PPG INDUSTRIES INC
Form 10-Q
October 27, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2008

Commission File Number 1-1687

PPG INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania **(State or other jurisdiction of incorporation** **or organization)**	**25-0730780** **(I.R.S. Employer** **Identification No.)**
One PPG Place, Pittsburgh, Pennsylvania **(Address of principal executive offices)**	**15272** **(Zip Code)**

(412) 434-3131

(Registrant s telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes x 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 x	Accelerated filer ¨	Non-accelerated flier ¨ (Do not check if a smaller reporting company)	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 x

As of September 30, 2008, 164,210,931 shares of the Registrant s common stock, par value $1.66-2/3 per share, were outstanding.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Income (Unaudited)

(Millions, except per share amounts)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2008	2007	2008	2007
Net sales	$ 4,225	$ 3,073	$ 12,661	$ 9,116
Cost of sales, exclusive of depreciation and amortization (Note 4)	2,701	1,947	8,126	5,811
Selling, general and administrative (Note 5)	877	595	2,682	1,696
Depreciation (Note 5)	105	89	340	263
Research and development	114	86	344	256
Interest expense	62	22	193	67
Amortization (Note 8)	34	15	105	44
Asbestos settlement net (Note 17)	5	5	9	22
In-process research and development (Note 4)			23	
Business restructuring (Note 6)	163		163	
Other charges	23	14	39	48
Other earnings	(62)	(36)	(143)	(101)
Income before income taxes and minority interest	203	336	780	1,010
Income tax expense	65	105	238	296
Minority interest	21	18	75	59
Income from continuing operations, net of tax	117	213	467	655
Loss from discontinued operations, net of tax (Note 1)		(22)		(21)
Net income	$ 117	$ 191	$ 467	$ 634
Earnings per common share (Note 10):				
Income from continuing operations	$ 0.71	$ 1.30	$ 2.84	$ 3.98
Loss from discontinued operations (Note 1)	$	$ (0.14)	$	$ (0.13)
Net income	$ 0.71	$ 1.16	$ 2.84	$ 3.85
Earnings per common share assuming dilution (Note 10):				
Income from continuing operations	$ 0.70	$ 1.29	$ 2.82	$ 3.95
Loss from discontinued operations (Note 1)	$	$ (0.14)	$	$ (0.13)
Net income	$ 0.70	$ 1.15	$ 2.82	$ 3.82
Dividends per common share	$ 0.52	$ 0.52	$ 1.56	$ 1.52

The accompanying notes to the condensed consolidated financial statements are an integral part of this consolidated statement.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet (Unaudited)

	Sept. 30, 2008	Dec. 31, 2007
	(Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 516	$ 526
Cash held in escrow (Note 4)	42	1,706
Receivables (less allowance for doubtful accounts of $94 million and $51 million)	3,453	2,522
Inventories (Note 7)	1,818	1,532
Other	750	655
Total current assets	6,579	6,941
Property (less accumulated depreciation of $5,266 million and $6,116 million)	2,833	2,578
Investments	571	370
Goodwill (Note 8)	2,711	1,507
Identifiable intangible assets (Note 8)	1,561	614
Other assets	791	619
Total	$ 15,046	$ 12,629
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 9)	$ 726	$ 1,819
Asbestos settlement (Note 17)	615	593
Accounts payable and accrued liabilities	3,128	2,220
Total current liabilities	4,469	4,632
Long-term debt (Note 9)	3,221	1,201
Asbestos settlement (Note 17)	300	324
Deferred income taxes	495	164
Accrued pensions	548	396
Other postretirement benefits	931	997
Other liabilities	712	603
Total liabilities	10,676	8,317
Commitments and contingent liabilities (Note 17)		
Minority interest	166	161
Shareholders equity:		
Common stock	484	484
Additional paid-in capital	573	553
Retained earnings (Note 2)	8,172	7,963
Treasury stock	(4,259)	(4,267)
Accumulated other comprehensive loss (Note 13)	(766)	(582)
Total shareholders equity	4,204	4,151
Total	$ 15,046	$ 12,629

The accompanying notes to the condensed consolidated financial statements are an integral part of this consolidated statement.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine Months Ended Sept. 30	
	2008	**2007**
	(Millions)	
Cash from operating activities continuing operations	$ 810	$ 549
Cash used for operating activities discontinued operations		(2)
Cash from operating activities	810	547
Investing activities:		
Capital spending		
Additions to property and long-term investments	(235)	(254)
Business acquisitions, net of cash balances acquired (2008 - $136; 2007 - $6) (Note 4)	(1,630)	(212)
Proceeds from sale of automotive glass and services business (Note 5)	225	
Reductions of other property and investments	32	28
Deposits of cash into escrow	(36)	(44)
Release of cash held in escrow (Note 4)	1,703	
Cash from (used for) investing activities continuing operations	59	(482)
Cash used for investing activities discontinued operations		(4)
Cash from (used for) investing activities	59	(486)
Financing activities:		
Debt:		
Borrowings to refinance acquired SigmaKalon debt (Note 9)	1,143	
Repayment of acquired SigmaKalon debt (Note 9)	(1,259)	
Proceeds from issuance of notes (net of discount and issuance costs) (Note 9)	1,538	
Repayment of bridge loan (Note 9)	(1,557)	
Net change in borrowings with maturities of three months or less	(463)	73
Proceeds from other short-term debt	318	55
Repayment of other short-term debt	(418)	(80)
Proceeds from (repayment of) other long-term debt	29	(21)
Net change in cash related to debt transactions	(669)	27
Other financing activities:		
Proceeds from termination of interest rate swaps (Note 15)	40	
Repayment of loans by employee stock ownership plan		19
Purchase of treasury stock	(6)	(270)
Issuance of treasury stock	13	187
Dividends paid	(256)	(250)
Cash used for financing activities continuing operations	(878)	(287)
Cash used for financing activities discontinued operations		
Cash used for financing activities	(878)	(287)
Effect of currency exchange rate changes on cash and cash equivalents	(1)	10
Net decrease in cash and cash equivalents	(10)	(216)

Cash and cash equivalents, beginning of period	526	443
Cash and cash equivalents, end of period	$ 516	$ 227

The accompanying notes to the condensed consolidated financial statements are an integral part of this consolidated statement.

4

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and subsidiaries (the Company or PPG) as of September 30, 2008, and the results of their operations for the three and nine months ended September 30, 2008 and 2007, and their cash flows for the nine months then ended. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG s Annual Report on Form 10-K for the year ended December 31, 2007.

In July 2008, the Company announced that it had entered into an agreement to divest its automotive OEM glass and automotive replacement glass and services businesses (automotive glass and services business). Under the agreement, PPG would receive a minority ownership interest in the new company formed by the buyer. In accordance with the requirements of Statement of Financial Accounting Standards, (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of the automotive glass and services business were reported as discontinued operations beginning in September 2007 and in the second quarter of 2008 the business was reclassified into continuing operations because of PPG s continuing involvement arising from the approximate 40% retained equity interest. The results of the automotive glass and services business are reported as part of the Glass reportable segment in the accompanying financial statements. The transaction was completed on September 30, 2008. See Note 5, Divestiture of Automotive Glass and Services Business for additional information.

In the third quarter of 2007, PPG entered into an agreement to sell its fine chemicals business to ZaCh System S.p.A., a subsidiary of Zambon Company S.p.A., for approximately $65 million. The sale of this business was completed in November 2007. The results of operations and cash flows of this business, which had previously been included in the Optical and Specialty Materials reportable segment, have been classified as discontinued operations in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2007 and the accompanying condensed consolidated statement of cash flows for the nine months then ended. Sales of the fine chemicals business were $16 million and $63 million for the three and nine months ended September 30, 2007, respectively. Loss from discontinued operations for the three and nine months ended September 30, 2007, included a pretax charge of $21 million ($19 million aftertax) related to the divestiture of the fine chemicals business.

On January 2, 2008 the Company completed the acquisition of the SigmaKalon Group (SigmaKalon) which resulted in the release of $1,673 million cash held in escrow and paid to the seller. The assets acquired included cash of $136 million. See Note 4, Acquisitions for additional information.

The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

Table of Contents

2. Newly Adopted Accounting Standards

In March 2007, the Emerging Issues Task Force (EITF) issued EITF No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967, if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 is effective as of January 1, 2008. PPG has collateral assignment split-dollar life insurance arrangements within the scope of EITF 06-10. The Company adopted the provisions of EITF 06-10 as of January 1, 2008. As a result of the adoption, the Company recognized a liability of $2 million, representing the present value of the future premium payments to be made under the existing policies. In accordance with the transition provisions of EITF 06-10, this amount was recorded as a direct decrease to retained earnings. No adjustment to the recorded asset value was required upon adoption.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not increase the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except as it relates to nonrecurring fair value measurements of nonfinancial assets and liabilities for which the standard is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 with respect to financial assets and liabilities in the first quarter of 2008 did not have a significant effect on PPG s consolidated results of operations or financial position. In addition, the Company is evaluating the impact of SFAS No. 157 for measuring nonfinancial assets and liabilities on future results of operations and financial position.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. The standard establishes a hierarchy of inputs employed to determine fair value measurements, with three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities, are considered to be the most reliable evidence of fair value, and should be used whenever available. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities.

Table of Contents

The Company s financial assets and liabilities that are reported at fair value in the accompanying condensed consolidated balance sheet, as of September 30, 2008, were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
Other current assets:				
Foreign currency contracts	$	$ 3	$	$ 3
Equity forward arrangement		7		7
Natural gas swap contracts		2		2
Marketable equity securities	4			4
Investments:				
Marketable equity securities	63	3		66
Other assets:				
Natural gas swap contracts		2		2
Interest rate swaps		1		1
Cross currency swaps		71		71
Accounts payable and accrued liabilities:				
Foreign currency contracts		12		12
Interest rate swaps		1		1
Natural gas swap contracts		19		19
Other liabilities:				
Foreign currency contracts		9		9
Natural gas swap contracts		9		9

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items, for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in the first quarter of 2008 did not have an impact on PPG s consolidated results of operations or financial position.

3. Other New Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)), which replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting (formerly known as the purchase method of accounting), but SFAS No. 141(R) changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with an exception related to the accounting for valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions completed before the effective date. SFAS No. 141(R) amends SFAS No. 109 to require adjustments, made after the effective date of this statement, to valuation allowances for acquired deferred tax assets and income tax positions to be recognized as income tax expense. Beginning January 1, 2009, PPG will apply the provisions of SFAS No. 141(R) to its accounting for applicable business combinations.

Table of Contents

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of SFAS No. 141(R). This statement requires changes in the parent s ownership interest in consolidated subsidiaries to be accounted for as equity transactions. This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We are currently evaluating the effects that SFAS No. 160 may have on our consolidated financial statements.

In November 2007, EITF Issue No. 07-1, Accounting for Collaborative Arrangements, which defines collaborative arrangements and establishes reporting and disclosure requirements for such arrangements, was issued. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. The Company is continuing to evaluate the impact of adopting the provisions of EITF 07-1; however, it does not anticipate that adoption will have a material effect on PPG s consolidated results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This statement s disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the effects that SFAS No. 161 may have on our consolidated financial statement disclosures.

4. Acquisitions

During the nine months ended September 30, 2008, PPG spent $1,630 million on acquisitions (net of cash acquired of $136 million), including purchase price adjustments related to 2007 acquisitions. Most of this spending was related to the January 2, 2008 acquisition of SigmaKalon, a worldwide coatings producer based in Uithoorn, Netherlands, from global private investment firm Bain Capital (the seller). SigmaKalon produces architectural, protective and marine and industrial coatings and is a leading coatings supplier in Europe and other key markets across the globe, with an increasing presence in Africa and Asia. SigmaKalon sells coatings through a combination of approximately 500 company-owned stores, home centers, paint dealers, independent distributors, and directly to customers. The results of SigmaKalon have been included in PPG s consolidated results of operations from January 2, 2008 onward.

The total transaction value was approximately $3.2 billion, consisting of cash paid to the seller of $1,673 million and debt assumed of $1,517 million. The cash paid to the seller consisted of 717 million ($1,056 million) and $617 million. In 2007, PPG issued $617 million of commercial paper and borrowed $1,056 million (717 million) under the 1 billion bridge loan agreement established in December 2007 in anticipation of completing the SigmaKalon acquisition. The proceeds from these borrowings were deposited into escrow in December 2007. Upon closing of the transaction on January 2, 2008, these amounts were released from escrow and paid to the seller. The funds held in escrow were reported as Cash held in escrow in the accompanying condensed consolidated balance sheet as of December 31, 2007.

Table of Contents

The preliminary purchase price allocation for the SigmaKalon acquisition was recorded in the first quarter of 2008. Adjustments to the purchase price allocation have been recorded in 2008, including a restructuring reserve of $26 million in the third quarter (See Note 6, Business Restructuring), and further adjustments are expected as the Company finalizes estimates related to certain acquired assets and liabilities such as acquired deferred tax assets and liabilities and contingent liabilities.

The purchase price allocation is expected to be finalized by December 31, 2008. The following table summarizes the preliminary estimated fair value of assets acquired and liabilities assumed as a result of the acquisition:

(Millions)	
Current assets (including cash of $136)	$ 1,448
Property, plant, and equipment	638
Customer-related intangibles	685
Trade names	277
Acquired technology	122
Goodwill (non-deductible)	1,328
Other	103
Total assets	4,601
Short-term debt	(1,507)
Current liabilities	(777)
Long-term debt	(10)
Deferred taxes	(396)
Other long-term liabilities	(261)
Net assets	1,650
In-process research and development	23
Total purchase price	$ 1,673

Identifiable intangible assets with finite lives are subject to amortization over their estimated useful lives. The identifiable intangible assets acquired in the SigmaKalon transaction will be amortized over an estimated weighted-average amortization period of 11 years. Customer-related intangibles will be amortized over an estimated weighted-average amortization period of 12 years, acquired technology will be amortized over an estimated weighted-average amortization period of 7 years and trade names will be amortized over an estimated weighted-average amortization period of 15 years. Estimated future amortization expense related to these identifiable intangible assets is approximately $75 million in each of the next five years.

Goodwill has preliminarily been allocated to PPG s reportable segments as follows: $1,124 million to Architectural Coatings EMEA, $106 million to Performance Coatings (protective and marine operating segment) and $98 million to Industrial Coatings (industrial operating segment).

The step up to fair value of acquired inventory as part of the preliminary purchase price allocation totaled $94 million. This amount was included in cost of sales, exclusive of depreciation and amortization, in the accompanying condensed consolidated statement of income for the nine months ended September 30, 2008 as the related inventory was sold to customers in the first quarter of 2008. The amount allocated to in-process research and development was charged to expense in the first quarter of 2008.

Table of Contents

The following information reflects the results of PPG s operations for the three and nine months ended September 30, 2007 on a pro forma basis as if the acquisition of SigmaKalon had been completed on January 1, 2007. The unaudited pro forma financial information was prepared to give pro forma effect to events that are 1) directly attributable to the acquisition, 2) factually supportable and 3) expected to have a continuing impact on the combined results. Pro forma adjustments have been made to illustrate the incremental impact on earnings of interest costs on the borrowings to acquire SigmaKalon, amortization expense related to acquired intangible assets of SigmaKalon, and the tax benefit associated with the incremental interest costs and amortization expense. The following unaudited pro forma information does not include certain cost savings or operating synergies (or costs associated with realizing such savings or synergies) that may result from the acquisition. Amounts preliminarily allocated to goodwill may change and amounts allocated to intangible assets with finite lives may change, which could result in a change to amortization expense related to acquired intangible assets from that which is estimated in the following unaudited pro forma information for PPG and its consolidated subsidiaries.

Condensed Consolidated Pro Forma Information (unaudited) **(Millions, except per share amounts)**	**Three Months Ended Sept. 30, 2007**	**Nine Months Ended Sept. 30, 2007**
Net sales	$ 3,859	$ 11,318
Net income	$ 209	$ 654
Earnings per common share	$ 1.14	$ 3.84
Earnings per common share assuming dilution	$ 1.13	$ 3.82

The unaudited pro forma information is provided for illustrative purposes only and does not purport to represent what PPG s consolidated results of operations would have been had the transaction actually occurred as of January 1, 2007, and does not purport to project PPG s future consolidated results of operations.

During the nine months ended September 30, 2007, the Company spent $212 million on acquisitions, including purchase price adjustments related to 2006 acquisitions. In the third quarter of 2007, PPG acquired Barloworld Coatings Australia, the architectural paint unit of South African-based Barloworld, Ltd., a multinational industrial brand management company. Barloworld Coatings Australia, a leading Australian architectural and decorative paint manufacturer, produces Taubmans, Bristol and White Knight brands of architectural coatings. The acquisition includes a production facility in Villawood, New South Wales. Barloworld Coatings Australia distributes products through 85 company-owned stores, a network of sole-brand distributors and numerous independent dealers. In addition, the company s paints are sold through Bunnings, Australia s largest home-improvement retailer, and exported to New Zealand.

In the first quarter of 2007, the Company acquired the architectural and industrial coatings businesses of Renner Sayerlack, S.A., Gravatai, Brazil, to expand its coatings businesses in Latin America. The acquired business operates manufacturing plants in Brazil, Chile, and Uruguay and each plant also serves as a distribution center. The purchase price allocation resulted in an excess of purchase price over the fair value of net assets acquired, which has been reflected as an addition to goodwill.

Table of Contents

5. Divestiture of Automotive Glass and Services Business

During the third quarter of 2007, the Company entered into an agreement to sell its automotive glass and services business to Platinum Equity, (Platinum) for approximately $500 million. Accordingly, the assets and liabilities of this business were classified as held for sale and the results of operations and cash flows of this business were classified as discontinued operations. In the fourth quarter of 2007, PPG was notified that affiliates of Platinum had filed suit in the Supreme Court of the State of New York, County of New York, alleging that Platinum was not obligated to consummate the agreement. Platinum also terminated the agreement. PPG has sued Platinum and certain of its affiliates for damages, including the $25 million breakup fee stipulated by the terms of the agreement, based on various alleged actions of the Platinum parties. While the transaction with Platinum was terminated, PPG management remained committed to a sale of the automotive glass and services business and continued to classify its assets and liabilities as held for sale and report its results of operations and cash flows as discontinued operations through the first quarter of 2008.

In July 2008, PPG entered into an agreement with affiliates of Kohlberg & Company, LLC, under which PPG would divest the automotive glass and services business to a new company formed by affiliates of Kohlberg. Under the agreement, PPG would receive a minority interest in the new company, and, as such, the accounting requirements of SFAS No. 144 for classifying the business as assets held for sale and reporting its results of operations and cash flows as discontinued operations had no longer been met. The assets and liabilities of the business have been classified as held for use in the condensed consolidated balance sheet as of December 31, 2007, and the results of operations and cash flows of the business have been classified as continuing operations in the Glass reportable segment in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months then ended.

In the second quarter of 2008, as a result of the reclassification of the automotive glass and services business to continuing operations, PPG recorded a one-time, non-cash charge of $17 million ($11 million aftertax) to reflect a catch-up of depreciation expense, which was suspended when the business was classified as a discontinued operation. Additionally, in the second quarter of 2008, PPG recorded a charge of $19 million ($12 million aftertax) for special termination benefits and a pension curtailment loss relating to the impact of benefit changes, including accelerated vesting, negotiated as part of the pending sale. This charge is included in selling, general and administrative expenses in the accompanying condensed consolidated statement of income for the nine months ended September 30, 2008.

The transaction with affiliates of Kohlberg was completed on September 30, 2008, with PPG receiving total proceeds of $315 million, including $225 million in cash and two 6-year notes totaling $90 million ($60 million at 8.5% interest and $30 million at 10% interest). Both notes, which may be prepaid at any time without penalty, are senior to the equity of the new company. In addition, PPG has received a minority interest of approximately 40 percent in the new company, Pittsburgh Glass Works LLC. This transaction resulted in a third quarter 2008 gain of $15 million pretax, net of transaction costs, and is included in Other income in the condensed consolidated statement of income for the three and nine months ended September 30, 2008. The aftertax gain on the transaction was $3 million, reflective of tax expense of $12 million. Tax expense on the gain includes the tax cost of repatriating certain transaction proceeds from Canada to the U.S. and the impact of certain permanent book/tax differences which resulted in a larger taxable gain. PPG will account for its interest in Pittsburgh Glass Works LLC under the equity method of accounting. PPG has retained certain liabilities for pension and post-employment benefits earned for service up to September 30, 2008.

Table of Contents

6. Business Restructuring

During the third quarter of 2008, the Company finalized a restructuring plan that is part of implementing PPG s global transformation strategy and the integration of its acquisition of SigmaKalon, completed January 2. As part of the restructuring, PPG will close several coatings manufacturing facilities, including those in Clarkson, Ont., Canada, and Geldermalsen, Netherlands, which are anticipated to close in the second and third quarters 2009, respectively. The Geldermalsen closure will be implemented following consultation with the applicable works council. Other staffing reductions will occur in PPG s coatings businesses in North America and Europe. PPG also will close its Owen Sound, Ont., Canada, glass manufacturing facility in early 2009, and will idle one float glass production line at its Mt. Zion, Ill., facility in the second quarter of next year. Other actions will include writing off idle production assets in PPG s fiber glass and chemicals businesses.

In the third quarter of 2008, the Company recorded a charge of $163 million for business restructuring, including severance and other costs of $73 million, pension curtailments of $21 million and asset write-offs of $69 million. Severance and other restructuring costs related to the SigmaKalon acquisition of $26 million have been recorded as part of the purchase price allocation during the third quarter of 2008, effectively increasing goodwill. The restructuring reserve recorded in the third quarter 2008 totaled $189 million.

The company also expects to incur additional costs of approximately $15 million directly associated with the restructuring actions for demolition, dismantling, relocation and training that will be charged to expense as incurred. The company expects to incur these additional expenses in the second half of 2009.

The following table summarizes the activity in the third quarter 2008 restructuring reserve through September 30, 2008:

(Millions, except no. of employees)	Severance and Other Costs	Pension Curtailment Losses	Asset Write-offs	Total Reserve	Employees Impacted
Industrial Coatings	$ 40	$ 9	$ 10	$ 59	470
Performance Coatings	30		15	45	268
Architectural Coatings - EMEA	17			17	196
Glass	12	12	31	55	285
Commodity Chemicals			13	13	10
Total	$ 99	$ 21	$ 69	$ 189	1,229
Activity to date	(1)	(21)	(69)	(91)	(23)
Currency impact	(3)			(3)	
Balance as of September 30, 2008	$ 95	$	$	$ 95	1,206

Table of Contents

7. Inventories

Inventories as of September 30, 2008 and December 31, 2007 are detailed below.

	Sept. 30, 2008	Dec. 31, 2007
	(Millions)	
Finished products	$ 1,101	$ 937
Work in process	152	131
Raw materials	452	323
Supplies	113	141
Total	$ 1,818	$ 1,532

Most domestic and certain foreign inventories are valued using the last-in, first-out method. If the first-in, first-out method of inventory valuation had been used, inventories would have been $218 million and $234 million higher as of September 30, 2008 and December 31, 2007, respectively.

8. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the nine months ended September 30, 2008 was as follows:

	Performance Coatings	Industrial Coatings	Architectural Coatings - EMEA	Optical and Specialty Materials	Glass	Total
			(Millions)			
Balance, December 31, 2007	$ 1,051	$ 310	$	$ 57	$ 89	$ 1,507
Goodwill from acquisitions (Note 4)	115	102	1,126	2		1,345
Impact of divestiture (Note 5)					(29)	(29)
Currency translation	(40)	(19)	(48)	(2)	(3)	(112)
Balance, Sept. 30, 2008	$ 1,126	$ 393	$ 1,078	$ 57	$ 57	$ 2,711

The carrying amount of acquired trademarks with indefinite lives as of September 30, 2008 and December 31, 2007 totaled $340 million and $144 million, respectively. The amount at September 30, 2008 includes $196 million related to the SigmaKalon acquisition.

Table of Contents

The Company s identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are detailed below.

	Sept. 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
			(Millions)			
Acquired technology	$ 517	$ (192)	$ 325	$ 392	$ (164)	$ 228
Customer-related intangibles	980	(186)	794	334	(131)	203
Trade names	114	(21)	93	55	(24)	31
Other	28	(19)	9	25	(17)	8
Balance	$ 1,639	$ (418)	$ 1,221	$ 806	$ (336)	$ 470

Most of the increase in the gross carrying amount of identifiable intangible assets from December 31, 2007 to September 30, 2008 is the result of the SigmaKalon acquisition and the impact of foreign currency changes.

Aggregate amortization expense related to these identifiable intangible assets for the three and nine months ended September 30, 2008 was $34 million and $105 million, respectively, and for the three and nine months ended September 30, 2007 was $15 million and $44 million, respectively. As of September 30, 2008, estimated future amortization expense of identifiable intangible assets is as follows: $34 million for the remaining quarter of 2008 and $132 million, $130 million, $120 million, $116 million and $103 million in 2009, 2010, 2011, 2012 and 2013, respectively.

9. Debt

In order to provide financing for the SigmaKalon acquisition, in December 2007, PPG and certain of its subsidiaries entered into a three year 650 million revolving credit facility with several banks and financial institutions and Societe Generale, as facility agent for the lenders. The facility has an annual fee of 7 basis points. In addition, PPG and a subsidiary entered into two bridge loan agreements, one in the amount of 1 billion with multiple lenders and Credit Suisse as administrative agent for those lenders and the other in the amount of $500 million with Credit Suisse as the lender.

In December 2007, PPG issued $617 million of commercial paper and borrowed $1,056 million (717 million) under the 1 billion bridge loan agreement. The proceeds from these borrowings were deposited into escrow in December 2007. Upon closing of the acquisition on January 2, 2008, these amounts were released from escrow and paid to the seller. Also, in January 2008, PPG borrowed $1,143 million, representing the remaining $417 million (283 million) available under the 1 billion bridge loan agreement and $726 million (493 million) under the 650 million revolving credit facility. The proceeds from these borrowings and cash on hand of $116 million were used to refinance $1,259 million of the $1,517 million of SigmaKalon debt outstanding on the date of acquisition. No amounts were borrowed under the $500 million bridge loan agreement, and, due to the passage of time and the specific purpose of this agreement, PPG can no longer make borrowings under this agreement.

On March 18, 2008, PPG completed a public offering of $600 million in aggregate principal amount of its 5.75% Notes due 2013 (the 2013 Notes), $700 million in aggregate principal amount of its 6.65% Notes due 2018 (the 2018 Notes) and $250 million in aggregate principal amount of its 7.70% Notes due 2038 (the 2038 Notes and, together with the 2013 Notes and the 2018 Notes, the

Table of Contents

Notes). The Notes were offered by the Company pursuant to its existing shelf registration. The proceeds of this offering of $1,538 million (net of discount and issuance costs) and additional borrowings of $195 million under the 650 million revolving credit facility were used to repay existing debt, including certain short-term debt and the amounts outstanding under the 1 billion bridge loan. No further amounts can be borrowed under the 1 billion bridge loan. The discount and issuance costs related to the Notes, which totaled $12 million, will be amortized to interest expense over the respective lives of the Notes.

10. Earnings Per Common Share

The following table presents the earnings per common share calculations for the three and nine months ended September 30, 2008 and 2007.

(Millions, except per share amounts)	Three Months Ended Sept. 30 2008	Three Months Ended Sept. 30 2007	Nine Months Ended Sept. 30 2008	Nine Months Ended Sept. 30 2007
Earnings per common share				
Income from continuing operations	$ 117	$ 213	$ 467	$ 655
Loss from discontinued operations		(22)		(21)
Net Income	$ 117	$ 191	$ 467	$ 634
Weighted average common shares outstanding	164.7	164.4	164.6	164.6
Earnings per common share:				
Income from continuing operations	$ 0.71	$ 1.30	$ 2.84	$ 3.98
Loss from discontinued operations		(0.14)		(0.13)
Net Income	$ 0.71	$ 1.16	$ 2.84	$ 3.85
Earnings per common share - assuming dilution				
Income from continuing operations	$ 117	$ 213	$ 467	$ 655
Loss from discontinued operations		(22)		(21)
Net Income	$ 117	$ 191	$ 467	$ 634
Weighted average common shares outstanding	164.7	164.4	164.6	164.6
Effect of dilutive securities:				
Stock options	0.4	1.1	0.5	0.9
Other stock compensation plans	0.5	0.5	0.6	0.5
Potentially dilutive common shares	0.9	1.6	1.1	1.4
Adjusted weighted average common shares outstanding	165.6	166.0	165.7	166.0
Earnings per common share - assuming dilution:				
Income from continuing operations	$ 0.70	$ 1.29	$ 2.82	$ 3.95
Loss from discontinued operations		(0.14)		(0.13)
Net Income	$ 0.70	$ 1.15	$ 2.82	$ 3.82

Excluded from the computation of diluted earnings per share due to their antidilutive effect were 3.2 million and 3.0 million outstanding stock options for the three and nine months ended September 30, 2008, and 0.2 million and 1.0 million outstanding stock options for the three and nine months ended September 30, 2007.

15

Table of Contents

11. Income Taxes

The Company files federal, state and local income tax returns in numerous domestic and foreign jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is no longer subject to examinations by tax authorities in any major tax jurisdiction for years before 2001. Additionally, the Internal Revenue Service (IRS) has completed its examination of the Company s U.S. federal income tax returns filed for years through 2005. During the first quarter of 2008, the Company recorded a tax benefit of $6 million related to the settlement with the IRS of our U.S. tax returns for the years 2004 and 2005. The IRS is currently conducting its examination of the Company s U.S. federal income tax return for 2006. This examination is expected to be completed in the fourth quarter of 2008 or early 2009 and is not expected to result in a significant adjustment to the Company s income tax expense.

12. Pensions and Other Postretirement Benefits

The net periodic benefit costs for the three and nine months ended September 30, 2008 and 2007 were as follows:

	Pensions			
	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2008	2007	2008	2007
	(Millions)			
Service cost	$ 17	$ 18	$ 57	$ 54
Interest cost	65	54	196	159
Expected return on plan assets	(68)	(67)	(216)	(199)
Amortization of prior service cost	3	4	8	11
Amortization of actuarial losses	18	21	51	62
Special termination benefits and curtailment losses (Notes 5 and 6)	21	12	39	12
Net periodic pension cost	$ 56	$ 42	$ 135	$ 99

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law, changing the funding requirements for our U.S. defined benefit pension plans beginning in 2008. Under the requirements of PPA, we will not have a mandatory contribution to these plans in 2008. However, we made a voluntary contribution of $50 million to our U.S. defined benefit pension plans in 2008. We also do not currently expect to have a mandatory contribution to these plans in 2009. However, due in large part to an expectation of lower than anticipated asset returns in 2008, we expect to make a voluntary contribution to these plans in 2009 that could be well in excess of the level of our recent contributions.

We expect to make mandatory contributions to our non-U.S. plans in 2008 of approximately $85 million, of which approximately $60 million was contributed as of September 30, 2008.

Table of Contents

The net periodic other postretirement benefit costs for the three and nine months ended September 30, 2008 and 2007 were as follows:

	Other Postretirement Benefits			
	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2008	2007	2008	2007
	(Millions)			
Service cost	$ 4	$ 6	$ 16	$ 18
Interest cost	17	16	50	48
Amortization of prior service cost	(4)	(3)	(13)	(8)
Amortization of actuarial losses	6	8	21	25
Special termination benefits and curtailment (gains) losses (Notes 5 and 6)	(6)	5	(5)	5
Net periodic other postretirement benefit cost	$ 17	$ 32	$ 69	$ 88

The net periodic costs for other postretirement benefits in the table above include the benefit of the subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act of 2003) for all periods presented. In August 2007, the Company s U.S. other postretirement benefit plan was amended to consolidate the number of retiree health care options available for certain retirees and their dependents. The plan amendment was effective January 1, 2008 and provides a fully-insured Medicare Part D prescription drug plan for certain retirees and their dependents. As such, beginning in 2008 PPG will no longer be eligible to receive the subsidy provided under the Medicare Act of 2003 for these retirees and their dependents.

The underfunded status at September 30, 2008 of the defined benefit pension and other postretirement benefit plans covering employees of the automotive glass and services business totaled $38 million and $232 million, respectively, and such amounts are recognized as liabilities in the condensed consolidated balance sheet as of that date. These obligations are being retained by PPG under the terms of the agreement to divest this business (see Note 5). The projected benefit obligation and accumulated plan benefit obligation at September 30, 2008 related to these plans included $207 million and $73 million, respectively, of accumulated net actuarial losses that have been recognized with a charge to accumulated other comprehensive loss and have not yet been reflected in net periodic benefit cost.

We estimate that the net periodic benefit costs related to the retained liabilities will total approximately $27 million in 2009, which is a reduction of approximately $8 million from the current level of annual benefit cost.

Table of Contents

13. Comprehensive Income

Total comprehensive income for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2008	2007	2008	2007
	(Millions)			
Net income	$ 117	$ 191	$ 467	$ 634
Other comprehensive (loss) income, net of tax:				
Pension and other postretirement benefits	25	114	24	100
Currency translation adjustment	(400)	126	(198)	241
Unrealized gains (losses) on marketable securities		1	(2)	(1)
Net change derivatives (Note 14)	(91)	(5)	(8)	3
	(466)	236	(184)	343
Total comprehensive (loss) income	$ (349)	$ 427	$ 283	$ 977

14. Derivative Financial Instruments and Hedge Activities

PPG s policies do not permit speculative use of derivative financial instruments. PPG uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap contracts. PPG also uses forward currency and option contracts as hedges against its exposure to variability in exchange rates on short-term intercompany borrowings and cash flows denominated in foreign currencies and to translation risk. PPG uses foreign denominated debt to hedge investments in foreign operations. Interest rate swaps are used to manage the Company s exposure to changing interest rates. PPG held interest rate swaps that effectively converted $125 million and $275 million of fixed rate notes to variable debt at September 30, 2008 and December 31, 2007, respectively. PPG also uses an equity forward arrangement to hedge a portion of our exposure to changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 17, Commitments and Contingent Liabilities.

Concurrent with the public offering of the Company s Notes, on March 18, 2008, PPG entered into ten U.S. dollar to euro cross currency swap contracts with a total notional amount of $1.3 billion, of which $600 million will settle on March 15, 2013 and $700 million will settle on March 15, 2018. PPG paid the counterparties to the contracts a total of $1.3 billion and received euros, which were used to repay most of the 1 billion bridge loan, which the Company employed to finance the acquisition of SigmaKalon. On settlement of the contracts, PPG will receive $1.3 billion U.S. dollars and pay euros to the counterparties to the contracts. The Company has designated these swaps as hedges of its net investment in SigmaKalon and, as a result, mark to fair value adjustments of the swaps have been and will be recorded as a component of other comprehensive income. As of September 30, 2008, the aggregate fair value of these swaps was an asset of $71 million.

During the first nine months of 2008, other comprehensive income included a net loss due to derivatives of $8 million, net of tax. This loss was comprised of realized gains of $1 million and unrealized losses of $7 million. The realized gains related to the settlement during the period of natural gas contracts offset in part by losses from the settlement of interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting and foreign currency contracts. The unrealized losses related to the change in fair value of the natural gas contracts and interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting, offset in part by unrealized gains on foreign currency contracts.

Table of Contents

During the first nine months of 2007, other comprehensive income included a net gain due to derivatives of $3 million, net of tax. This gain was comprised of realized losses of $14 million and unrealized losses of $11 million. The realized losses related to the settlement during the period of natural gas and foreign currency contracts and interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting. The unrealized losses related to the change in fair value of the natural gas and foreign currency contracts and interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting.

In November 2002, PPG entered into a one-year renewable equity forward arrangement with a bank in order to partially mitigate the impact of changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 17. This instrument, which has been renewed, is recorded at fair value as an asset or liability and changes in the fair value of this instrument are reflected in Asbestos settlement net in the condensed consolidated statement of income. The fair value of this instrument as of September 30, 2008 and December 31, 2007 was a current asset of $7 million and $18 million, respectively. PPG recorded a gain of $1 million and a loss of $11 million for the three and nine months ended September 30, 2008, respectively, and a gain of $0 million and $10 million for the three and nine months ended September 30, 2007, respectively, for the change in fair value of this instrument.

15. Cash Flow Information

Cash payments for interest were $192 million and $79 million for the nine months ended September 30, 2008 and 2007, respectively. Net cash payments for income taxes for the nine months ended September 30, 2008 and 2007 were $378 million and $307 million, respectively.

In the first quarter of 2008, PPG terminated two interest rate swaps, including one that was acquired in the SigmaKalon transaction. PPG received proceeds of $40 million in terminating these swaps, which amount is included as cash from financing activities in the accompanying condensed consolidated statement of cash flows for the nine months ended September 30, 2008.

16. Stock-Based Compensation

The Company s stock-based compensation includes stock options, restricted stock units (RSUs) and grants of contingent shares that are earned based on achieving targeted levels of total shareholder return. All current grants of stock options, RSUs and contingent shares are made under the PPG Industries, Inc. Omnibus Incentive Plan (PPG Omnibus Plan). Shares available for future grants under the PPG Omnibus Plan were 7.4 million as of September 30, 2008.

Total stock-based compensation cost was $12 million and $27 million for the three and nine months ended September 30, 2008, respectively, and $13 million and $31 million for the three and nine months ended September 30, 2007, respectively. The total income tax benefit recognized in the income statement related to the stock-based compensation was $4 million and $10 million for the three and nine months ended September 30, 2008, respectively, and $5 million and $11 million for the three and nine months ended September 30, 2007.

Stock Options

PPG has outstanding stock option awards that have been granted under two stock option plans: the PPG Industries, Inc. Stock Plan (PPG Stock Plan) and the PPG Omnibus Plan. Under the PPG Omnibus Plan and the PPG Stock Plan, certain employees of the Company have been granted options to purchase shares of common stock at prices equal to the fair market value of the shares on the date the options were granted. The options are generally exercisable beginning from six to 48 months after being granted and have a maximum term of 10 years. Upon exercise of a stock option, shares of Company stock are issued from treasury stock. The PPG Stock Plan includes a restored option provision for options originally granted prior to January 1, 2003 that allows an optionee to exercise options and satisfy the option price by certifying ownership of mature shares of PPG common stock with equivalent market value.

On July 1, 1998, under the PPG Challenge 2000 Stock Plan, the Company granted to substantially all active employees of the Company and its majority owned subsidiaries the option to purchase 100 shares of common stock at its then fair market value of $70 per share. The options became exercisable on July 1, 2003 and expired on June 30, 2008. A total of 1.2 million options expired on this date.

On February 20, 2008, PPG granted 714,220 stock options from the PPG Omnibus Plan, at a weighted average exercise price of $63.64 per share. The weighted average fair value of options granted was $13.29 per share.

The fair value of stock options issued to employees is measured on the date of grant and is recognized as expense over the requisite service period. PPG estimates the fair value of stock options using the Black-Scholes option pricing model. The risk-free interest rate is determined by using the U.S. Treasury yield curve at the date of the grant and using a maturity equal to the expected life of the option. The expected life of options is calculated using the average of the vesting term and the maximum term, as prescribed by SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment, as amended by SAB No. 110. This method is used as the vesting terms of stock options were changed in 2004 to a three year vesting term, and as a result, the historical exercise data does not provide a reasonable basis upon which to estimate the expected life of options. The expected dividend yield and volatility are based on historical stock prices and dividend amounts over past time periods equal in length to the expected life of the options. The fair value of the February 20, 2008 grant was calculated with the following weighted average assumptions:

Risk free interest rate	3.5%
Expected life of option in years	6.5
Expected dividend yield	3.1%
Expected volatility	24.3%

Restricted Stock Units

Long-term incentive value is delivered to selected key management employees by granting RSUs, which have either time or performance-based vesting features. The fair value of an RSU is equal to the market value of a share of stock on the date of grant. Time-based RSUs vest over the three-year period following the date of grant, unless forfeited, and will be paid out in the form of stock, cash or a combination of both at the Company s discretion at the end of the three-year vesting period. Performance-based RSUs vest based on achieving specific annual performance targets for earnings per share growth and cash flow return on capital over the three-year period following the date of grant. Unless forfeited, the performance-based RSUs will be paid out in the form of stock,

Table of Contents

cash or a combination of both at the Company s discretion at the end of the three-year vesting period if PPG meets the performance targets. For awards granted in 2006 and 2007, the actual amount paid for performance-based awards may range from 0% to 150% of the original grant, as 50% of the grant vests in each year that one of the two targets is met during the three-year period. If the designated performance targets are not met in any of the three years in an award period, no payout will be made on the performance-based RSUs. For awards granted in 2008, the amount paid for performance-based awards may range from 0% to 180% of the original grant, based upon the frequency with which the earnings per share growth and cash flow return on capital performance targets are met over the three-year period. The performance-based RSUs granted in 2005 vested at the 150% level. For the purposes of expense recognition we have assumed that performance-based RSUs granted in 2006 will vest at the 150% level and performance-based RSUs granted in 2007 and 2008 will vest at the 100% level. The performance targets for 2006 and 2007 were achieved.

On February 20, 2008, PPG granted 241,632 RSUs at a weighted average fair value of $57.73 per share.

Contingent Share Grants

The Company also provides grants of contingent shares to selected key executives that may be earned based on PPG total shareholder return over the three-year period following the date of grant. Contingent share grants (TSR) are made annually and are paid out at the end of each three-year period based on the Company s performance. For awards granted in 2006 and 2007, performance is measured by determining the percentile rank of the total shareholder return of PPG common stock (stock price plus accumulated dividends) in relation to the total shareholder return of the S&P 500 and the S&P 500 Materials sector for the three-year period following the date of grant. For awards granted in 2008, performance is measured by determining the percentile rank of the total shareholder return of PPG common stock in relation to the total shareholder return of the S&P 500 for the three-year period following the date of grant. The payment of awards following the three-year award period will be based on performance achieved in accordance with the scale set forth in the plan agreement and may range from 0% to 220% of the initial grant. A payout of 100% is earned if the target performance is achieved. Contingent share awards earn dividend equivalents during the three-year award period, which are credited to participants in the form of common stock equivalents. Any payments made at the end of the award period may be in the form of stock, cash or a combination of both. The TSR awards qualify as liability awards, and compensation expense is recognized over the three-year award period based on the fair value of the awards (giving consideration to the Company s percentile rank of total shareholder return) remeasured in each reporting period until settlement of the awards.

17. Commitments and Contingent Liabilities

PPG is involved in a number of lawsuits and claims, both actual and potential, including some that it has asserted against others, in which substantial monetary damages are sought. These lawsuits and claims, the most significant of which are described below, relate to contract, patent, environmental, product liability, antitrust and other matters arising out of the conduct of PPG s current and past business activities. To the extent that these lawsuits and claims involve personal injury and property damage, PPG believes it has adequate insurance; however, certain of PPG s insurers are contesting coverage with respect to some of these claims, and other insurers, as they had prior to the asbestos settlement described below, may contest coverage with respect to some of the asbestos claims if the settlement is not implemented. PPG s lawsuits and claims against others include claims against insurers and other third parties with respect to actual and contingent losses related to environmental, asbestos and other matters.

The result of any future litigation of such lawsuits and claims is inherently unpredictable. However, management believes that, in the aggregate, the outcome of all lawsuits and claims involving PPG, including asbestos-related claims in the event the settlement described below does not become effective, will not have a material effect on PPG s consolidated financial position or liquidity; however, such outcome may be material to the results of operations of any particular period in which costs, if any, are recognized.

Legacy Antitrust Matters

The Company has been named as a defendant, along with various other co-defendants, in a number of antitrust lawsuits filed in federal and state courts. These suits allege that PPG acted with competitors to fix prices and allocate markets in the flat glass and automotive refinish industries. The plaintiffs in these cases are seeking economic and, in certain cases, treble damages and injunctive relief. As described below, we have either settled or agreed to settle the most significant of these cases.

Twenty-nine glass antitrust cases were filed in federal courts, all of which were consolidated as a class action in the U.S. District Court for the Western District of Pennsylvania located in Pittsburgh, Pa. By 2003, all of the other defendants in the glass class action antitrust case settled with the plaintiffs and were dismissed from the case. On May 29, 2003, the Court granted PPG s motion for summary judgment dismissing the claims against PPG in the glass class action antitrust case. The plaintiffs in that case appealed that order to the U.S. Third Circuit Court of Appeals. On September 30, 2004, the U.S. Third Circuit Court of Appeals affirmed in part and reversed in part the dismissal of PPG and remanded the case for further proceedings. PPG petitioned the U.S. Supreme Court for permission to appeal the decision of the U.S. Third Circuit Court of Appeals, however, the U.S. Supreme Court rejected PPG s petition for review.

On October 19, 2005, PPG entered into a settlement agreement to settle the federal glass class action antitrust case in order to avoid the ongoing expense of this protracted case, as well as the risks and uncertainties associated with complex litigation involving jury trials. Pursuant to the settlement agreement, PPG agreed to pay $60 million and to bear up to $500,000 in settlement administration costs. These amounts were held in escrow until the U.S. District Court entered an order on February 7, 2006, approving the settlement. This order is no longer appealable. As a result of the settlement, PPG also paid $900,000 pursuant to a pre-existing contractual obligation to a plaintiff that did not participate in the federal glass class action antitrust case. Separately, on November 8, 2006, PPG entered into a class-wide settlement agreement to resolve all claims of indirect purchasers of flat glass in California. PPG agreed to make a payment of $2.5 million, inclusive of attorneys fees and costs. On January 30, 2007, the Court granted preliminary approval of the settlement. The Court has also approved the form of notice to the settlement class. A hearing on final approval of the settlement was cancelled and has not been rescheduled. Independent state court cases remain pending in Tennessee involving claims that are not included in the settlement of the federal and California glass class action antitrust cases. Notwithstanding that PPG has agreed to settle the federal and California glass class action antitrust cases, and is considering settlement of the Tennessee cases, PPG continues to believe that there was no wrongdoing on the part of the Company and also believes that PPG has meritorious defenses to the independent state court cases.

Approximately 60 cases alleging antitrust violations in the automotive refinish industry were filed in various state and federal jurisdictions. The approximately 55 federal cases were consolidated as a class action in the U.S. District Court for the Eastern District of Pennsylvania located in Philadelphia, Pa. Certain of the defendants in the federal automotive refinish case settled prior to PPG.

Table of Contents

Neither PPG s investigation conducted through its counsel of the allegations in these cases nor the discovery conducted in the case has identified a basis for the plaintiffs allegations that PPG participated in a price-fixing conspiracy in the U.S. automotive refinish industry. PPG s management continues to believe that there was no wrongdoing on the part of the Company and that it has meritorious defenses in the federal automotive refinish case. Nonetheless, it remained uncertain whether the federal court ultimately would dismiss PPG, or whether the case would go to trial. On September 14, 2006, PPG agreed to settle the federal class action for $23 million to avoid the ongoing expense of this protracted case, as well as the risks and uncertainties associated with complex litigation involving jury trials. PPG recorded a charge for $23 million in the third quarter of 2006. This amount was held in escrow and, on December 28, 2007, the federal court approved the class action settlement agreement. In January 2008, the $23 million was released from escrow.

Class action lawsuits that mimic the federal class action were filed in five states (California, Maine, Massachusetts, Tennessee and Vermont) pursuant to state statutes on behalf of indirect purchasers of automotive refinish products. A similar suit brought in a federal court in New York City was dismissed on May 8, 2007. In the fourth quarter of 2007, the case in Tennessee was dismissed. PPG believes that there was no wrongdoing on its part, and believes it has meritorious defenses to the independent state court cases. Notwithstanding the foregoing, to avoid the ongoing expense of protracted litigation, as well as the risks and uncertainties associated with complex litigation, PPG has settled the cases in California, Maine, Massachusetts and Vermont.

New Antitrust Matters

Several complaints have been filed in different federal courts naming PPG and other flat glass producers as defendants in purported antitrust class actions. A handful of complaints where PPG is not named have been filed in additional federal courts. The complaints allege that the defendants conspired to fix, raise, maintain and stabilize the price and the terms and conditions of sale of flat glass in the United States in violation of federal antitrust laws. In June 2008, these cases were consolidated into one federal court class action in Pittsburgh, Pa. Many allegations in the complaints are similar to those raised in recently concluded proceedings in Europe in which fines were levied against other flat glass producers arising out of alleged antitrust violations. PPG was not involved in any of the proceedings in Europe. PPG divested its European flat glass business in 1998. PPG is aware of no wrongdoing or conduct on its part that violated any antitrust laws and it intends to vigorously defend its position.

Asbestos Matters

For over 30 years, PPG has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. Most of PPG s potential exposure relates to allegations by plaintiffs that PPG should be liable for injuries involving asbestos-containing thermal insulation products manufactured and distributed by Pittsburgh Corning Corporation (PC). PPG and Corning Incorporated are each 50% shareholders of PC. PPG has denied responsibility for, and has defended, all claims for any injuries caused by PC products. As of September 30, 2008, PPG was one of many defendants in numerous asbestos-related lawsuits involving approximately 114,000 open claims served on PPG.

Table of Contents

Background of PC Bankruptcy Plan of Reorganization

On April 16, 2000, PC filed for Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the Western District of Pennsylvania located in Pittsburgh, Pa. Accordingly, in the first quarter of 2000, PPG recorded an after-tax charge of $35 million for the write-off of all of its investment in PC. As a consequence of the bankruptcy filing and various motions and orders in that proceeding, the asbestos litigation against PPG (as well as against PC) has been stayed and the filing of additional asbestos suits against them has been enjoined, until 30 days after the effective date of a confirmed plan of reorganization for PC substantially in accordance with the settlement arrangement among PPG and several other parties discussed below. The stay may be terminated if the Bankruptcy Court determines that such a plan will not be confirmed, or the settlement arrangement set forth below is not likely to be consummated.

On May 14, 2002, PPG announced that it had agreed with several other parties, including certain of its insurance carriers, the official committee representing asbestos claimants in the PC bankruptcy, and the legal representatives of future asbestos claimants appointed in the PC bankruptcy, on the terms of a settlement arrangement relating to asbestos claims against PPG and PC (the PPG Settlement Arrangement).

On March 28, 2003, Corning Incorporated announced that it had separately reached its own arrangement with the representatives of asbestos claimants for the settlement of certain asbestos claims against Corning and PC (the Corning Settlement Arrangement).

The terms of the PPG Settlement Arrangement and the Corning Settlement Arrangement were incorporated into a bankruptcy reorganization plan for PC along with a disclosure statement describing the plan, which PC filed with the Bankruptcy Court on April 30, 2003. Amendments to the plan and disclosure statement were subsequently filed. On November 26, 2003, after considering objections to the second amended disclosure statement and plan of reorganization, the Bankruptcy Court entered an order approving such disclosure statement and directing that it be sent to creditors, including asbestos claimants, for voting. In March 2004, the second amended PC plan of reorganization received the required votes to approve the plan with a channeling injunction for present and future asbestos claimants under § 524(g) of the Bankruptcy Code. After voting results for the second amended plan were received, the Bankruptcy Court judge conducted a hearing regarding the fairness of the settlement, including whether the plan would be fair with respect to present and future claimants, whether such claimants would be treated in substantially the same manner, and whether the protection provided to PPG and its participating insurers would be fair in view of the assets they would convey to the asbestos settlement trust (the Trust) to be established as part of the plan. At that hearing, creditors and other parties in interest raised objections to the second amended PC plan of reorganization. Following that hearing, the Bankruptcy Court scheduled oral arguments for the contested items.

The Bankruptcy Court heard oral arguments on the contested items on November 17-18, 2004. At the conclusion of the hearing, the Bankruptcy Court agreed to consider certain post-hearing written submissions. In a further development, on February 2, 2005, the Bankruptcy Court established a briefing schedule to address whether certain aspects of a decision of the U.S. Third Circuit Court of Appeals in an unrelated case have any applicability to the PC plan of reorganization. Oral arguments on these matters were subsequently held in March 2005. During an omnibus hearing on February 28, 2006, the Bankruptcy Court judge stated that she was prepared to rule on the PC plan of reorganization in the near future, provided certain amendments were made to the plan. Those amendments were filed, as directed, on March 17, 2006. After further conferences and supplemental briefings, the Court heard oral arguments on July 21, 2006 during an omnibus hearing.

On December 21, 2006, the Bankruptcy Court issued a ruling denying confirmation of the second amended PC plan of reorganization, which incorporated the terms of the PPG Settlement Arrangement. Several parties in interest, including PPG, filed motions for reconsideration and/or to alter or amend the December 21, 2006 ruling. Oral argument on the motions was held on March 5, 2007, but no decision has been rendered by the Bankruptcy Court to date. The Bankruptcy Court may adhere to its December 21, 2006 decision, may alter that decision and confirm the plan or may amend the decision in a manner that may provide further guidance on how the plan could be modified and become confirmable in the Bankruptcy Court s view. The PPG Settlement Arrangement will not become effective until 30 days after the PC plan of reorganization is finally approved by an appropriate court order that is no longer subject to appellate review (the Effective Date).

Terms of PPG Settlement Arrangement

PPG has no obligation to pay any amounts under the PPG Settlement Arrangement entered into in 2002 until the Effective Date. If the second amended PC plan of reorganization were approved, PPG and certain of its insurers (along with PC) would then make payments on the Effective Date to the Trust, which would provide the sole source of payment for all present and future asbestos bodily injury claims against PPG, its subsidiaries or PC alleged to be caused by the manufacture, distribution or sale of asbestos products by these companies. PPG would convey the following assets to the Trust: (i) the stock it owns in PC and Pittsburgh Corning Europe, (ii) 1,388,889 shares of PPG s common stock and (iii) aggregate cash payments to the Trust of approximately $998 million, payable according to a fixed payment schedule over 21 years, beginning on June 30, 2003, or, if later, the Effective Date. PPG would have the right, in its sole discretion, to prepay these cash payments to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. In addition to the conveyance of these assets, PPG would pay $30 million in legal fees and expenses on behalf of the Trust to recover proceeds from certain historical insurance assets, including policies issued by certain insurance carriers that are not participating in the settlement, the rights to which would be assigned to the Trust by PPG.

PPG s participating historical insurance carriers would make cash payments to the Trust of approximately $1.7 billion between the Effective Date and 2023. These payments could also be prepaid to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. In addition, as referenced above, PPG would assign to the Trust its rights, insofar as they relate to the asbestos claims to be resolved by the Trust, to the proceeds of policies issued by certain insurance carriers that are not participating in the PPG Settlement Arrangement and from the estates of insolvent insurers and state insurance guaranty funds.

PPG would grant asbestos releases to all participating insurers, subject to a coverage-in-place agreement with certain insurers for the continuing coverage of premises claims (discussed below). PPG would grant certain participating insurers full policy releases on primary policies and full product liability releases on excess coverage policies. PPG would also grant certain other participating excess insurers credit against their product liability coverage limits.

If the second amended PC plan of reorganization incorporating the terms of the PPG Settlement Arrangement and the Corning Settlement Arrangement were approved by the Bankruptcy Court, the Court would enter a channeling injunction under §524(g) and other provisions of the Bankruptcy Code, prohibiting present and future claimants from asserting bodily injury claims after the Effective Date against PPG or its subsidiaries or PC relating to the manufacture, distribution or sale of asbestos-containing products by PC or PPG or its subsidiaries. The injunction would also prohibit codefendants in those cases from asserting claims against PPG for contribution, indemnification or other recovery. All such claims would be filed with the Trust and only paid from the assets of the Trust.

Table of Contents

The channeling injunction would not extend to premises claims (i.e., claims alleging injury caused by asbestos on premises owned, leased or occupied by PPG or its subsidiaries) against PPG. Historically, a small proportion of the claims against PPG and its subsidiaries have been premises claims. As a result of the settlements described below, and based upon recent review and analysis, PPG believes that the number of premises claims currently comprises less than 2% of the total asbestos-related claims against PPG. PPG believes that any financial exposure resulting from such premises claims, taking into account available insurance coverage, will not have a material adverse effect on PPG s consolidated financial position, liquidity or results of operations.

Beginning in late 2006, the Bankruptcy Court lifted the stay with respect to certain premises claims against PPG. As a result, PPG and its primary insurers have settled approximately 450 premises claims. PPG s insurers agreed to provide insurance coverage for a major portion of the payments made in connection with the settled claims, and PPG has accrued the portion of the settlement amounts not covered by insurance. PPG and its primary insurers are evaluating the voluminous factual, medical, and other relevant information pertaining to approximately 600 additional claims that are being considered for potential settlement. Other asbestos-related claims remain subject to the stay, as outlined above, although certain claimants have requested the Court to lift the stay with respect to these claims.

Accounting Impact of PPG Settlement Arrangement

In the second quarter of 2002, an initial charge of $772 million was recorded for the estimated cost of the PPG Settlement Arrangement which included the net present value, using a discount rate of 5.5%, of the aggregate cash payments of approximately $998 million to be made by PPG to the Trust. That amount also included the carrying value of PPG s stock in Pittsburgh Corning Europe, the fair value as of June 30, 2002 of 1,388,889 shares of PPG common stock and $30 million in legal fees of the Trust to be paid by PPG, which together with the proposed first payment of $75 million originally scheduled to be made to the Trust on June 30, 2003, were reflected in the current liability for PPG s asbestos settlement in the condensed consolidated balance sheet as of June 30, 2002. The net present value at that date of the remaining payments of $566 million was recorded in the noncurrent liability for asbestos settlement. Since that date, the liability has been adjusted to reflect the accretion of interest on the portion initially recorded based on net present value and the changes in the fair value of the portion related to PPG common stock. The liability recorded at September 30, 2008 was $615 million current and $300 million non-current.

The following table summarizes the impact on our financial statements for the three and nine months ended September 30, 2008 and 2007 resulting from the PPG Settlement Arrangement including the change in fair value of the stock to be transferred to the Trust and the equity forward instrument (see Note 14, Derivative Financial Instruments and Hedge Activities) and the increase in the net present value of the future payments to be made to the Trust.

	Three Months Ended Sept. 30 2008	Nine Months Ended Sept. 30