exchanged for \$350 million and \$ million of senior secured notes that had been registered under the Securities Act.

All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee the senior secured notes on a joint and several basis. These guarantees are senior secured obligations of our subsidiary guarantors. There are no significant restrictions on the ability of our subsidiaries that have guaranteed these notes to make distributions to us. The senior secured notes mature on July 15, 2013.

The notes are senior secured obligations and rank equally in right of payment with our and our subsidiary guarantors' existing and future senior debt and rank senior in right of payment to all of our existing and future subordinated debt. The notes will be effectively subordinated to all existing and future liabilities, including trade payables, of our foreign subsidiaries, which will not guarantee the notes, and of those of our domestic subsidiaries that do not guarantee the notes.

The senior secured notes and the guarantees thereof are secured by second priority liens, subject to specified exceptions, on substantially all the existing and future tangible and intangible assets owned by us and our subsidiary guarantors subject to certain limitations, that

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secure our obligations under our senior credit facility, except that only a portion of the capital stock of our and our subsidiary guarantor s domestic subsidiaries is provided as collateral and no assets or capital stock of our direct or indirect foreign subsidiaries secure these notes or guarantees.

The notes are effectively junior to our obligations and those of the subsidiary guarantors under our senior credit facility and any other obligations secured by a first priority lien on the collateral securing the notes and the guarantees, to the extent of the value of such collateral, and (ii) our obligations and those of the subsidiary guarantors under our senior credit facility and any other obligations that are secured by a lien on assets that are not part of the collateral securing the notes and the guarantees, to the extent of the value of such assets.

Interest on the senior secured notes is payable at the rate of 10 1/4 percent per annum and is payable semi-annually in cash in arrears on each January 15 and July 15. In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions with respect to a portion of these notes. These agreements swapped \$150 million aggregate principal amount of fixed interest rate debt at a per annum rate of 10 1/4 percent to floating interest rate debt at a per annum rate of LIBOR plus a spread of 5.68 percent. Each of these agreements requires semi-annual settlements through July 15, 2013. Based on a LIBOR rate of 1.24 percent, these swaps would reduce our annual interest expense by approximately \$5 million, which is not reflected in the pro forma information presented elsewhere in this prospectus.

We can redeem some or all of the notes at any time on and after July 15, 2008 at the following redemption prices (expressed as percentages of the principal amount) if redeemed during the twelve-month period commencing on July 15 of the year set forth below, plus, in each case, accrued and unpaid interest, if any, to the date of redemption:

<b>Year</b>	<b>Percentage</b>
2008	105.125%
2009	103.417%
2010	101.708%
2011 and thereafter	100.000%

The senior secured debt indenture requires that we, as a condition to incurring certain types of indebtedness not otherwise permitted, maintain an interest coverage ratio of not less than 2.25. We have not incurred any of the types of indebtedness not otherwise permitted by this indenture. This indenture also contains restrictions on our operations, including limitations on:

- incur additional indebtedness or contingent obligations;
- pay dividends or make distributions to our stockholders;
- repurchase or redeem equity interests;
- make investments;
- grant liens;
- make capital expenditures;
- enter into transactions with our shareholders and affiliates;
- sell assets; and
- acquire the assets of, or merge or consolidate with, other companies.

These covenants are subject to a number of important exceptions. In addition, the indenture governing the senior secured notes contains events of defaults that are customary for notes of

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this type. As of December 31, 2003, we were in compliance with the covenants and restrictions of the indenture related to the senior secured notes.

**Senior subordinated notes**

*Outstanding Notes.* Our outstanding debt includes \$500 million of 11 5/8 percent senior subordinated notes due October 15, 2009. The outstanding senior subordinated notes were issued under an indenture dated October 14, 1999, by and between us and The Bank of New York, as trustee, and are treated as a single class of securities for all purposes under that indenture. All of our existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee these notes on a joint and several basis. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us.

Our outstanding senior subordinated notes are senior subordinated unsecured obligations ranking junior in right of payment to all of our existing and future senior debt and all liabilities of our subsidiaries that do not guarantee those notes. In the event of liquidation, bankruptcy, insolvency or similar events, holders of senior debt, such as the lenders under our senior credit facility, are entitled to receive payment in full in cash or cash equivalents before holders of the senior subordinated notes are entitled to receive any payments. No payments may be made on the outstanding senior subordinated notes if we default on the payment of senior debt, and payments on the outstanding senior subordinated notes may be blocked for up to 180 days if we default on the senior debt in some other way until such default is cured or waived. Interest on the outstanding senior subordinated notes is payable at the rate of 11 5/8 percent per annum and is payable semi-annually in cash on each April 15 and October 15. The outstanding senior subordinated notes will mature on October 15, 2009.

We have the right to redeem the outstanding senior subordinated notes in whole or in part from time to time on and after October 15, 2004 at the following redemption prices (expressed as percentages of the principal amount) if redeemed during the twelve-month period commencing on October 15 of the year set forth below, plus, in each case, accrued and unpaid interest if any, to the date of redemption.

<b>Year</b>	<b>Percentage</b>
2004	105.813%
2005	103.875%
2006	101.938%
2007 and thereafter	100.000%

The senior subordinated debt indenture requires that we, as a condition to incurring certain types of indebtedness not otherwise permitted, maintain an interest coverage ratio of not less than 2.25. We have not incurred any of the types of indebtedness not otherwise permitted by this indenture. This indenture also contains restrictions on our operations, including limitations on:

- incurring additional indebtedness or liens;
- dividends;
- distributions and stock repurchases;
- investments; and
- mergers and consolidations.

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These covenants are subject to a number of important exceptions. In addition, the indenture governing the outstanding senior subordinated notes contains events of defaults that are substantially similar to those contained in the indenture governing our senior secured notes. As of December 31, 2003, we were in compliance with the covenants and restrictions of the indenture related to the outstanding senior subordinated notes.

*Offer to Purchase and New Notes.* As described above, on \_\_\_\_\_, 2004 we made an offer to purchase the senior subordinated notes for cash. Also as described above, to fund a portion of this offer to purchase, we expect to offer new senior subordinated notes in a private placement transaction in the aggregate principal amount of \$413 million. We expect that any new notes we issue will have terms that are substantially similar to our existing senior subordinated notes (including call provisions beginning five years after issuance and the right to repurchase some of them with equity offering proceeds), except that we anticipate the interest rate payable on such new notes will be lower than the rate on our outstanding senior subordinated notes. See Use of proceeds and Unaudited pro forma consolidated financial information.

## **Receivables financing**

In addition to our senior credit facility and outstanding senior subordinated notes, we also sell some of our accounts receivable. In North America, we have an accounts receivable securitization program with a commercial bank. We sell OE and aftermarket receivables on a daily basis under this program. We had sold accounts receivable under this program of \$36 million and \$46 million at December 31, 2003 and 2002, respectively. This program is subject to cancellation prior to its maturity date if we were to:

- fail to pay interest or principal payments on an amount of indebtedness exceeding \$50 million,
- default on the financial covenant ratios under the senior credit facility, or
- fail to maintain certain financial ratios in connection with the accounts receivable securitization program.

In January 2003, this program was amended to extend its term to January 31, 2005 and reduce the size of the program to \$50 million and was then subsequently further amended to increase its size to \$75 million with its termination date unchanged at January 31, 2005. We also sell some receivables in our European operations to regional banks in Europe. At December 31, 2003 and 2002, we had sold \$87 million and \$55 million, respectively, of accounts receivable in Europe. The arrangements to sell receivables in Europe are not committed and can be cancelled at any time. If we were not able to sell receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreement would increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit facility.

**Table of Contents****Certain contractual obligations**

Our remaining required debt principal amortization and payment obligations under lease and other financial commitments as of December 31, 2003 are shown in the following table:

(millions)	Payments due in:						Total
	2004	2005	2006	2007	2008	Beyond 2008	
Obligations:							
Revolver borrowings	\$	\$	\$	\$	\$	\$	\$
Senior long-term debt	4	4	4	4	4	380	400
Long-term notes		1		1		478	480
Capital leases	3	3	3	3	3	5	20
Subordinated long-term debt						500	500
Other subsidiary debt	1	1					2
Short-term debt	12						12
Debt and capital lease obligations	20	9	7	8	7	1,363	1,414
Operating leases	17	14	11	11	3	6	62
Interest payments	127	127	127	127	126	308	942
Capital commitments	60						60
Total payments	\$224	\$150	\$145	\$146	\$136	\$1,677	\$2,478

We principally use our revolving credit facilities to finance our short-term capital requirements. As a result, we classify the outstanding balances of the revolving credit facilities within our short-term debt even though the revolving credit facility has a termination date of December 13, 2008 and the tranche B letter of credit facility/revolving loan facility has a termination date of December 13, 2010.

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

Included in our contractual obligations is the amount of interest to be paid on our long-term debt. As our debt structure contains both fixed and variable rate interest debt, we have made assumptions in calculating the amount of the future interest payments. Interest on our senior secured notes and senior subordinated notes is calculated using the fixed rates of 10 1/4 percent and 11 5/8 percent, respectively. Interest on our variable rate debt is calculated as 350 basis point plus LIBOR of 1.5 percent which is the current rate at December 31, 2003. We have assumed that LIBOR will remain unchanged for the outlying years.

We have also included an estimate of expenditures required after December 31, 2003 to complete the facilities and projects authorized at such date in which we have made substantial commitments in connection with the facilities.

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

We have also not included material cash requirements for taxes and funding requirements for pension and postretirement benefits. We have not included cash requirements for taxes as we are a taxpayer in certain foreign jurisdictions but not in domestic locations. Additionally, it is difficult to estimate taxes to be paid as shifts in where we generate income can have a significant impact on future tax payments. We have not included cash requirements for funding pension and postretirement costs, as based upon current estimates we believe we will be required to make contributions between \$34 million to \$41 million to those plans in 2004. Pension and postretirement contributions beyond 2004 will be required but those amounts will vary based upon many factors, including the performance of our pension fund investments during 2004.

In addition we have not included the impact of the interest rate swaps entered into in April 2004. See      Recent refinancing transactions.

We occasionally provide guarantees that could require us to make future payments in the event that the third party primary obligor does not make its required payments. We have not recorded a liability for any of these guarantees. The only third party guarantee we have made is the performance of lease obligations by a former affiliate. Our maximum liability under this guarantee was approximately \$4 million at both December 31, 2003 and 2002, respectively. We have no recourse in the event of default by the former affiliate. However, we have not been required to make any payments under this guarantee.

Additionally, we have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our then existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee the \$800 million senior secured credit facility, the \$475 million senior secured notes and the \$500 million senior subordinated notes on a joint and several basis. The arrangement for the senior secured credit facility is also secured by substantially all our domestic assets and pledges of 66 percent of the stock of certain first-tier foreign subsidiaries. The arrangement for the \$475 million senior secured notes is secured by second priority liens, subject to specified exceptions, on all of our domestic assets that secure obligations under our senior credit facility, except that only a portion of the capital stock of our domestic subsidiaries is provided as collateral. No assets or capital stock of our direct or indirect foreign subsidiaries secure. You should also read Note 12 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003 (incorporated by reference herein) where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

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We have issued guarantees through letters of credit in connection with some obligations of our affiliates. We have guaranteed through letters of credit support for local credit facilities, travel and procurement card programs, and cash management requirements for some of our subsidiaries totaling \$41 million at December 31, 2003. We have also issued \$17 million in letters of credit to support some of our subsidiaries' insurance arrangements and \$3 million in guarantees through letters of credit to guarantee other obligations of subsidiaries primarily related to environmental remediation activities at December 31, 2003.

**Material U.S. federal income and estate tax  
consequences for non-U.S. holders**

The following is a general discussion of the material U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of our common stock acquired pursuant to this prospectus by a beneficial owner that, for U.S. federal income tax purposes, is a non-U.S. holder as we define that term below. We assume in this discussion that non-U.S. holders will hold our common stock as a capital asset, which generally is property held for investment. As used in this discussion for U.S. federal income tax purposes, the term non-U.S. holder means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the U.S.;

a corporation, including any entity treated as a corporation for U.S. tax purposes, that is organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is includible in gross income for U.S. tax purposes regardless of its source; or

a trust, in general, if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust or (ii) the trust was in existence on August 20, 1996, was treated as a U.S. person prior to such date, and validly elected to continue to be so treated.

As noted below, there is a separate definition of non-U.S. holder for federal estate tax purposes.

This discussion does not consider U.S. state or local or non-U.S. tax consequences, and it does not consider all aspects of U.S. federal income and estate taxation that may be important to particular non-U.S. holders in light of their individual investment circumstances, such as special tax rules that may apply to a non-U.S. holder that is a dealer in securities or foreign currencies, financial institution, bank, insurance company, tax-exempt organization or former citizen or former long-term resident of the United States, or that holds our common stock as part of a straddle, hedge, conversion transaction, synthetic security, or other integrated investment or is subject to the constructive sale rules. We also do not discuss the federal tax treatment of beneficial owners that are partnerships or other entities treated as partnerships or flow-through entities for U.S. federal income tax purposes or investors in such entities.

If a partnership is a beneficial owner of our common stock, the treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of our common stock that is a partnership and partners in such

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a partnership should consult their tax advisors about the U.S. federal income tax consequences of acquiring, owning, and disposing of our common stock.

The following discussion is based on provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable U.S. Treasury regulations and administrative and judicial interpretations, all as in effect as of the date of this prospectus. All of these authorities are subject to change, retroactively or prospectively. **We advise each prospective investor to consult its own tax advisor regarding the federal, state, local and non-U.S. tax consequences applicable to such investor with respect to acquiring, owning, and disposing of our common stock.**

## **Distributions**

Distributions, if any, paid on the shares of our common stock generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If you are a non-U.S. holder of common stock, dividends paid to you generally will be subject to withholding tax at a 30 percent rate, or if you are eligible for the benefits of a U.S. income tax treaty with a country in which you are a tax resident, at a zero or reduced treaty rate provided that certain certification requirements are satisfied. In general, to receive a zero or reduced treaty rate, you must provide us or our paying agent with an IRS Form W-8BEN (or successor form) or an appropriate substitute for certifying qualification for the zero or reduced rate. Certain other requirements may also apply. If you are entitled to a lower treaty rate, you may obtain a refund of any excess amounts withheld by filing a refund claim with the IRS in a timely manner.

The withholding tax will not apply to dividends paid to you if you provide a Form W-8ECI (or successor form), or an appropriate substitute form, certifying that the dividends are effectively connected with your conduct of a trade or business within the United States and, where a tax treaty applies, are attributable to a U.S. permanent establishment. Instead, the effectively connected dividends generally will be subject to U.S. federal income tax on a net income basis at the applicable graduated U.S. federal income tax rates as if you were a U.S. resident. A non-U.S. corporation receiving effectively connected dividends also may be subject to an additional branch profits tax imposed at a rate of 30 percent (or a lower treaty rate, if applicable) on its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

To the extent that the amount of any distributions exceeds our current or accumulated earnings and profits, the distribution first will be treated as a tax-free return of your basis in the shares of common stock, causing a reduction in your adjusted basis in the common stock, but not below zero, and the balance in excess of adjusted basis will be taxed as capital gain recognized on a disposition of the common stock (the treatment of which is discussed below).

## **Gain on disposition of common stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized on a sale or other disposition of our common stock unless:

the gain is effectively connected with your conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment maintained by you in the United States; in these cases, you will generally be taxed on your net gain derived from the disposition at the regular graduated U.S. federal income tax rates and in

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much the same manner applicable to U.S. persons and, if you are a foreign corporation, the branch profits tax described above may also apply;

you are present in the United States for 183 days or more in the taxable year of the disposition and meet certain other requirements; in this case, you will be subject to U.S. federal income tax at a rate of 30 percent (or a reduced rate under an applicable treaty) on the amount by which capital gains allocable to U.S. sources exceed capital losses allocable to U.S. sources (even though you are not considered to be a resident of the United States); or

we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes at any time during the shorter of the 5-year period ending on the date you dispose of our common stock or the period you held our common stock (the applicable period). Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Code and applicable regulations, equals or exceeds 50 percent of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. If we were a U.S. real property holding corporation, and our common stock were regularly traded on an established securities market such common stock would be treated as a United States real property interest only if you owned directly or indirectly more than 5 percent of such regularly traded common stock at any time during the applicable period. It is unclear whether we currently are a U.S. real property holding corporation. Moreover, even if we currently are not a U.S. real property holding corporation, there is no assurance that we will not become a U.S. real property holding corporation in the future.

## **Information reporting and backup withholding**

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to that holder and the tax withheld from those dividends. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Under some circumstances, U.S. Treasury regulations require additional information reporting and backup withholding on dividend payments on common stock. The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder status in accordance with applicable U.S. Treasury regulations generally will be subject to backup withholding at the applicable rate, currently 28 percent.

The payment of the proceeds of the sale or other disposition of common stock (including a redemption) by a non-U.S. holder through the U.S. office of any broker, U.S. or foreign, generally will be reported to the IRS and subject to backup withholding, unless the non-U.S. holder either certifies its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption. The payment of the proceeds of the disposition of common stock by a non-U.S. holder through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or reported to the IRS, unless the non-U.S. broker has certain enumerated connections with the United States. In general, the payment of proceeds from the disposition of common stock through a non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States will be reported to the IRS (but will not be subject to backup withholding), unless the broker receives a statement from the non-U.S.

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holder that certifies its status as a non-U.S. holder under penalties of perjury or the broker has documentary evidence in its files that the holder is a non-U.S. holder.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner. These backup withholding and information reporting rules are complex and non-U.S. holders are urged to consult their own advisors regarding the application of these rules to them.

**Estate tax**

An individual who is not a citizen or resident (as defined for U.S. federal estate tax purposes) of the United States who is the owner of or treated as the owner of an interest in the common stock at the time of death will be required to include the value of the stock in his or her gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

**Table of Contents****Underwriting**

J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. are acting as representatives for this offering.

We and the underwriters named below have entered into an underwriting agreement covering the common stock to be sold in this offering. Each underwriter has agreed to purchase the number of shares of common stock set forth opposite its name in the following table.

<b>Name</b>	<b>Number of shares</b>
J.P. Morgan Securities Inc. Citigroup Global Markets Inc.	
Total	

The underwriting agreement provides that if the underwriters take any of the shares presented in the table above, then they must take all of these shares. No underwriter is obligated to take any shares allocated to a defaulting underwriter except under limited circumstances. The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent auditors.

The underwriters are offering the shares of common stock, subject to the prior sale of shares, and when, as and if such shares are delivered and accepted by them. The underwriters will initially offer to sell shares to the public at the initial public offering price shown on the front cover page of this prospectus. The underwriters may sell shares to securities dealers at a discount of up to \$        per share from the initial public offering price. Any such securities dealers may resell shares to certain other brokers or dealers at a discount of up to \$        per share from the initial public offering price. After the initial public offering, the underwriters may vary the public offering price and other selling terms.

If the underwriters sell more shares than the total number shown in the table above, the underwriters have the option to buy up to an additional 1,773,049 shares of common stock from us to cover such sales. They may exercise this option during the 30-day period from the date of this prospectus. If any shares are purchased with this option, the underwriters will purchase shares in approximately the same proportion shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The following table shows the per share and total underwriting discounts that we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	<b>Without overallotment exercise</b>	<b>With overallotment exercise</b>
Per share	\$	\$
Total	\$	\$

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The underwriters have advised us that they may make short sales of our common stock in connection with this offering, resulting in the sale by the underwriters of a greater number of shares than they are required to purchase pursuant to the underwriting agreement. The short position resulting from those short sales will be deemed a covered short position to the extent that it does not exceed the 1,773,049 shares subject to the underwriters' overallotment option and will be deemed a naked short position to the extent that it exceeds that number. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the trading price of common stock in the open market that could adversely affect investors who purchase shares in this offering. The underwriters may reduce or close out their covered short position either by exercising the overallotment option or by purchasing shares in the open market. In determining which of these alternatives to pursue, the underwriters will consider the price at which shares are available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. Any naked short position will be closed out by purchasing shares in the open market. Similar to the other stabilizing transactions described below, open market purchases made by the underwriters to cover all or a portion of their short position may have the effect of preventing or retarding a decline in the market price of our common stock following this offering. As a result, our common stock may trade at a price that is higher than the price that otherwise might prevail in the open market.

The underwriters have advised us that, pursuant to Regulation M under the Securities Act of 1933, they may engage in transactions, including stabilizing bids or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the shares of common stock at a level above that which might otherwise prevail in the open market. A stabilizing bid is a bid for or the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A penalty bid is an arrangement permitting the underwriters to claim the selling concession otherwise accruing to an underwriter or syndicate member in connection with the offering if the common stock originally sold by that underwriter or syndicate member is purchased by the underwriters in the open market pursuant to a stabilizing bid or to cover all or part of a syndicate short position. The underwriters have advised us that stabilizing bids and open market purchases may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

One or more of the underwriters may facilitate the marketing of this offering online directly or through one of its affiliates. In those cases, prospective investors may view offering terms and a prospectus online and, depending upon the particular underwriter, place orders online or through their financial advisor.

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The following table details the estimated offering expenses payable by us:

Securities and Exchange Commission registration fee	\$22,173
National Association of Securities Dealers, Inc. filing fee	18,000
New York Stock Exchange listing fee	
Printing and engraving expenses	
Legal fees and expenses	
Accounting fees and expenses	
Transfer agent and registrar fees and expenses	
Miscellaneous	
Total	\$

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

We and our executive officers and directors have agreed that, during the period beginning from the date of this prospectus and continuing to and including the date 90 days after the date of this prospectus, none of us will, directly or indirectly, offer, sell, offer to sell, contract to sell or otherwise dispose of any shares of our common stock without the prior written consent of J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., except in limited circumstances.

From time to time in the ordinary course of their respective businesses, certain of the underwriters and their affiliates have engaged in and may in the future engage in commercial banking and/or investment banking transactions with us and our affiliates. For example, affiliates of certain of the underwriters are lenders and, in some cases, agents under our senior credit facility, are acting as initial purchasers in our concurrent private placement offering of new senior subordinated notes and/or are acting as dealer manager for our offer to purchase our outstanding senior subordinated notes.

Our common stock is listed on the New York Stock Exchange under the symbol TEN.

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## **Legal matters**

Legal matters regarding the common stock offered hereby will be passed upon for us by Mayer, Brown, Rowe & Maw LLP. Certain legal matters in connection with this offering will be passed upon for the underwriters by Cahill Gordon & Reindel LLP. Mayer, Brown, Rowe & Maw LLP has in the past represented and continues to represent us in various matters.

## **Experts**

The consolidated financial statements and the related consolidated financial statement schedule incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the years ended December 31, 2002 and 2003 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes explanatory paragraphs related to (i) a change in accounting for goodwill and intangible assets upon adoption of Statement of Financial Accounting Standards No. 142, and (ii) the application of procedures relating to certain disclosures and reclassifications of financial statement amounts related to the 2001 financial statements that were audited by other auditors who have ceased operations and for which Deloitte & Touche LLP has expressed no opinion or other form of assurance other than with respect to such disclosures and reclassifications), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## **Prior auditors**

Our consolidated financial statements and schedules for the year ended December 31, 2001 are also incorporated by reference herein from our 2003 Annual Report on Form 10-K, were audited by Arthur Andersen LLP. Because Arthur Andersen has ceased accounting and auditing operations, we are unable to obtain written consent of Arthur Andersen to incorporate their report in this prospectus. Because Arthur Andersen has not consented to incorporating their report in this prospectus, investors will not be able to recover against Arthur Andersen in connection with our use of this report. In addition, the ability of Arthur Andersen to satisfy any claims (including claims arising from its provision of auditing and other services to us) is limited as a result of the diminished amount of assets of Arthur Andersen that are now or may in the future be available to satisfy claims. See **Risk factors** **Risks relating to our prior auditors.**

## **Where you can find more information**

We have filed with the Securities and Exchange Commission a registration statement on Form S-3 with respect to the common stock being sold in this offering. This prospectus constitutes a part of that registration statement. This prospectus does not contain all the information set forth in the registration statement and the exhibits and schedules to the registration statement, because some parts have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to us and our common stock being sold in this offering, you should refer to the registration statement and the exhibits and schedules filed as part of the registration statement. Statements contained in this prospectus regarding the contents of any agreement, contract or other document referred to are not necessarily complete; reference is made in each instance to the copy of the contract or

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document filed as an exhibit to the registration statement. Each statement is qualified by reference to the exhibit.

We also are required to file annual and quarterly reports and other information with the Commission. You may read and copy any reports, statements and other information we file at the Commission's public reference room at 450 Fifth Street, Washington, D.C. 20549. You may request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the Commission. Please call 1-800-SEC-0330 for further information on the public reference rooms. Our filings will also be available to the public from commercial document retrieval services and at the web site maintained by the Commission at <http://www.sec.gov>.

You may also obtain information about us on our website at [www.tenneco-automotive.com](http://www.tenneco-automotive.com). Information contained on our website does not constitute a part of this prospectus and should not be relied on to make an investment decision.

## **Incorporation by reference**

We are incorporating by reference certain information that we have filed with the Commission under the informational requirements of the Securities Exchange Act of 1934. The information contained in the documents we are incorporating by reference is considered to be part of this prospectus. We are incorporating by reference:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, which we filed with the Commission on March 11, 2004; the description of the Company's common stock contained in the Company's registration statement on Form 10 (File No. 1-12387), originally filed with the SEC on October 30, 1996, and the description of the preferred share purchase rights contained in the Company's registration statement on Form 8-A, originally filed with the SEC on September 17, 1998 (File No. 1-12387), in each case including all amendments thereto and all reports filed for the purpose of updating the description included therein; information that is considered to be filed with, as opposed to furnished to, the Commission pursuant to our Current Reports on Form 8-K submitted to the Commission on January 27, 2004, February 18, 2004, March 10, 2004 and March 24, 2004; and items filed by us with the Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this prospectus.

Any information incorporated by reference is considered to be part of this prospectus, and any information that we file with the Commission subsequent to the filing of the incorporated material or the date of this prospectus will automatically update and, if applicable, supercede the incorporated information and this prospectus.

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**Unaudited pro forma consolidated financial statements**

The following unaudited pro forma consolidated balance sheet as of December 31, 2003, and the unaudited pro forma consolidated statement of income for the year ended December 31, 2003, show the effect of:

the 2003 refinancing of our senior credit facility, using the net proceeds of (i) our issuance of \$350 million of 10 1/4 percent senior secured notes due 2013 in June and (ii) new borrowings by us under an amendment and restatement of our senior credit facility agreement and our issuance of an additional \$125 million of senior secured notes in December;  
the sale of the common stock offered hereby and the use of the net proceeds therefrom to purchase and retire a portion of our outstanding 11 5/8 percent senior subordinated notes due 2009; and  
our planned issuance of \$413 million principal amount of new senior subordinated notes in a private placement transaction, which we expect will occur at the same time as the closing of the common stock offered hereby, and the use of the net proceeds therefrom to purchase and retire the remaining portion of our outstanding senior subordinated notes.

We have prepared the unaudited pro forma consolidated statement of income as if we completed the 2003 refinancing of our senior credit facility, issued the common stock offered hereby, issued the new senior subordinated notes and retired our outstanding senior subordinated notes as of January 1, 2003. We have prepared the unaudited pro forma consolidated balance sheet as if we issued the common stock offered hereby, issued the new senior subordinated notes and retired our outstanding senior subordinated notes on December 31, 2003. The effect of the 2003 refinancing of our senior credit facility (including the related issuance of \$475 million aggregate principal amount of senior secured notes) is already incorporated in our balance sheet as of December 31, 2003. The unaudited pro forma consolidated financial statements for these periods are not necessarily indicative of the results that would have actually occurred if these transactions had been consummated as of December 31, 2003 or January 1, 2003, or results which may be attained in the future.

The pro forma adjustments, as described in the notes to these unaudited pro forma consolidated financial statements, are based upon available information and upon certain assumptions that we believe are reasonable. We have excluded from the unaudited pro forma consolidated financial statements the impact on interest expense related to the interest rate swaps entered into in April 2004. See Prospectus summary The transactions Other recent events.

You should read these pro forma financial statements in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report filed on Form 10-K for the year ended December 31, 2003, incorporated by reference herein, and our consolidated financial statements beginning on page 61 of that Form 10-K.

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**Tenneco Automotive Inc.**  
**unaudited pro forma consolidated balance sheet**

As of December 31, 2003	Tenneco Automotive Inc.  as reported	Pro forma adjustments for equity  issuance	Pro forma adjustments for planned debt issuance	Tenneco Automotive Inc.  pro forma
(dollars in millions)				
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 145	\$	\$	\$ 145
Receivables				
Customer notes and accounts, net	427			427
Other	15			15
Inventories	343			343
Deferred income taxes	63			63
Prepayments and other	112			112
	1,105			1,105
<b>Other assets:</b>				
Long-term notes receivable, net	21			21
Goodwill	193			193
Intangibles, net	25			25
Deferred income taxes	189	5 (1)	13 (1)	207
Pension assets	6			6
Other	145	(2)	10 (2)	155
	579	5	23	607
Plant, property, and equipment, at cost	2,303			2,303
Less Reserves for depreciation and amortization	1,192			1,192
	1,111			1,111
Total assets	\$ 2,795	\$ 5	\$ 23	\$ 2,823
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Short-term debt (including current maturities of long-term debt)	\$ 20	\$	\$	\$ 20
Trade payables	621			621
Accrued taxes	19			19
Accrued interest	42			42
Accrued liabilities	162			162
Other	29			29
	893			893
Long-term debt	1,410	(130)(3)	43 (3)	1,323
Deferred income taxes	119			119
Postretirement benefits	266			266
Deferred credits and other liabilities	26			26

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Commitments and contingencies				
Minority interest	23			23
<b>Shareholders' equity:</b>				
Common stock				
Premium on common stock and other capital surplus	2,751	142 (4)(5)		2,893
Accumulated other comprehensive loss	(241)			(241)
Retained earnings (accumulated deficit)	(2,212)	(7)(1)	(20)(1)	(2,239)
	298	135	(20)	413
Less: Shares held as treasury stock, at cost	240			240
Total shareholders' equity	58	135	(20)	173
Total liabilities and shareholders' equity	\$ 2,795	\$ 5	\$ 23	\$ 2,823

See the accompanying notes to unaudited pro forma consolidated financial statements.

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Table of Contents**Tenneco Automotive Inc.****unaudited pro forma consolidated statement of income**

<b>Year ended December 31, 2003</b> <b>(dollars in millions except share</b> <b>and per</b> <b>share amounts)</b>	<b>Tenneco</b> <b>Automotive</b> <b>Inc.</b> <b>as reported</b>	<b>Pro forma</b> <b>adjustments</b> <b>for</b> <b>credit</b> <b>facility</b> <b>refinancing</b>	<b>Pro forma</b> <b>adjustments</b> <b>for</b> <b>equity</b> <b>issuance</b>	<b>Pro forma</b> <b>adjustments</b> <b>for planned</b> <b>debt</b> <b>issuance</b>	<b>Tenneco</b> <b>Automotive</b> <b>Inc.</b> <b>pro forma</b>
<b>Revenues</b>					
Net sales and operating revenues	\$ 3,766	\$	\$	\$	\$ 3,766
<b>Costs and expenses</b>					
Cost of Sales (exclusive of depreciation shown below)	2,994				2,994
Engineering, research, and development	67				67
Selling, general, and administrative	364				364
Depreciation and amortization of other intangibles	163				163
	3,588				3,588
<b>Other income (expense)</b>					
Loss on sale of receivables	(2)				(2)
	(2)				(2)
<b>Income before interest expense, income taxes, and minority interest</b>					
	176				176
Interest expense (net of interest capitalized)(17)	149	9 (6)	(15)(10)	(10)(13)	133
Income tax expense (benefit)	(6)	(4)(6)	6 (10)	4 (13)	0
Minority interest	6				6
<b>Net Income (loss)</b>	\$ 27	\$ (5)	\$ 9	\$ 6	\$ 37
<b>Earnings (loss) per share</b>					
Average shares of common stock outstanding					
Basic	40,426,136				52,246,466(4)
Diluted	41,767,959				53,588,289(4)
<b>Earnings (loss) per share of common stock</b>					
Basic	\$ 0.67				\$ 0.70
Diluted	\$ 0.65				\$ 0.68

See the accompanying notes to unaudited pro forma consolidated financial statements.

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**Tenneco Automotive Inc.**

**Notes to the unaudited pro forma  
consolidated financial statements**

(1) To reflect the impact of the one-time charge of \$45 million for the early tender premium for our outstanding senior subordinated notes, allocated pro rata between the common stock and new senior subordinated notes issuances. We will record this charge as additional interest expense. The charge is tax effected at an estimated tax rate of 40 percent. Since this expense is a non-recurring charge in accordance with the Commission's preparation requirements for pro forma financial statements, it is not shown in the unaudited pro forma consolidated statement of income. At the time that we tender for the outstanding senior subordinated notes, this charge will reduce our net income by \$27 million, and our diluted earnings per share by \$.50.

(2) To reflect debt issue costs deferred related to issuing the new senior subordinated notes. This adjustment represents the capitalization of an estimated \$10 million of underwriting, amendment and other fees we expect to incur to issue the new senior subordinated notes. In addition, we expect to expense approximately \$9 million of existing deferred debt issue costs as a result of tendering for the outstanding senior subordinated notes. The expense will be recorded as additional interest expense. Since this expense is a non-recurring charge in accordance with the Commission's preparation requirements for pro forma financial statements, it is not shown in the unaudited pro forma consolidated statement of income. At the time that we tender for the outstanding subordinated notes, this charge will reduce our net income by approximately \$6 million, and our diluted earnings per share by \$.10.

(3) To reflect adjustments to our outstanding long-term obligations, allocated pro rata between the common stock and new senior subordinated notes issuances. The adjustments reflect our completion of an offer to purchase for cash the \$500 million of outstanding senior subordinated notes. The pro forma adjustment for the planned debt issuance also reflects an increase of approximately \$413 million in long-term obligations for the amount of the new senior subordinated notes.

(4) Includes the issuance of 11,820,330 shares of common stock at an assumed public offering price equal to the April 15, 2004 closing price of \$12.69 per share.

(5) Includes a reduction of \$8 million in additional paid in capital for fees associated with the common stock issuance.

(6) To reflect adjustments to interest expense for our 2003 senior credit facility refinancing, including the offering of the \$125 million of senior secured notes in December 2003, and our previous issuance of \$350 million of senior secured notes in June 2003. The interest expense adjustment is tax effected at an estimated tax rate of 40 percent.

The following shows the components of this adjustment:

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(dollars in millions)	Year ended December 31, 2003
Interest expense on the new borrowings(7)	\$ 46
Lower interest expense on debt paid down(8)	(36)
Amortization of issue cost(9)	(1)
	<hr/>
Adjustment to interest expense	\$ 9

(7) Total additional interest expense on the term loan portion of our senior credit facility, as refinanced in December 2003, is calculated based on the new \$400 million term loan at the annual weighted average interest rate of LIBOR plus 325 basis points. For the term loan B portion of the senior credit facility before this refinancing, the annual weighted average interest rate percent for the year ended December 31, 2003 was approximately 5.3 percent. Total additional interest expense on the senior secured notes is calculated based on the \$350 million senior secured notes at an assumed annual interest rate of 10.25 percent and on the \$125 million senior secured notes at an assumed annual market rate of interest of 8.32 percent and a coupon rate of 10.25 percent.

(8) Reduction in interest expense was as a result of paying down the term loans under our prior senior credit facility. For the term loans, the annual weighted average interest rate percent for the year ended December 31, 2003 was approximately (i) 4.7 percent for the term loan A facility, (ii) 5.3 percent for the term loan B facility, and (iii) 5.6 percent for the term loan C facility. For the revolving credit facility, the annual weighted average interest rate percent was approximately 4.6 percent for the same time period.

(9) Represents additional amortization expense for newly capitalized debt issue costs, less a reduction in the amortization expense of prior capitalized debt issue costs due to the writeoff of these prior costs. The new debt issuance costs are amortized over the terms of the new revolving credit facility (5 years), the new term loan and tranche B letter of credit/ revolving loan facility (7 years), and the senior secured notes (10 years).

(10) To reflect the pro rata adjustment to interest expense for our issuance of new common stock and our retirement of a portion of the outstanding senior subordinated notes totalling \$130 million of principal. The interest expense adjustment is tax effected at an estimated tax rate of 40 percent.

The following shows the components of this adjustment:

(dollars in millions)	Year ended December 31, 2003
Lower interest expense on debt paid down(11)	\$ (15)
	<hr/>
Amortization of issue cost(12)	
	<hr/>
Adjustment to interest expense	\$ (15)

(11) Reduction in interest expense was as a result of the retirement of a portion of the outstanding senior subordinated notes totalling \$130 million of principal. For the outstanding senior subordinated notes, the annual interest rate was 11.625 percent.

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(12) Represents the pro rata reduction in the amortization expense of prior capitalized debt issue costs due to the writeoff of these prior costs through our issuance of new common stock and retirement of a portion of the outstanding senior subordinated notes (see (2) above).

(13) To reflect the pro rata adjustment to interest expense for our issuance of new senior subordinated notes and our retirement of a portion of the outstanding senior subordinated notes totalling \$370 million of principal. The interest expense adjustment is tax effected at an estimated tax rate of 40 percent.

The following shows the components of this adjustment:

(dollars in millions)	Year ended December 31, 2003
Interest expense on the new borrowings(14)	\$ 33
Lower interest expense on debt paid down(15)	(43)
	—
Amortization of issue cost(16)	—
	—
Adjustment to interest expense	\$ (10)

(14) Total additional interest expense on the new senior subordinated notes is calculated based on the new \$413 million senior subordinated notes due 2014 at an assumed annual interest rate of 8 percent. As stated in (7) above, as part of the refinancing of our senior credit facility, in December 2003, we issued an additional \$125 million of senior secured notes at a stated coupon rate of 10.25 percent; the notes were sold at 113 percent of par value. We believe that the 8 percent coupon rate on the new senior subordinated note issue is reasonable based on the effective current trading value of the senior secured notes.

(15) Reduction in interest expense was as a result of the retirement of a portion of the outstanding senior subordinated notes totalling \$370 million of principal. For the outstanding senior subordinated notes, the annual interest rate was 11.625 percent.

(16) Represents additional amortization expense for newly capitalized debt issue costs, less the pro rata reduction in the amortization expense of prior capitalized debt issue costs due to the writeoff of these prior costs through our issuance of new senior subordinated notes and retirement of a portion of the outstanding senior subordinated notes (see (2) above). The new debt issuance costs are amortized over the terms of the new senior subordinated notes (10 years). For the year ended December 31, 2003, the net benefit received from the reduction in the amortization expense of prior capitalized debt issue costs offsets the additional amortization expense for newly capitalized debt issue costs that we will incur as a result of issuing the new senior subordinated notes.

(17) In April 2004, we entered into three separate fixed-to-floating interest rate swaps with two separate financial institutions. These agreements swapped an aggregate of \$150 million of fixed interest rate debt at a per annum rate of 10 1/4 percent to floating interest rate debt at a per annum rate of LIBOR plus a spread of 5.68 percent. In accordance with the Commission's preparation requirements for pro forma financial statements, the income statement effects of these swaps are excluded from the unaudited pro forma consolidated statement of income. Annualized interest expense savings of the swaps based on a LIBOR rate of 1.24 percent would be approximately \$5 million.

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**Tenneco Automotive Inc.**

**11,820,330 Shares**

**Common Stock**

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**PRELIMINARY PROSPECTUS**

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**, 2004**

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*Joint Book-Running Managers*

**JPMorgan**

**Citigroup**

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**Table of Contents****Part II****Information not required in prospectus****Item 14. *Other expenses of issuance and distribution.***

The following table sets forth an itemized statement of all estimated expenses in connection with the issuance and distribution of the securities being registered:

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SEC registration fee	\$22,173
Printing and engraving expenses	
Legal expenses	
NASD, New York Stock Exchange and blue sky expenses	
Accounting fees and expenses	
Miscellaneous	
	<hr/>
Total	\$

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**Item 15. *Indemnification of directors and officers.***

The restated certificate of incorporation of Tenneco Automotive Inc. ( *Tenneco* ) provides that a director of Tenneco will not be liable to Tenneco or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that an exemption from liability or limitation of liability is not permitted under the Delaware General Corporation law ( *DGCL* ). Based on the *DGCL* as presently in effect, a director of Tenneco will not be personally liable to Tenneco or its stockholders for monetary damages for breach of fiduciary duty as a director, except: (1) for any breach of the director's duty of loyalty to Tenneco or its stockholders; (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the *DGCL*; which concerns unlawful payments of dividends, stock purchases or redemptions; or (4) for any transactions from which the director derived an improper personal benefit.

While these provisions give directors protection from awards for monetary damages for breaches of their duty of care, they do not eliminate the duty. Accordingly, Tenneco's certificate of incorporation will have no effect on the availability of equitable remedies such as injunction or rescission based on a director's breach of his or her duty of care. The provisions of Tenneco's certificate of incorporation described above apply to an officer of Tenneco only if he or she is a director of Tenneco and is acting in his or her capacity as director. They do not apply to officers of Tenneco who are not directors.

Tenneco's by-laws include the following provisions:

## Section 14.

(1) The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an *Indemnitee* ) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, including appeals (a *proceeding* ), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the request of the

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corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, except as otherwise provided in paragraph (3) of this Section 14, the corporation shall be required to indemnify an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the Board.

(2) The corporation shall pay the expenses (including attorneys' fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition, provided, however, that, to the extent required by law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the Indemnitee to repay all amounts advanced if it should be ultimately determined that the Indemnitee is not entitled to be indemnified under this Section 14 or otherwise.

(3) If a claim for indemnification or payment of expenses under this Section 14 is not paid in full within thirty days after a written claim therefor by the Indemnitee has been received by the corporation, the Indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the Indemnitee is not entitled to the requested indemnification or payment of expenses under applicable law.

(4) The rights conferred on any Indemnitee by this Section 14 shall not be exclusive of any other rights which such Indemnitee may have or hereafter acquire under any statute, provision of the 222 Restated Certificate of Incorporation, these By-Laws, agreement, vote of stockholders or disinterested directors or otherwise.

(5) The corporation's obligation, if any, to indemnify or to advance expenses to any Indemnitee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such Indemnitee may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or nonprofit enterprise.

(6) Any repeal or modification of the foregoing provisions of this Section 14 shall not adversely affect any right or protection hereunder of any Indemnitee in respect of any act or omission occurring prior to the time of such repeal or modification.

(7) This Section 14 shall not limit the right of the corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Indemnitees when and as authorized by appropriate corporate action.

In addition, several of Tenneco's directors have entered into separate contractual indemnity arrangements with Tenneco. These arrangements provide for indemnification and the advancement of expenses to these directors in circumstances and subject to limitations substantially similar to those described above.

Tenneco has purchased insurance which purports to insure Tenneco against some of the costs of indemnification which may be incurred under the by-law section discussed above. The insurance also purports to insure the officers and directors of Tenneco and its subsidiaries

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against some liabilities incurred by them in the discharge of their duties as officers and directors, except for liabilities resulting from their own malfeasance.

The underwriting agreement provides that the underwriters are obligated, under certain circumstances, to indemnify our directors, officers and controlling persons against certain liabilities, including liabilities under the Securities Act. Reference is made to the form of underwriting agreement filed as Exhibit 1.1 hereto.

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**Item 16. Exhibits.**

**1.1	Form of Underwriting Agreement.
4.1(a)	Restated Certificate of Incorporation of Tenneco Automotive Inc., dated December 11, 1996 (incorporated herein by reference from Exhibit 3.1(a) of Tenneco Automotive Inc. s Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
4.1(b)	Certificate of Amendment, dated December 11, 1996 (incorporated herein by reference from Exhibit 3.1(c) of Tenneco Automotive Inc. s Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
4.1(c)	Certificate of Ownership and Merger, dated July 8, 1997 (incorporated herein by reference from Exhibit 3.1(d) of Tenneco Automotive Inc. s Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-12387).
4.1(d)	Certificate of Designation of Series B Junior Participating Preferred Stock dated September 9, 1998 (incorporated herein by reference from Exhibit 3.1(d) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 1-12387).
4.1(e)	Certificate of Elimination of the Series A Participating Junior Preferred Stock of Tenneco Automotive Inc. dated September 11, 1998 (incorporated herein by reference from Exhibit 3.1(e) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 1-12387).
4.1(f)	Certificate of Amendment to Restated Certificate of Incorporation of Tenneco Automotive Inc., dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(f) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
4.1(g)	Certificate of Amendment to Restated Certificate of Incorporation of Tenneco Automotive Inc., dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(g) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
4.1(h)	Certificate of Ownership and Merger merging Tenneco Automotive Merger Sub Inc. with and into Tenneco Automotive Inc., dated November 5, 1999 (incorporated herein by reference from Exhibit 3.1(h) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-12387).
4.1(i)	Certificate of Amendment to Restated Certificate of Incorporation of Tenneco Automotive Inc. dated May 9, 2000 (incorporated herein by reference from Exhibit 3.1(i) of Tenneco Automotive Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, File No. 1-12387).
4.2	By-laws of Tenneco Automotive Inc., as amended March 9, 2004 (incorporated herein by reference from Exhibit 3.2 of Tenneco Automotive Inc. s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 1-12387).
4.3(a)	Rights Agreement dated as of September 8, 1998, by and between the registrant and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference from Exhibit 4.1 of the registrant s Current Report on Form 8-K dated September 24, 1998, File No. 1-12387).
4.3(b)	Amendment No. 1 to Rights Agreement, dated March 14, 2000, by and between the registrant and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference from Exhibit 4.4(b) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1999, File No. 1-12387).
4.3(c)	Amendment No. 2 to Rights Agreement, dated February 5, 2001, by and between the registrant and First Union National Bank, as Rights Agent (incorporated herein by reference from Exhibit 4.4(b) of the registrant s Post-Effective Amendment No. 3, dated February 26, 2001, to its Registration Statement on Form 8-A dated September 17, 1998).
4.3	Specimen stock certificate for Tenneco Automotive Inc. common stock (incorporated herein by reference from Exhibit 4.3 of the registrant s Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-12387)

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**5.1	Opinion of Mayer, Brown, Rowe & Maw LLP.
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges (incorporated herein by reference from Exhibit 12 of Tenneco Automotive Inc. s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 1-12387).
**23.1	Consent of Mayer, Brown, Rowe & Maw LLP (included in Exhibit 5.1).
*23.2	Consent of Deloitte & Touche LLP.
*23.3	Statement Concerning Absence of Consent of Arthur Andersen LLP.
*24.1	Powers of Attorney (included on signature pages hereto).

\* Filed herewith

\*\* To be filed by amendment.

**Item 17. Undertakings.**

The undersigned registrant hereby undertakes:

(1) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(2) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(3) That, for the purpose of determining any liability under the Securities Act, each post-effective amendment shall be deemed a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**Table of Contents****Signatures**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lake Forest, State of Illinois on the 16th day of April, 2004.

TENNECO AUTOMOTIVE INC.

By: /s/ MARK P. FRISSORA

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Mark P. Frissora  
*Chairman of the Board of Directors,  
 President and Chief Executive Officer*

**Powers of attorney**

Each person whose signature appears below constitutes and appoints each of Timothy R. Donovan and Kenneth R. Trammell, or either of them, as such person's true and lawful attorney-in-fact and agent, to do any and all acts and things in such person's name and on such person's behalf in such person's capacity as director or officer of Tenneco Automotive Inc., with full power of substitution and resubstitution, and to execute any and all instruments for such person in the capacities indicated below, which said attorneys-in-fact and agents, or either of them, may deem necessary or advisable to enable said company to comply with the Securities Act of 1933 and any rules, regulations or requirements of the Securities and Exchange Commission, in connection with this registration statement, including, specifically, but without limitation, the power and authority to sign for such person in the name and capacity indicated below, any and all amendments (including post-effective amendments) to this registration statement and other documents in connection therewith, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission. Each of the undersigned does hereby ratify and confirm all that said attorneys-in-fact and agents, or either of them, shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated and on the 16th day of April, 2004.

<b>Signature</b>	<b>Position</b>
<hr/> /s/ MARK P. FRISSORA <hr/>	
Mark P. Frissora	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)
<hr/> /s/ KENNETH R. TRAMMELL <hr/>	
Kenneth R. Trammell	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
<hr/> /s/ JAMES A. PERKINS, JR. <hr/>	
James A. Perkins, Jr.	Vice President and Controller (Principal Accounting Officer)

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Signature	Position
/s/ CHARLES W. CRAMB	Director
Charles W. Cramb	
/s/ TIMOTHY R. DONOVAN	Director
Timothy R. Donovan	
/s/ M. KATHRYN EICKHOFF	Director
M. Kathryn Eickhoff	
	Director
Frank E. Macher	
	Director
Sir David Plastow	
/s/ DAVID B. PRICE, JR.	Director
David B. Price, Jr.	
/s/ ROGER B. PORTER	Director
Roger B. Porter	
/s/ DENNIS G. SEVERANCE	Director
Dennis G. Severance	
/s/ PAUL T. STECKO	Director
Paul T. Stecko	