PPG INDUSTRIES INC
Form 10-Q
July 30, 2007
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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 June 30, 2007

Commission File Number 1-1687

PPG INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	25-0730780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One PPG Place, Pittsburgh, Pennsylvania	15272
(Address of principal executive offices)	(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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 June 30, 2007, 164,052,006 shares of the Registrant s common stock, par value $1.66-2/3 per share, were outstanding.

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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 June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net sales	$ 3,173	$ 2,824	$ 6,090	$ 5,462
Cost of sales, exclusive of depreciation and amortization	2,017	1,747	3,902	3,438
Selling, general and administrative	565	495	1,103	955
Depreciation	90	84	177	166
Research and development	88	78	172	153
Interest	23	21	45	41
Amortization (Note 8)	15	10	29	19
Asbestos settlement net (Note 16)	8	8	17	17
Business restructuring (Note 6)		2		37
Other charges	11	1	35	24
Other earnings	(40)	(27)	(66)	(62)
Income before income taxes and minority interest	396	405	676	674
Income tax expense	124	107	192	173
Minority interest	23	18	41	37
Net income	$ 249	$ 280	$ 443	$ 464
Earnings per common share (Note 4)	$ 1.51	$ 1.69	$ 2.69	$ 2.80
Earnings per common share assuming dilution (Note 4)	$ 1.50	$ 1.68	$ 2.67	$ 2.79
Dividends per common share	$ 0.50	$ 0.48	$ 1.00	$ 0.95

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet (Unaudited)

	June 30 2007	(Restated, Note 1) Dec. 31 2006
	(Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 197	$ 455
Receivables-net	2,583	2,168
Inventories (Note 7)	1,480	1,390
Other	691	579
Total current assets	4,951	4,592
Property (less accumulated depreciation of $6,045 million and $5,848 million)	2,535	2,496
Investments	374	352
Goodwill (Note 8)	1,466	1,396
Identifiable intangible assets (Note 8)	637	586
Other assets	721	645
Total	$ 10,684	$ 10,067
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 216	$ 140
Asbestos settlement (Note 16)	601	557
Accounts payable and accrued liabilities	2,145	2,090
Total current liabilities	2,962	2,787
Long-term debt	1,151	1,155
Asbestos settlement (Note 16)	315	332
Deferred income taxes	146	136
Other postretirement benefits	1,060	1,028
Other liabilities	1,181	1,201
Total liabilities	6,815	6,639
Commitments and contingent liabilities (Note 16)		
Minority interest	184	148
Shareholders equity:		
Common stock	484	484
Additional paid-in capital	497	408
Retained earnings	7,742	7,453
Treasury stock	(4,200)	(4,101)
Unearned compensation	(6)	(25)
Accumulated other comprehensive loss (Note 11)	(832)	(939)

Total shareholders equity	3,685	3,280
Total	$ 10,684	$ 10,067

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Six Months Ended June 30	
	2007	**2006**
	(Millions)	
Cash from operating activities	$ 229	$ 333
Investing activities:		
Capital spending		
Additions to property and long-term investments	(184)	(151)
Business acquisitions, net of cash balances acquired	(172)	(138)
Reductions of other property and investments	26	33
Purchases of short-term investments		(516)
Proceeds from sales of short-term investments		516
Deposits held in escrow	(44)	
Release of deposits held in escrow		67
Cash used for investing activities	(374)	(189)
Financing activities:		
Net change in borrowings with maturities of three months or less	122	(5)
Proceeds from other short-term debt	39	78
Repayment of other short-term debt	(73)	(90)
Repayment of long-term debt	(21)	(18)
Repayment of loans by employee stock ownership plan	19	5
Purchase of treasury stock	(177)	(48)
Issuance of treasury stock	139	29
Dividends paid	(165)	(157)
Cash used for financing activities	(117)	(206)
Effect of currency exchange rate changes on cash and cash equivalents	4	15
Net decrease in cash and cash equivalents	(258)	(47)
Cash and cash equivalents, beginning of period	455	466
Cash and cash equivalents, end of period	$ 197	$ 419

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

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Financial Statements

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 June 30, 2007, and the results of their operations for the three and six months ended June 30, 2007 and 2006, and their cash flows for the six months then ended. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in PPG s Annual Report on Form 10-K for the year ended December 31, 2006.

Certain amounts in the 2006 financial statements have been reclassified to be consistent with the 2007 presentation, including the information presented for our reportable business segments. These reclassifications had no impact on our previously reported net income, total assets, cash flows or shareholders equity.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Under this standard, a company must recognize a net liability or asset to report the funded status of its defined benefit pension and other postretirement benefit plans on its balance sheet as well as recognize changes in that funded status in the year in which the changes occur, through charges or credits to comprehensive income. In adopting the recognition and disclosure provisions of SFAS No. 158 as of Dec. 31, 2006, PPG incorrectly presented the transition adjustment as part of other comprehensive loss in its statement of comprehensive income and statement of shareholders equity for the year ended Dec. 31, 2006. The transition adjustment should have been reported as a direct adjustment to the balance of accumulated other comprehensive loss as of Dec. 31, 2006. The Company will correct the presentation of other comprehensive loss for 2006 the next time the 2006 financial statements are filed. Comprehensive income for 2006 was incorrectly reported as $545 million. The correct amount of comprehensive income for 2006 is $1,050 million. The as reported amount of other comprehensive loss for 2006 was $166 million and the as revised amount will be other comprehensive income of $339 million.

Additionally, PPG included the portion of the transition adjustment related to previously unrecognized accumulated actuarial gains related to the impact of the federal subsidy provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in calculating the deferred tax impact on the transition adjustment on the accumulated projected benefit obligation for other postretirement benefits. However, no deferred taxes should have been recorded related to this portion of the transition adjustment as the federal subsidy is non-taxable. Due to this error, the impact of the adoption of SFAS No. 158 on accumulated other comprehensive loss at Dec. 31, 2006 was overstated by $46 million and the net deferred tax asset balance was understated by the same amount. The previously reported adjustment to accumulated other comprehensive loss from the adoption of SFAS No. 158 of $505 million should have been $459 million. The accompanying condensed consolidated balance sheet as of Dec. 31, 2006 has been restated to increase other assets and to reduce accumulated other comprehensive loss by $46 million, as follows:

Balance sheet caption (millions)	As previously reported	As restated
Other assets	$ 599	$ 645
Accumulated other comprehensive loss	$ (985)	$ (939)

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The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

2. Newly Adopted Accounting Standards

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 as of January 1, 2007. As a result of the implementation of Interpretation 48, the Company reduced its liability for unrecognized tax benefits by $11 million, which was recorded as a direct increase in retained earnings. See Note 9, Income Taxes for additional information.

3. Other New Accounting Standards

In September 2006, the 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 Nov. 15, 2007. The Company is currently evaluating the impact of adopting this Statement; however, the adoption is not expected to have an effect on PPG s consolidated results of operations or financial position.

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 Company is currently evaluating the impact of adopting this Statement; however, the adoption is not expected to have an effect on PPG s consolidated results of operations or financial position.

4. Earnings Per Common Share

The following table presents the earnings per common share calculations for the three and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30		Six Months Ended June 30	
(Millions, except per share amounts)	2007	2006	2007	2006
Earnings per common share				
Net income	$ 249	$ 280	$ 443	$ 464
Weighted average common shares outstanding	164.8	165.9	164.7	165.9
Earnings per common share	$ 1.51	$ 1.69	$ 2.69	$ 2.80
Earnings per common share - assuming dilution				
Net income	$ 249	$ 280	$ 443	$ 464
Weighted average common shares outstanding	164.8	165.9	164.7	165.9
Effect of dilutive securities:				
Stock options	1.1	0.8	0.9	0.6
Other stock compensation plans	0.5	0.2	0.5	0.2
Potentially dilutive common shares	1.6	1.0	1.4	0.8
Adjusted weighted average common shares outstanding	166.4	166.9	166.1	166.7
Earnings per common share - assuming dilution	$ 1.50	$ 1.68	$ 2.67	$ 2.79

Excluded from the computation of diluted earnings per share due to their antidilutive effect were 0.2 million and 0.9 million outstanding stock options for the three and six months ended June 30, 2007, and 3.7 million and 4.1 million outstanding stock options for the three and six months ended June 30, 2006.

5. Acquisitions

During the six months ended June 30, 2007, the Company spent $172 million on acquisitions, including purchase price adjustments related to 2006 acquisitions. In January, 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 preliminary 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.

During the six months ended June 30, 2006, the Company made several acquisitions, primarily in our coatings and optical products businesses. The total cost of these acquisitions was $210 million, consisting of $138 million of cash and the assumption of $72 million of debt. In addition, certain of these acquisitions also provide for contingent payments and escrowed holdbacks that could result in future adjustments to the cost of the acquisitions.

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During the second quarter of 2006, the Company acquired Intercast Europe, S.p.A., a manufacturer of nonprescription hard resin sunlenses with manufacturing and distribution operations in Italy, Thailand and Hong Kong. PPG also acquired certain assets of Shanghai Sunpool Building Material Co., Ltd. and its associated companies, including Shanghai IDI International Co., Ltd., and a group of Shanghai-based businesses that manufacture and distribute architectural coatings. In addition, the Company acquired certain assets of Eldorado Chemical Co., Inc., a U.S. manufacturer of paint strippers and technical cleaners for the aerospace industry. Also, the Company acquired the remaining 50% share of Dongju Industrial Co., Ltd., a South Korean coatings manufacturer. The Company had owned 50% of Dongju since 1985 and had accounted for this investment under the equity method of accounting.

During the first quarter of 2006, the Company purchased certain assets of Independent Glass Distributors, a wholesale distributor of automotive replacement glass and related products based in Cedar Rapids, Iowa.

During the six months ended June 30, 2007, adjustments were made to the preliminary purchase price allocations related to several acquisitions that occurred in 2006. The purchase price allocations related to acquisitions made in the first and second quarters of 2006 have been completed. Further adjustments to the allocations for acquisitions made in 2007 and the second half of 2006 are expected as the Company finalizes estimates related to acquired assets and liabilities. These adjustments are expected to be completed within twelve months of each date of acquisition.

On July 19, 2007, PPG made an offer to purchase SigmaKalon Group, a worldwide coatings producer based in Uithoorn, Netherlands, from global private investment firm Bain Capital. The total transaction value, including assumed debt, is 2.2 billion (approximately $3.0 billion). Bain Capital has granted a period of exclusivity to PPG and intends to respond to the offer after discussions with appropriate employee representative bodies. Should Bain Capital accept the offer, the acquisition would be subject to customary conditions, including receipt of regulatory approval. SigmaKalon is a global producer of architectural, protective, marine and industrial coatings, and a leading coatings supplier in many parts of Europe and other key national markets across the globe, with an increasing presence in Africa and Asia. SigmaKalon sells architectural coatings directly to professional painters via a network of service centers, and it maintains a network of approximately 500 company-owned stores and approximately 3,000 independent dealers that give it direct access to customers. SigmaKalon sales in 2006 were approximately $2.6 billion.

The amount of the offer to purchase SigmaKalon Group is denominated in Euros. As a result, the purchase price is subject to adjustment based on foreign currency fluctuation until the purchase transaction is closed. A 10% change in the value of the U.S. dollar as compared to the Euro during this time period would change the U.S. dollar cost of the acquisition by approximately $300 million. PPG is currently evaluating alternative means of mitigating this exposure to foreign currency fluctuation.

On July 17, 2007, PPG entered into a commitment letter with Credit Suisse and Credit Suisse Securities (USA) LLC (together, Credit Suisse), under which Credit Suisse agreed to provide a proposed 2.2 billion (approximately $3.0 billion) senior unsecured 364-day loan facility (the Facility) to fund the proposed acquisition of SigmaKalon Group, subject to customary terms and conditions set forth in the commitment letter. PPG will enter into the proposed Facility with Credit Suisse and such other lenders on customary terms and conditions as to be agreed by the parties thereto. PPG intends to repay borrowings under the Facility from the possible issuance of debt and/or other securities.

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In July 2007, PPG reached agreement to acquire Barloworld Coatings Australia, the architectural paint unit of South African-based Barloworld, Ltd., a multinational industrial brand management company. Completion of the acquisition is subject to customary closing conditions, including receipt of required regulatory approvals. 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. Barloworld Coatings Australia sales in 2006 were approximately $155 million.

6. Business Restructuring

During the first quarter of 2006, the Company finalized plans for certain actions to reduce its workforce and consolidate facilities and recorded a charge of $35 million for restructuring and other related activities, including severance costs of $33 million and loss on asset impairment of $2 million. In the second quarter of 2006, the remaining approvals were received related to additional severance actions and a cost of $4 million was accrued. These restructuring actions were substantially completed by the end of the first quarter of 2007. In addition, $5 million of the cost accrued in the first quarter of 2006 was reversed later that year as a result of actions not being taken or being completed at a cost that was less than the estimated amount accrued. In the fourth quarter of 2006, the Company undertook further restructuring actions, which resulted in an additional charge of $3 million for severance costs. These restructuring actions were substantially completed by the end of the second quarter of 2007.

The following table summarizes the details through June 30, 2007.

	Severance Costs	Asset Impairments	Total Charge	Employees Covered
	(Millions, except no. of employees)			
Industrial Coatings	$ 28	$ 1	$ 29	353
Performance and Applied Coatings	7	1	8	193
Optical and Specialty Materials	1		1	33
Glass	4		4	190
Reversal	(5)		(5)	(112)
Total	$ 35	$ 2	$ 37	657
Activity	(34)	(2)	(36)	(649)
Balance	$ 1	$	$ 1	8

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7. Inventories

Inventories as of June 30, 2007 and December 31, 2006 are detailed below.

	June 30 2007	Dec. 31 2006
	(Millions)	
Finished products	$ 888	$ 850
Work in process	142	129
Raw materials	309	273
Supplies	141	138
Total	$ 1,480	$ 1,390

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 $239 million and $249 million higher as of June 30, 2007 and December 31, 2006, respectively.

8. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each business segment for the six months ended June 30, 2007 was as follows:

	Industrial Coatings	Performance and Applied Coatings	Optical and Specialty Materials	Glass	Total
			(Millions)		
Balance, December 31, 2006	$ 285	$ 943	$ 84	$ 84	$ 1,396
Goodwill from acquisitions	2	36	(3)		35
Currency translation	5	26	2	2	35
Balance, June 30, 2007	$ 292	$ 1,005	$ 83	$ 86	$ 1,466

The carrying amount of acquired trademarks with indefinite lives as of June 30, 2007 and December 31, 2006 totaled $144 million.

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

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
			(Millions)			
Acquired technology	$ 461	$ (187)	$ 274	$ 400	$ (164)	$ 236
Other	348	(129)	219	335	(129)	206
Balance	$ 809	$ (316)	$ 493	$ 735	$ (293)	$ 442

Aggregate amortization expense related to these identifiable intangible assets for the three and six months ended June 30, 2007 was $15 million and $29 million, respectively, and for the three

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and six months ended June 30, 2006 was $10 million and $19 million, respectively. As of June 30, 2007, estimated future amortization expense of identifiable intangible assets is as follows: $28 million for the remaining two quarters of 2007 and $54 million, $52 million, $50 million, $41 million and $38 million in 2008, 2009, 2010, 2011 and 2012, respectively.

9. 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 2003. The IRS has commenced an examination of the Company s 2004 and 2005 federal income tax returns, which we currently believe will be completed in 2008.

As of January 1, 2007, the gross amount of unrecognized tax benefits was $83 million, of which $76 million would impact the effective tax rate, if recognized. The remaining $7 million represents the U.S. federal tax benefit that has been provided on the assumption that we will not realize the portion of the total unrecognized tax benefits related to uncertain state tax positions. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had approximately $6 million accrued for the estimated interest and penalties on unrecognized tax benefits.

While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, quantification of an estimated range cannot be made at this time. PPG does not expect this change to have a significant impact on the results of operations or financial position of the Company.

10. Pensions and Other Postretirement Benefits

The net periodic benefit costs for the three and six months ended June 30, 2007 and 2006 were as follows:

	Pensions			
	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(Millions)			
Service cost	$ 17	$ 17	$ 36	$ 36
Interest cost	53	48	105	98
Expected return on plan assets	(67)	(56)	(132)	(114)
Amortization of prior service cost	4	4	7	8
Amortization of actuarial losses	21	27	41	53
Net periodic pension cost	$ 28	$ 40	$ 57	$ 81

The decline in net periodic pension cost is due to improved actual investment returns in 2006 and the impact of Company contributions made to our U.S. plans in 2006 and 2007.

On Aug. 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 current funding requirements, PPG does not have to make a mandatory contribution to our U.S. defined benefit pension plans in 2007. We are currently evaluating the impact that PPA will have on our funding requirements for 2008 and beyond.

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In the first six months of 2007, we made $102 million of voluntary contributions to our U.S. defined benefit pension plans, and we may make additional voluntary contributions to these plans in 2007. We expect to make mandatory contributions to our non-U.S. plans in 2007 of approximately $37 million, of which approximately $13 million was contributed as of June 30, 2007.

The net periodic other postretirement benefit costs for the three and six months ended June 30, 2007 and 2006 were as follows:

	Other Postretirement Benefits			
	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(Millions)			
Service cost	$ 5	$ 6	$ 12	$ 13
Interest cost	16	15	32	31
Amortization of prior service cost	(2)	(3)	(5)	(7)
Amortization of actuarial losses	9	10	17	19
Net periodic other postretirement benefit cost	$ 28	$ 28	$ 56	$ 56

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 for all periods presented.

11. Comprehensive Income

Total comprehensive income for the three and six months ended June 30, 2007 and 2006 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(Millions)			
Net income	$ 249	$ 280	$ 443	$ 464
Other comprehensive income, net of tax:				
Pension and other postretirement benefits	(14)		(14)	
Currency translation adjustment	72	86	115	117
Unrealized (losses) gains on marketable securities	(2)	(1)	(2)	1
Net change derivatives (Note 12)	(11)	(5)	8	(5)
	45	80	107	113
Total comprehensive income	$ 294	$ 360	$ 550	$ 577

12. Derivative Financial Instruments

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. We also use 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 16, Commitments and Contingent Liabilities.

During the first six months of 2007, other comprehensive income included a net gain due to derivatives of $8 million, net of tax. This gain was comprised of realized losses of $6 million and unrealized gains of $2 million. The realized losses related to the settlement during the period of natural gas contracts and interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting. The unrealized gains 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. These unrealized gains were partially offset by unrealized losses on foreign currency contracts.

During the first six months of 2006, other comprehensive income included a net loss due to derivatives of $5 million, net of tax. This loss was comprised of realized losses of $12 million and unrealized losses of $17 million. The realized losses related to the settlement during the period of natural gas contracts and interest rate swaps owned by one of the Company s investees accounted for under the equity method of accounting. These losses were offset in part by realized gains related to the settlement of foreign currency contracts. The unrealized losses related primarily to the change in fair value of the natural gas contracts. These unrealized losses were partially offset by unrealized gains on 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 16. 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 June 30, 2007 and December 31, 2006 was a current asset of $24 million and $14 million, respectively. PPG recorded income of $5 million and $10 million for the three and six months ended June 30, 2007, respectively, and income of $2 million and $7 million for the three and six months ended June 30, 2006, respectively, for the change in fair value of this instrument.

13. Cash Flow Information

Cash payments for interest were $57 million and $52 million for the six months ended June 30, 2007 and 2006, respectively. Net cash payments for income taxes for the six months ended June 30, 2007 and 2006 were $185 million and $161 million, respectively.

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14. Reportable Segment Information

PPG is a multinational manufacturer with fourteen operating segments that are organized based on our major product lines. These operating segments are also our reporting units for purposes of testing goodwill for impairment. The operating segments have been aggregated based on the nature of their products, production processes, end-use markets and methods of distribution into five reportable segments. In the fourth quarter of 2006, we changed the composition of our reportable segment information to reflect management s current view of our organization and to provide further clarity in our reporting of business performance. The reportable segment information presented for the three and six months ended June 30, 2006 has been restated to conform to the 2007 presentation.

The Performance and Applied Coatings reportable segment is comprised of the refinish, aerospace and architectural coatings operating segments. This reportable segment primarily supplies a variety of protective and decorative coatings, sealants and finishes along with paint strippers, transparent armor, transparencies, stains and related chemicals that are used by customers in addition to our coatings, sealants and finishes.

The Industrial Coatings reportable segment is comprised of the automotive, industrial and packaging coatings operating segments. This reportable segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants, inks and metal pretreatment products.

The Optical and Specialty Materials reportable segment is comprised of the optical products, silica and fine chemicals operating segments. The primary Optical and Specialty Materials products are Transitions® lenses, sunlenses, optical materials, polarized film, amorphous precipitated silica products, advanced pharmaceutical intermediates and bulk active ingredients. Transitions® lenses are processed and distributed by PPG s 51%-owned joint venture with Essilor International.

The Commodity Chemicals reportable segment is comprised of the chlor-alkali and derivatives operating segment. The primary chlor-alkali and derivative products are chlorine, caustic soda, vinyl chloride monomer, chlorinated solvents, chlorinated benzenes, calcium hypochlorite, ethylene dichloride and phosgene derivatives.

The Glass reportable segment is comprised of the automotive OEM glass, automotive replacement glass and services, performance glazings and fiber glass operating segments. This reportable segment primarily supplies flat glass, fabricated glass and continuous-strand fiber glass products.

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Reportable segment net sales and segment income for the three and six months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(Millions)			
Net sales:				
Performance and Applied Coatings	$ 974	$ 774	$ 1,829	$ 1,452
Industrial Coatings	943	811	1,812	1,579
Optical and Specialty Materials	296	262	576	494
Commodity Chemicals	380	372	751	773
Glass	580	605	1,122	1,164
Total (a)	$ 3,173	$ 2,824	$ 6,090	$ 5,462
Segment income:				
Performance and Applied Coatings	$ 159	$ 145	$ 280	$ 250
Industrial Coatings	109	104	204	195
Optical and Specialty Materials	71	61	138	117
Commodity Chemicals	57	86	101	173
Glass	50	53	70	88
Total	446	449	793	823
Legacy costs (b)	(6)	11	(11)	(1)
Asbestos settlement net	(8)	(8)	(17)	(17)
Interest net	(20)	(18)	(39)	(35)
Restructuring		(2)		(37)
Unallocated stock based compensation (Note 15)	(9)	(10)	(18)	(18)
Other unallocated corporate expense net	(7)	(17)	(32)	(41)
Income before income taxes and minority interest	$ 396	$ 405	$ 676	$ 674

(a) Intersegment net sales for the three and six months ended June 30, 2007 and 2006 were not material.

(b) Legacy costs include current costs related to former operations of the Company, including certain environmental remediation, pension and other postretirement benefit costs, and certain charges which are considered to be unusual or non-recurring. For the three and six months ended June 30, 2006, these costs included pretax income of $28 million for a litigation related insurance recovery.

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15. Stock-Based Compensation

The Company s stock-based compensation includes stock options, restricted stock units (RSUs) and annual grants of contingent shares that are earned based on achieving targeted levels of total shareholder return. On April 20, 2006, the PPG Industries, Inc. Omnibus Incentive Plan (PPG Omnibus Plan) was approved by shareholders of the Company. The PPG Omnibus Plan consolidated into one plan several of the Company s previously existing compensatory plans providing for equity-based and cash incentive awards to certain of the Company s employees and directors. Effective April 20, 2006, all grants of stock options, RSUs and contingent shares are made under the PPG Omnibus Plan. The provisions of the PPG Omnibus Plan do not modify the terms of awards that were granted under the Company s previously existing compensatory plans. There were 8.7 million shares available for future grants under the PPG Omnibus Plan as of June 30, 2007.

Total stock-based compensation cost was $9 million and $18 million for the three and six months ended June 30, 2007, respectively, and $10 million and $18 million for the three and six months ended June 30, 2006, respectively. The total income tax benefit recognized in the income statement related to the stock-based compensation was $3 million and $6 million for the three and six months ended June 30, 2007, respectively, and for the three and six months ended June 30, 2006, respectively.

Stock Options

PPG has outstanding stock option awards that have been granted under three stock option plans, the PPG Industries, Inc. Stock Plan (PPG Stock Plan), the PPG Industries, Inc. Challenge 2000 Stock Plan (PPG Challenge 2000 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 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 expire on June 30, 2008.

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 No. 107, Share-Based Payment . 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.

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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, cash or a combination of both at the end of the three-year vesting period if PPG meets the performance targets. The actual award for performance-based vesting may range from 0% to 150% of the original grant, as 50% of the grant vests in each year that targets are 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 the purposes of expense recognition, we have assumed that the performance-based RSUs granted will vest at the 100% level. The performance targets for 2005 and 2006 were achieved.

Contingent Share Grants

The Company also provides grants of contingent shares that will be earned based on PPG total shareholder return over the three-year term 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. 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 of the Basic Materials sector of the S&P 500. Compensation expense is recognized over the three-year award period based on fair value, giving consideration to the Company s percentile rank of total shareholder return. The payment of awards following the three-year award period will be based 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 expense will be recognized over the award period based on the fair value of the awards as remeasured in each reporting period until settlement of the awards.

16. 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 business. 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.

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. 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 Sept. 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 Oct. 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 Feb. 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 Nov. 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 Jan. 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, initially scheduled for July 10, 2007, 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 have been filed in various state and federal jurisdictions. The approximately 55 federal cases have been 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 have settled. The automotive refinish cases in state courts have either been stayed pending resolution of the federal proceedings or have been dismissed. 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 Sept. 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. Although a formal settlement agreement has been executed and the $23 million was paid into escrow on Jan. 3, 2007, necessary court proceedings will follow before the settlement is final and non-appealable.

There are class action lawsuits in five states that mimic the federal class action but were filed pursuant to state statutes on behalf of indirect purchasers of automotive refinish products. The plaintiffs in these cases have not yet specified an amount of alleged damages. The cases are in state courts in California, Maine, Massachusetts, Tennessee and Vermont. A similar suit brought in a federal court in New York City was dismissed on May 8, 2007. 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, PPG agreed to settle the California state court cases and it is considering potential settlement of the remaining state court cases. Necessary court proceedings will follow before the settlement of the California state court cases becomes final and non-appealable. The hearing date for court approval is scheduled for October 4, 2007.

Beginning in April 1994, the Company was a defendant in a suit filed by Marvin Windows and Doors (Marvin) alleging numerous claims, including breach of warranty. All of the plaintiff s claims, other than breach of warranty, were dismissed. However, on Feb. 14, 2002, a federal jury awarded Marvin $136 million on the remaining claim. Subsequently, the court added $20 million for interest bringing the total judgment to $156 million. PPG appealed that judgment and the appeals court heard the parties arguments on June 9, 2003. On March 23, 2005, the appeals court ruled against PPG. Subsequent to the ruling by the court, PPG and Marvin agreed to settle this matter for $150 million and PPG recorded a charge for that amount in the first quarter of 2005. PPG paid the settlement on Apr. 28, 2005. PPG subsequently received $51 million in insurance recoveries related to this settlement; of which $28 million and $33 million is included in Other charges for the three and six months ended June 30, 2006, respectively, and the remainder was received in the in the third quarter of 2005.

For over thirty years, PPG has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. As of June 30, 2007, PPG was one of many defendants in numerous asbestos-related lawsuits involving approximately 114,000 open claims served on PPG. 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.

On Apr. 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 thirty 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 that might arise from PC products or operations (the Corning Settlement Arrangement).

The terms of the PPG Settlement Arrangement and the Corning Settlement Arrangement have been incorporated into a bankruptcy reorganization plan for PC along with a disclosure statement describing the plan, which PC filed with the Bankruptcy Court on Apr. 30, 2003. Amendments to the plan and disclosure statement were filed on Aug. 18 and Nov. 20, 2003. Creditors and other parties with an interest in the bankruptcy proceeding were entitled to file objections to the disclosure statement and the plan of reorganization, and a few parties filed objections. On Nov. 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. The Bankruptcy Court established March 2, 2004 as the deadline for receipt of votes. In order to approve the plan, at least two thirds in amount and more than one-half in number of the allowed creditors in a given class must vote in favor of the plan, and for a plan to contain a channeling injunction for present and future asbestos claims under §524(g) of the Bankruptcy Code, as described below, seventy-five percent of the asbestos claimants voting must vote in favor of the plan. On March 16, 2004, notice was received that the plan of reorganization received the required votes to approve the plan with a channeling injunction. From May 3-7, 2004, 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 PC plan of reorganization. Following that hearing, the Bankruptcy Court set deadlines for the parties to develop agreed-upon and contested Findings of Fact and Conclusions of Law and scheduled oral argument for contested items.

The Bankruptcy Court heard oral arguments on the contested items on Nov. 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 Feb. 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 the briefs were held on March 16, 2005. During an omnibus hearing on Feb. 28, 2006, the Bankruptcy 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 held final 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. Several parties in interest, including PPG, filed motions for reconsideration and/or to alter or amend the December 21,

2006 ruling. Final written submissions were filed on Jan. 26, 2007. Oral argument on the motions was held on March 5, 2007. Upon reconsideration, 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.

If the Bankruptcy Court reconsiders its decision and determines that the second amended plan is confirmable, or if the Bankruptcy Court s ruling is reversed on appeal and the case remanded, the Bankruptcy Court may enter a confirmation order. That order may be appealed to or otherwise reviewed by the U.S. District Court for the Western District of Pennsylvania, located in Pittsburgh, Pa. Assuming that the District Court approves a confirmation order following any such appeal, interested parties could further appeal the District Court s order to the U.S. Third Circuit Court of Appeals and subsequently seek review of any decision of the Third Circuit Court of Appeals by the U. S. Supreme Court. 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).

If the PC plan of reorganization incorporating the terms of the PPG Settlement Arrangement and the Corning Settlement Arrangement is 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.

The channeling injunction would not extend to claims against PPG alleging injury caused by asbestos on premises owned, leased or occupied by PPG (so called premises claims), or claims alleging property damage resulting from asbestos. There are no property damage claims pending against PPG or its subsidiaries. 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 it has adequate insurance for the asbestos claims that would not be covered by any channeling injunction and that any financial exposure resulting from such claims will not have a material effect on PPG s consolidated financial position, liquidity or results of operations. Certain claimants that have alleged premises claims against PPG moved the Bankruptcy Court for an order lifting the stay as to their claims. Initially, the Bankruptcy Court did not grant these claimants motions, but, at a hearing in the second quarter of 2006, did direct PPG and the claimants to engage in good faith negotiations toward the potential settlement of the premises claims at issue. As a result of those negotiations PPG and its primary insurers have agreed to settle approximately 425 premises claims. PPG s insurers have agreed to provide insurance coverage for a major portion of the payments made in connection with these settlements.

In addition, and in response to additional motions to lift the stay filed on behalf of other premises claimants, the Bankruptcy Court issued a series of orders in late December 2006 lifting the stay, effective Jan. 31, 2007, with respect to an additional 496 premises claims. PPG is the process of gathering preliminary information about these claims. Other premises claims that have not been resolved remain subject to the stay. Asbestos claims other than premises claims remain subject to the stay, as outlined above, although the claimants who were party to the action resulting in a jury verdict against PPG in January 2000 have moved to lift the stay with respect to their claims. That motion is scheduled to be argued before the Bankruptcy Court in the third quarter of 2007.

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PPG has no obligation to pay any amounts under the PPG Settlement Arrangement until the Effective Date. PPG and certain of its insurers (along with PC) would then make payments 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. First, PPG would convey the stock it owns in PC and Pittsburgh Corning Europe. Second, PPG would transfer 1,388,889 shares of PPG s common stock. Third, PPG would make 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. Under the payment schedule, the amount due June 30, 2003 was $75 million. 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 above). 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.

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 as of December 31, 2002, 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 first payment 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 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. The following table summarizes the impact on our income statement for the three and six months ended June 30, 2007 and 2006 resulting from the PPG Settlement Arrangement including the change in fair value of the stock to be transferred to the asbestos settlement trust and the equity forward instrument (see Note 12, Derivative Financial Instruments and Hedge Activities) and the increase in the net present value of the future payments to be made to the Trust.

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Increase (decrease) in expense:	Three Months Ended June 30 2007	Three Months Ended June 30 2006	Six Months Ended June 30 2007	Six Months Ended June 30 2006
	(Millions)			
Change in fair value:				
PPG stock	$ 8	$ 4	$ 16	$ 12
Equity forward instrument	(5)	(2)	(10)	(7)
Accretion of asbestos liability	5	6	11	12
Asbestos settlement net expense	$ 8	$ 8	$ 17	$ 17

The fair value of the equity forward instrument was $24 million and $14 million as of June 30, 2007 and December 31, 2006, respectively, and was included as an other current asset in the accompanying condensed consolidated balance sheet. Payments under the fixed payment schedule require annual payments that are due each June. The current portion of the asbestos settlement liability included in the accompanying condensed consolidated balance sheet as of June 30, 2007, consists of all such payments required through June 2008, the fair value of PPG s common stock and legal fees and expenses. The amount due June 30, 2009, of $38 million and the net present value of the remaining payments is included in the long-term asbestos settlement liability in the accompanying condensed consolidated balance sheet. For 2007, accretion expense associated with the asbestos liability will range from $5 million to $6 million per quarter.

Because the filing of asbestos claims against the Company has been enjoined since April 2000, a significant number of additional claims may be filed against the Company if the Bankruptcy Court stay were to expire. If the PPG Settlement Arrangement (or any potential modification of that arrangement) is not implemented, for any reason, and the Bankruptcy Court stay expires, the Company intends to vigorously defend the pending and any future asbestos claims against it and its subsidiaries. The Company believes that it is not responsible for any injuries caused by PC products, which represent the preponderance of the pending bodily injury claims against it. Prior to 2000, PPG had never been found liable for any such claims, in numerous cases PPG had been dismissed on motions prior to trial, and aggregate settlements by PPG to date have been immaterial. In Jan. 2000, in a trial in a state court in Texas involving six plaintiffs, the jury found PPG not liable. However, a week later in a separate trial also in a state court in Texas, another jury found PPG, for the first time, partly responsible for injuries to five plaintiffs alleged to be caused by PC products. PPG intends to appeal the adverse verdict in the event the settlement does not become effective, or the stay is lifted as to these claims, which are the subject of a motion to lift the stay as described above. Although PPG has successfully defended asbestos claims brought against it in the past, in view of the number of claims, and the questionable verdicts and awards that other companies have experienced in asbestos litigation, the result of any future litigation of such claims is inherently unpredictable.

It is PPG s policy to accrue expenses for environmental contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Reserves for environmental contingencies are exclusive of claims against third parties and are generally not discounted. As of June 30, 2007 and December 31, 2006, PPG had reserves for environmental contingencies totaling $277 million and $282 million, respectively, of which $52 million and $65 million, respectively, were classified as current liabilities. Pretax charges against income for environmental remediation costs totaled $2 million and $5 million, respectively, for the three and six months ended June 30, 2007, and $13 million and $27 million, respectively, for the three and six months ended June 30, 2006, and are included in Other charges in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental

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remediation aggregated $5 million and $10 million, respectively, for the three and six months ended June 30, 2007 and $3 million and $13 million, respectively, for the three and six months ended June 30, 2006.

Management anticipates that the resolution of the Company s environmental contingencies will occur over an extended period of time. Over the 15 years prior to 2006, the pretax charges against income ranged between $10 million and $49 million per year. Consistent with our previous disclosure, charges for estimated environmental remediation costs in 2006 were significantly higher than our historical range as a result of our continuing efforts to analyze and assess the environmental issues associated with a former chromium manufacturing plant site located in Jersey City, NJ and at the Calcasieu River Estuary located near our Lake Charles, LA chlor-alkali plant, which efforts resulted in a pre-tax charge of $173 million in the third quarter of 2006 for the estimated costs of remediating these sites. We anticipate that charges against income in 2007 for environmental remediation costs will be within the prior historical range. We expect cash outlays for environmental remediation costs to be approximately $30 million in 2007 and to range from $50 million to $70 million annually through 2011. The level of expected cash outlays in 2007 is less than initially anticipated due to activity related to the former chromium manufacturing plant site in New Jersey, as PPG awaits approval of workplans that have been submitted to the applicable regulatory agencies. It is possible, however, that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter these expectations. In management s opinion, the Company operates in an environmentally sound manner and the outcome of the Company s environmental contingencies will not have a material effect on PPG s financial position or liquidity; however, any such outcome may be material to the results of operation of any particular period in which costs, if any, are recognized.

In New Jersey, PPG continues to perform its obligations under an Administrative Consent Order (ACO) with the New Jersey Department of Environmental Protection (NJDEP). Since 1990, PPG has remediated 47 of 61 residential and nonresidential sites under the ACO. The most significant of the remaining sites is the former chromium manufacturing location in Jersey City. The Company submitted a feasibility study work plan to the NJDEP in October 2006 that includes review of the available remediation technology alternatives for the former chromium manufacturing location. Under the feasibility study work plan, remedial alternatives which will be assessed include, but are not limited to, soil excavation and offsite disposal in a licensed disposal facility, insitu chemical stabilization of soil and groundwater, and insitu solidification of soils. A feasibility study is expected to be completed in 2008. In addition, PPG is planning to conduct Interim Remedial Measures (IRMs) at the site during 2007 to 2008. Implementation of these IRMs will assist in the evaluation of remedial technologies required in the feasibility study. PPG has recently proposed excavation and offsite disposal of impacted soils as the preferred remedial alternative for one other of the remaining sites under the ACO. This proposal has been submitted to the NJDEP for approval. In addition, investigation activities are ongoing for an additional six sites covered by the ACO with completion expected in 2007. Investigation activities have not yet begun for the remaining six sites covered by the ACO, but we believe the results of the study at the former chromium manufacturing location will also provide us with relevant information concerning remediation alternatives at these 12 sites. The principal contaminant of concern is hexavalent chromium. Based on current estimates, at least 500,000 tons of soil may be potentially impacted for all remaining sites.

As a result of the extensive analysis undertaken in connection with the preparation and submission of the feasibility study work plan for the former chromium manufacturing location, the Company recorded a pretax charge of $165 million in the third quarter of 2006. This charge included estimated costs for remediation at all remaining ACO sites, including the former manufacturing site, and for the resolution of litigation filed by NJDEP as discussed below. In

May 2005, the NJDEP filed a complaint against PPG and two other former chromium producers seeking to hold the parties responsible for a further 53 sites where the source of chromium contamination is not known and to recover costs incurred by the agency in connection with its response activities at certain of those sites. This case is in discovery with ongoing mediation to resolve the allocation of these additional sites among the three companies. As of June 30, 2007 and December 31, 2006 PPG had reserves of $197 million and $198 million, respectively, for environmental contingencies associated with all New Jersey sites.

Multiple future events, such as feasibility studies, remedy selection, remedy design and remedy implementation involving agency action or approvals will be required, and considerable uncertainty exists regarding the timing of these future events for the remaining 14 sites covered by the ACO. Final resolution of these events is expected to occur over an extended period of time. However, based on current information, it is expected that feasibility study approval and remedy selection could occur during 2008 for the former chromium plant and six adjacent sites, while remedy design and approval could occur during 2008 to 2009, and remedy implementation could occur during 2009 to 2013, with some period of long-term monitoring for remedy effectiveness to follow. One other site is expected to be remediated during 2007 to 2008. Activities at six other sites have not yet begun and the timing of future events related to these sites cannot be predicted at this time. Based on current information, we expect cash outlays related to remediation efforts in New Jersey to range from $10 million to $15 million in 2007 and $30 million to $55 million annually from 2008 through 2011.

In Lake Charles, the U.S. Environmental Protection Agency has completed investigation of contamination levels in the Calcasieu River estuary and issued a Final Remedial Investigation Report in September 2003, which incorporates the Human Health and Ecological Risk Assessments, indicating that elevated levels of risk exist in the estuary. PPG and other potentially responsible parties are performing a feasibility study under the authority of the Louisiana Department of Environmental Quality (LDEQ). PPG s exposure with respect to the Calcasieu Estuary is focused on the lower few miles of Bayou d Inde, a small tributary to the Calcasieu Estuary near PPG s Lake Charles facility, and about 150 to 200 acres of adjacent marshes. The Company and three other potentially responsible parties submitted a draft remediation feasibility study report to the LDEQ in October 2006 following completion of the feasibility study and an evaluation of its findings. The proposed remedial alternatives include sediment dredging, sediment capping, and biomonitoring of fish and shellfish. Principal contaminants of concern which may require remediation include various metals, dioxins and furans, and polychlorinated biphenyls. In response to agency comments on the draft study, the companies are undertaking additional investigation and will update the study. As a result of the analysis undertaken in connection with the preparation and submission of the draft feasibility study, PPG recorded a pretax charge of $8 million in the third quarter of 2006 for its estimated share of the remediation costs at this site.

Multiple future events, such as feasibility studies, remedy selection, remedy design and remedy implementation involving agency action or approvals will be required and considerable uncertainty exists regarding the timing of these future events. Final resolution of these events is expected to occur over an extended period of time. However, based on currently available information it is expected that feasibility study approval and remedy selection could occur in 2007 or 2008, remedy design and approval could occur during 2008, and remedy implementation could occur during 2008 to 2011 with some period of long-term monitoring for remedy effectiveness to follow.

The principal elements of the charges for remediating the New Jersey and Calcasieu Estuary sites are based on competitively derived or readily available remediation industry cost data for representative remedial options (e.g. excavation, insitu stabilization/solidification, etc.) to be

evaluated for the New Jersey sites and the remedial alternatives proposed to LDEQ for the Calcasieu Estuary. Major cost components include transportation and disposal of excavated soil and/or soil treatment costs for the New Jersey sites and sediment capping and dredging costs for the Calcasieu Estuary site. The charges we recorded are exclusive of any third party indemnification, as we believe the likelihood of receiving any such amounts to be remote.

In addition to the amounts currently reserved, the Company may be subject to loss contingencies related to environmental matters estimated to be as much as $200 million to $300 million, which range is unchanged since December 31, 2006. Such unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. This range of reasonably possible unreserved loss relates to environmental matters at a number of sites; however, about 40% of this range relates to the former chromium manufacturing plant site in Jersey City, NJ, and about 30% relates to three operating PPG plant sites in our chemicals businesses. The loss contingencies related to these sites include significant unresolved issues such as the nature and extent of contamination at these sites and the methods that may have to be employed to remediate them.

Initial remedial actions are occurring at the three operating plant sites in our chemicals businesses. These three operating plant sites include our Barberton, OH, Lake Charles, LA and Natrium, WV locations. At Barberton, we have completed a Facility Investigation and Corrective Measure Study (CMS) under USEPA s Resource Conservation and Recycling Act (RCRA) Corrective Action Program. Currently, we are implementing the remediation alternatives recommended in the CMS using a performance-based approach with USEPA Region V oversight. Similarly, we have completed a Facility Investigation and CMS for our Lake Charles facility under the oversight of the Louisiana Department of Environmental Quality (LDEQ). The LDEQ has accepted our proposed remedial alternatives which are expected to be incorporated into the facility s RCRA operating permit during 2007. Planning for or implementation of these proposed alternatives is in progress. At our Natrium facility, a Facility Investigation has been completed, initial interim remedial measures have been implemented to mitigate soil impacts but additional investigation is required to more fully define the nature and extent of groundwater contamination and to identify appropriate, additional remedial actions.

With respect to certain waste sites, the financial condition of any other potentially responsible parties also contributes to the uncertainty of estimating PPG s final costs. Although contributors of waste to sites involving other potentially responsible parties may face governmental agency assertions of joint and several liability, in general, final allocations of costs are made based on the relative contributions of wastes to such sites. PPG is generally not a major contributor to such sites.

The impact of evolving programs, such as natural resource damage claims, industrial site reuse initiatives and state remediation programs, also adds to the present uncertainties with regard to the ultimate resolution of this unreserved exposure to future loss. The Company s assessment of the potential impact of these environmental contingencies is subject to considerable uncertainty due to the complex, ongoing and evolving process of investigation and remediation, if necessary, of such environmental contingencies, and the potential for technological and regulatory developments.

The bankruptcy proceedings related to our partner in a fiber glass joint venture in Venezuela have been in progress since 2003 and remain unresolved, which has created uncertainty concerning the future of the joint venture. After an extensive evaluation of a variety of options concerning a path forward, we have concluded that we will not be able to recover the carrying amount of our investment in and receivables from this joint venture and have written those assets off in the first quarter of 2007 by taking a pre-tax charge against earnings of $10 million which is included in Other charges in the accompanying condensed consolidated statement of income for the six months ended June 30, 2007.

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The Company accrues for product warranties at the time the products are sold based on historical claims experience. As of June 30, 2007 and December 31, 2006, the reserve for product warranties was $9 million and $10 million, respectively. Pretax charges against income for product warranties and the related cash outlays were not material for the three and six months ended June 30, 2007 and 2006.

The Company had outstanding letters of credit of $71 million and guarantees of $65 million as of June 30, 2007. The Company does not believe any loss related to such guarantees is likely.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Performance in Second Quarter of 2007 Compared to Second Quarter of 2006

Performance Overview

Sales increased 12% for the second quarter of 2007 to $3,173 million compared to $2,824 million for the second quarter of 2006. Sales related to acquisitions accounted for an increase of 7% and higher volumes in all business segments except Glass increased sales by 3%. The positive effects of foreign currency translation accounted for an increase of 2% while selling prices were essentially flat.

Net income and earnings per share assuming dilution for the second quarter of 2007 were $249 million and $1.50, respectively, compared to $280 million and $1.68, respectively, for the second quarter of 2006. Net income for the second quarter of 2007 included an aftertax charge of $6 million or 3 cents a share, to reflect the net increase in the current value of the Company s obligation relating to asbestos claims under the PPG Settlement Arrangement. See Note 16, Commitments and Contingent Liabilities for a description of these charges. Net income for the second quarter of 2006 included aftertax earnings of $12 million, or 7 cents a share, for litigation related insurance recoveries in excess of litigation related costs, and an aftertax charge of $4 million, or 3 cents a share, to reflect the net increase in the current value of the Company s obligation under the PPG Settlement Arrangement.

Net income for the second quarter of 2007 compared to the second quarter of 2006 was $31 million lower. The decrease in net income was due largely to the negative impact of inflation, lower selling prices in our Glass and Commodity Chemicals segments, and a higher effective tax rate. The positive impact of higher sales volume and earnings related to acquisitions were factors that increased net income for the second quarter of 2007. The absence in 2007 of litigation related insurance recoveries in excess of litigation related costs that occurred in 2006 was offset by higher equity income, lower environmental expense, and the gain on asset sales in 2007.

Performance of Reportable Segments

Performance and Applied Coatings sales increased 26% to $974 million for the second quarter of 2007 compared to $774 million for the second quarter of 2006. Sales increased 18% due to sales from acquisitions in all three Performance and Applied Coatings businesses, 3% due to improved sales volumes and 3% due to the positive impact of foreign currency translation. Volume growth in the architectural business was largely in the national accounts distribution channel. Volume growth in the refinish and aerospace businesses occurred throughout the world. Sales also increased 2% due to higher selling prices. Segment income was $159 million for the second quarter of 2007 compared to $145 million for the same quarter in 2006. Factors increasing segment income were improved volumes, earnings from acquisitions, and the positive impact of foreign currency translation. Segment income decreased due to higher overhead costs to support our growth initiatives in our architectural business. The negative impact of inflation, primarily higher raw material costs, was essentially offset by higher selling prices.

Industrial Coatings sales increased 16% to $943 million for the second quarter of 2007 compared to $811 million for the second quarter of 2006. Sales increased 8% due to acquisitions in our automotive and industrial coatings businesses, 4% due to the positive impact of foreign currency translation, and 4% from improved sales volumes as volume increases in

automotive coatings and packaging coatings more than offset declines in the industrial coatings business in the U.S. and Canada. Volume growth in the automotive coatings business occurred in all regions of the world while in packaging coatings growth occurred in Latin America, Asia and Europe. The decline in industrial coatings North American volumes overshadowed solid growth for this business in Latin America, Europe and Asia. Segment income was $109 million for the second quarter of 2007 compared to $104 million for the same quarter in 2006. Segment income increased due to improved sales volumes, the impact of acquisitions, and lower manufacturing costs. Factors decreasing segment income were inflation, including higher raw material costs, and increased overhead costs to support our growth initiatives.

Optical and Specialty Materials sales increased 13% to $296 million for the second quarter of 2007 compared to $262 million for the second quarter of 2006. Sales increased 8% due to higher volumes in our optical products business, 4% due to the positive impact of foreign currency translation, and 1% as the result of sales from acquisitions in our optical products business. Segment income was $71 million for the second quarter of 2007 compared to $61 million for the same quarter in 2006. The increase in segment income was primarily the result of increased sales in optical products.

Commodity Chemicals sales increased 2% to $380 million for the second quarter of 2007 compared to $372 million for the second quarter 2006. Sales increased 8% due to higher volumes, but decreased 6% due to lower selling prices. Our sales volume was also impacted by several transitory production issues during the quarter that reduced the amount of product we had available for sale. Segment income was $57 million for the second quarter of 2007 compared to $86 million for the same quarter in 2006. Segment income was lower in large part due to lower selling prices, higher manufacturing costs, primarily maintenance costs, and higher natural gas costs. The benefits of improved sales volumes and lower environmental and pension costs increased segment income.

Glass sales decreased 4% to $580 million for the second quarter of 2007 compared to $605 million for the second quarter of 2006. Sales decreased 4% due to lower sales volumes, in our automotive OEM glass business. Lower selling prices were partially offset by the positive impact of foreign currency translation. Segment income was $50 million for the second quarter of 2007 compared to $53 million for the same quarter of 2006. Segment income decreased due to the negative impact of inflation, lower pricing, due largely to a lower energy surcharge in performance glazings, and lower sales volumes in automotive OEM glass. These reductions were offset by higher equity earnings and other income and lower manufacturing and pension costs.

With a goal of maximizing shareholder value, we continue to explore strategic alternatives related to our automotive OEM glass, automotive replacement glass and services and fine chemicals operating segments, including the potential sale of one or more of these operating segments.

Performance in the First Six Months of 2007 Compared to First Six Months of 2006

Performance Overview

Sales increased 12% for the first six months of 2007 to $6,090 million compared to $5,462 million for the first six months of 2006. Sales related to acquisitions accounted for an increase of 7%, volume accounted for an increase of 3%, and the positive effects of foreign currency translation accounted for an increase of 3%. A slight decline in selling prices reduced sales by 1%.

Net income and earnings per share assuming dilution for the first six months of 2007 were $443 million and $2.67, respectively, compared to $464 million and $2.79, respectively, for the first six months of 2006. Net income for the first six months of 2007 included aftertax charges of $11 million, or 6 cents a share, to reflect the net increase in the current value of the Company s obligation under the asbestos settlement agreement. Net income for the first six months of 2006 included aftertax earnings of $12 million, or 7 cents a share, for litigation related insurance recoveries in excess of litigation related costs and aftertax charges of $23 million, or 14 cents a share, for business restructuring and $10 million, or 6 cents a share, to reflect the net increase in the current value of the Company s obligation under the asbestos settlement agreement.

Net income for the first six months of 2007 compared to the first six months of 2006 was $21 million lower. The decrease in net income was due to lower selling prices in our Commodity Chemicals and Glass segments, the negative impact of inflation, higher overhead expenses related to our growth initiatives, a higher effective tax rate and higher manufacturing costs, primarily in our Commodity Chemicals segment. Factors which increased net income were the positive impact of higher sales volume, the positive impact of acquisitions, the absence of prior year restructuring charges, and the positive effect of foreign currency translation. The absence in 2007 of litigation related insurance recoveries in excess of litigation related costs that occurred in 2006 was offset by lower environmental expense and higher equity earnings.

Performance of Reportable Segments

Performance and Applied Coatings sales increased 26% to $1,829 million for the first six of 2007 compared to $1,452 million for the first six months of 2006. Sales increased 18% due to sales from acquisitions in all three Performance and Applied Coatings businesses, 3% due to the positive impact of foreign currency translation, and 3% due to improved sales volumes in our aerospace coatings and automotive refinish businesses, which more than offset slightly lower volumes in architectural coatings. Volume growth in the automotive refinish and aerospace businesses occurred throughout the world. Sales also increased 2% due to higher selling prices. Segment income was $280 million for the first six months of 2007 compared to $250 million for the same period in 2006. Factors increasing segment income were improved sales volumes, earnings from acquisitions, the positive impact of foreign currency translation and higher selling prices, which more than offset the impact of inflation. Segment income decreased due to higher overhead costs to support our growth initiatives in this segment.

Industrial Coatings sales increased 15% to $1,812 million for the first six months of 2007 compared to $1,579 million for the first six months of 2006. Sales increased 7% due to acquisitions in our automotive and industrial coatings businesses, 5% due to the positive impact of foreign currency translation and 3% from improved sales volumes as volume increases in automotive coatings and packaging coatings more than offset declines in the volume of the industrial coatings business in the U.S. and Canada. Volume growth in the packaging coatings business occurred in all regions of the world, while in automotive coatings growth occurred primarily in North America and Europe. The decline in industrial coatings North American volumes overshadowed solid growth for this business in Europe and Asia. Segment income was $204 million for the first six months of 2007 compared to $195 million for the same period in 2006. Segment income increased due to improved sales volumes, the impact of acquisitions, lower manufacturing costs and the positive impact of foreign currency translation. Factors decreasing segment income were inflation, including higher raw material costs, which more than offset a slight improvement in selling prices, and increased overhead costs to support our growth initiatives.

Optical and Specialty Materials sales increased 17% to $576 million for the first six months of 2007 compared to $494 million for the first six months of 2006. Sales increased 10% due to higher volumes in our optical products and fine chemicals businesses, 4% due to the positive impact of foreign currency translation, and 3% as the result of sales from acquisitions in our optical products business. Segment income was $138 million for the first six months of 2007 compared to $117 million for the same quarter in 2006. The increase in segment income was primarily the result of increased sales volumes partially offset by increased overhead costs to support growth in our optical products business.

Commodity Chemicals sales decreased 3% to $751 million for the first six months of 2007 compared to $773 million for the first six months 2006. Sales decreased 12% due to lower selling prices, which declined in part due to lower natural gas input costs. The negative impact of lower selling prices was partially offset by an increase in sales volumes of 9%. Our sales volume was impacted by several transitory production issues during the second quarter that reduced the amount of product we had available for sale, and during the first quarter our sales volume was impacted by several customer outages that began in the fourth quarter of 2006 and continued through a portion of the first quarter of 2007. Segment income was $101 million for the first six months of 2007 compared to $173 million for the same period in 2006. Segment income was lower in large part due to lower selling prices and higher manufacturing costs, including maintenance costs. The benefit of lower energy and pension costs, improved sales volumes and a reduction in other expenses were factors that increased segment income.

Glass sales decreased 4% to $1,122 million for the first six months of 2007 compared to $1,164 million for the first six months of 2006. Sales decreased 3% due to lower sales volumes, primarily in our automotive OEM glass business. The negative impact of lower selling prices in our performance glazings business reduced sales by 2%. Pricing in the performance glazings business includes a surcharge related to the cost of energy lagged by one quarter. The surcharge in the first six months of 2006 exceeded the current year surcharge due to higher energy costs in the fourth quarter 2005 and the first quarter of 2006. The positive effects of foreign currency translation increased sales by 1%. Segment income was $70 million for the first six months of 2007 compared to $88 million for the same period of 2006. Segment income decreased due to the negative impact of inflation and lower pricing, including the lower energy surcharge in performance glazings and a $10 million charge recorded in the first quarter of 2007 to write off PPG s investment in a Venezuelan joint venture. These factors were only partially offset by the positive impact of lower manufacturing and overhead costs, including lower pension costs, higher equity earnings, and higher other income.

Other Factors

The increase in Other earnings in the accompanying condensed consolidated statement of income for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 is due largely to higher equity earnings, royalty income and the gain on asset sales.

The increase in Other charges in the accompanying condensed consolidated statement of income for the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006 is principally due to the absence in 2007 of the impact of the litigation related insurance recoveries in excess of litigation related costs recorded in the second quarter of 2006. This increase in other charges was offset in part by lower environmental costs in 2007.

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The increase in Accounts receivable in the accompanying condensed consolidated balance sheet as of June 30, 2007 as compared to Dec. 31, 2006 is principally due to the $400 million increase in sales in the second quarter of 2007 as compared to the fourth quarter of 2006.

The tax rate on earnings for the three months ended June 30, 2007 was 31.3%. This rate includes a tax benefit of 39% on the adjustment to increase the current value of the Company s obligation relating to asbestos claims under the PPG Settlement Arrangement. Income tax expense of 31.5% was recognized on the remaining pretax earnings. The tax rate on earnings for the three months ended June 30, 2006 was 26.4%, which included a one-time benefit relating to the settlement with the Internal Revenue Service (IRS) of our tax returns for the years 2001-2003. This rate included a tax cost of 39% on the litigation related insurance recoveries in excess of litigation related costs and a tax benefit of 39% on the adjustment to increase the current value of the Company s obligation under the PPG Settlement Arrangement. Income tax expense of 31.5% was recognized on the remaining pretax earnings.

The tax rate on earnings for the six months ended June 30, 2007 was 28.4%. This rate includes the benefit of reversing a valuation allowance previously recorded against the benefit of tax net operating loss carryforwards and a tax benefit of 39% on the adjustment to increase the current value of the Company s obligation relating to asbestos claims under the PPG Settlement Arrangement. Income tax expense of 31.5% was recognized on the remaining pretax earnings. The tax rate on earnings for the six months June 30, 2006 was 25.7%, which included the benefit of a tax refund from Canada resulting from the favorable resolution in the first quarter of 2006 of a tax dispute dating back to 1997 and a tax benefit related to the settlement with the IRS of our tax returns for the years 2001-2003. This rate included a tax cost of 39% on the litigation related insurance recoveries in excess of litigation related costs and tax benefits of 36% on the charge for business restructuring and 39% on the adjustment to increase the current value of the Company s obligation under the PPG Settlement Arrangement. Income tax expense of 31.5% was recognized on the remaining pretax earnings.

Liquidity and Capital Resources

Cash from operating activities for the six months ended June 30, 2007 was $229 million compared with $333 million for the comparable period of 2006. Cash from operations and the Company s debt capacity have been and are expected to continue to be sufficient to meet our operating requirements, to fund our capital spending, share repurchases and contributions to pension plans, to pay dividends to our shareholders and to pay amounts due under the PPG Settlement Arrangement.

On July 19, 2007, PPG announced an offer to purchase SigmaKalon Group, a worldwide coatings producer based in Uithoorn, The Netherlands, from global private investment firm, Bain Capital. The total transaction value, including assumed debt, is 2.2 billion (approximately $3.0 billion). Bain Capital has granted a period of exclusivity to PPG and intends to respond to the offer after discussion with appropriate employee representative bodies. Should Bain Capital accept the offer, the acquisition would be subject to customary conditions, including receipt of regulatory approval. The amount of the offer to purchase SigmaKalon Group is denominated in Euros. As a result, the purchase price is subject to adjustment based on foreign currency fluctuation until the purchase transaction is closed. A 10% change in the value of the U.S. dollar as compared to the Euro during this time period would change the U.S. dollar cost of the acquisition by approximately $300 million. PPG is currently evaluating alternative means of mitigating this exposure to foreign currency fluctuation.

On July 17, 2007, PPG entered into a commitment letter with Credit Suisse and Credit Suisse Securities (USA) LLC (together, Credit Suisse), under which Credit Suisse agreed to provide a proposed 2.2 billion (approximately $3.0 billion) senior unsecured 364-day loan facility (the

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Facility) to fund the proposed acquisition of SigmaKalon Group, subject to customary terms and conditions set forth in the commitment letter. PPG will enter into the proposed Facility with Credit Suisse and such other lenders on customary terms and conditions as to be agreed by the parties thereto. PPG intends to repay borrowings under the Facility from the possible issuance of debt and/or other securities.

On Aug. 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 current funding requirements, PPG does not have to make a mandatory contribution to our U.S. plans in 2007. We are currently evaluating the impact that PPA will have on our funding requirements for 2008 and beyond. In the first six months of 2007, we made $102 million of voluntary contributions to our U.S. plans and we may make additional voluntary contributions to these plans in 2007. We expect to make mandatory contributions to our non-U.S. plans in 2007 of approximately $37 million, of which approximately $13 million was contributed as of June 30, 2007.

New Accounting Standards

Note 2, Newly Adopted Accounting Standards, to the accompanying condensed consolidated financial statements describes the Company s adoption of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 as of January 1, 2007.

Commitments and Contingent Liabilities, including Environmental Matters

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. See Part II, item 1, Legal Proceedings of this Form 10-Q and Note 16, Commitments and Contingent Liabilities, to the accompanying condensed consolidated financial statements for a description of certain of these lawsuits, including a description of the proposed PPG Settlement Arrangement for asbestos claims announced on May 14, 2002. As discussed in Item 1 and Note 16, although the result of any future litigation of such lawsuits and claims is inherently unpredictable, management believes that, in the aggregate, the outcome of all lawsuits and claims involving PPG, including asbestos-related claims in the event the PPG Settlement Arrangement described in Note 16 does not become effective, will not have a material effect on PPG s consolidated financial position or liquidity; however, any such outcome may be material to the results of operations of any particular period in which costs, if any, are recognized.

It is PPG s policy to accrue expenses for environmental contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Reserves for environmental contingencies are exclusive of claims against third parties and are generally not discounted. As of June 30, 2007 and December 31, 2006, PPG had reserves for environmental contingencies totaling $277 million and $282 million, respectively, of which $52 million and $65 million, respectively, were classified as current liabilities. Pretax charges against income for environmental remediation costs totaled $2 million and $5 million, respectively, for the three and six months ended June 30, 2007, and $13 million and $27 million, respectively, for the three and six months ended June 30, 2006, and are included in Other charges in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental remediation aggregated $5 million and $10 million, respectively, for the three and six months ended June 30, 2007 and $3 million and $13 million, respectively, for the three and six months ended June 30, 2006.

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In addition to the amounts currently reserved, the Company may be subject to loss contingencies related to environmental matters estimated to be as much as $200 million to $300 million, which range is unchanged since December 31, 2006. Such unreserved losses are reasonably possible but are not currently considered to be probable of occurrence.

Management anticipates that the resolution of the Company s environmental contingencies will occur over an extended period of time. Over the 15 years prior to 2006, the pretax charges against income ranged between $10 million and $49 million per year. Consistent with our previous disclosure, charges for estimated environmental remediation costs in 2006 were significantly higher than our historical range as a result of our continuing efforts to analyze and assess the environmental issues associated with a former chromium manufacturing plant site located in Jersey City, NJ and at the Calcasieu River Estuary located near our Lake Charles, LA chlor-alkali plant, which efforts resulted in a pre-tax charge of $173 million in the third quarter of 2006 for the estimated costs of remediating these sites. We anticipate that charges against income in 2007 for environmental remediation costs will be within the prior historical range. We expect cash outlays for environmental remediation costs to be approximately $30 million in 2007 and to range from $50 million to $70 million annually through 2011. The level of cash outlays in 2007 is less than initially anticipated due to activity related to the former chromium manufacturing plant site in New Jersey, as PPG awaits approval of workplans that have been submitted to the applicable regulatory agencies. It is possible, however, that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter these expectations. In management s opinion, the Company operates in an environmentally sound manner and the outcome of the Company s environmental contingencies will not have a material effect on PPG s financial position or liquidity; however, any such outcome may be material to the results of operation of any particular period in which costs, if any, are recognized.

Currency

During the first six months of 2007, the U.S. dollar weakened against certain of the currencies in the countries in which PPG operates, most notably against the euro, the British pound sterling and the Canadian dollar. The effects of translating the net assets of our operations denominated in non-U.S. currencies to the U.S. dollar increased consolidated net assets by $115 million from December 31, 2006 to June 30, 2007.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. Management s Discussion and Analysis and other sections of this Form 10-Q contain forward-looking statements that reflect the Company s current views with respect to future events and financial performance.

Forward-looking statements are identified by the use of the words aim, believe, expect, anticipate, intend, estimate and other expressions indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements.

Many factors could cause actual results to differ materially from the Company s forward-looking statements. Such factors are increasing price and product competition by foreign and domestic competitors, fluctuations in the cost and availability of raw materials, the ability to maintain

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favorable supplier relationships and arrangements, economic and political conditions in international markets, foreign exchange rates and fluctuations in those rates, the impact of environmental regulations, unexpected business disruptions and the unpredictability of existing and possible future litigation, including litigation that could result if PPG s Settlement Arrangement for asbestos claims does not become effective. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and in the Company s Form 10-K for the year ended December 31, 2006 under the caption Item 1a. Risk Factors are considered representative, these lists should not be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements. Consequences of material differences in the results as compared to those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on the Company s consolidated financial condition, results of operations or liquidity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the Company s exposure to market risk from December 31, 2006.

Item 4. Controls and Procedures

a. Evaluation of disclosure controls and procedures. Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company s principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

b. Changes in internal control. There were no changes in the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 business. 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, any such outcome may be material to the results of operations of any particular period in which costs, if any, are recognized.

For over thirty years, PPG has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. For a description of asbestos litigation affecting the Company and the terms and status of the proposed PPG Settlement Arrangement announced May 14, 2002, see Note 16, Commitments and Contingent Liabilities under Part I, Item 1 of this Form 10-Q.

Over the past several years, the Company and others have been named as defendants in several cases in various jurisdictions claiming damages related to exposure to lead and remediation of lead-based coatings applications. PPG has been dismissed as a defendant from most of these lawsuits and has never been found liable in any of these cases.

PPG and the North Carolina Environmental Management Commission (EMC) entered into a Special Order by Consent (SOC) in June 2004 pursuant to which PPG agreed to achieve certain specified emission limits for particulate matter from a furnace at the Lexington facility by December 31, 2007. In March 2006, PPG requested an extension of the December 31, 2007 deadline for achieving the emission limits for particulate matter until December 31, 2009. EMC has agreed to this extension and PPG and EMC have entered into a new SOC which includes, among other things, a stipulated civil penalty of $62,500.

PPG received a Notice of Violation (NOV) in July 2007 from the North Carolina Department of Environment and Natural Resources, Division of Air Quality regarding alleged exceedances of air opacity limits at its Shelby, North Carolina fiber glass facility. This NOV includes a stipulated penalty of approximately $125,000. Negotiations with the agency will be started in the near future.

Item 1a. Risk Factors

There were no material changes in the Company s risk factors from the risks disclosed in the Company s Form 10-K for the year ended December 31, 2006.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Directors who are not also Officers of the Company receive Common Stock Equivalents pursuant to the PPG Industries, Inc. Deferred Compensation Plan for Directors (PPG Deferred Compensation Plan for Directors). Retired Directors receive dividend equivalents in the form of Common Stock Equivalents pursuant to the PPG Industries, Inc. Directors Common Stock Plan (PPG Directors Common Stock Plan). Common Stock Equivalents are hypothetical shares of Common Stock having a value on any given date equal to the value of a share of Common Stock. Common Stock Equivalents earn dividend equivalents that are converted into additional Common Stock Equivalents but carry no voting rights or other rights afforded to a holder of Common Stock. The Common Stock Equivalents credited to Directors under both plans are exempt from registration under Section 4(2) of the Securities Act of 1933 as private offerings made only to Directors of the Company in accordance with the provisions of the plans.

Under the PPG Deferred Compensation Plan for Directors, each Director may elect to defer the receipt of all or any portion of the compensation paid to such Director for serving as a PPG Director. All deferred payments are held in the form of Common Stock Equivalents. Payments out of the deferred accounts are made in the form of Common Stock of the Company (and cash as to any fractional Common Stock Equivalent). In the second quarter of 2007, the Directors, as a group, were credited with 7,307 Common Stock Equivalents under this plan. The value of each Common Stock Equivalent, when credited, ranged from $72.95 to $75.50.

The last remaining retired director who participated in the PPG Directors Common Stock Plan withdrew from this plan in the second quarter of 2007. There were no dividend equivalents in the second quarter of 2007 under this plan.

The following table summarizes the Company s stock repurchase activity for the three months ended June 30, 2007:

Issuer Purchases of Equity Securities

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs
April 2007				
Repurchase program	180,300	$ 74.19	180,300	6,647,737
Other transactions[1]	22,857	74.63		
May 2007				
Repurchase program	974,186	76.36	974,186	5,673,551
Other transactions[1]	85,191	74.85		
June 2007				
Repurchase program	444,100	74.77	444,100	5,229,451
Other transactions[1]	128,510	76.19		
Total quarter ended June 30, 2007				
Repurchase program	1,598,586	$ 75.67	1,598,586	5,229,451
Other transactions[1]	236,558	$ 75.56		

(1) Includes shares withheld or certified to in satisfaction of the exercise price and/or tax withholding obligation by holders of employee stock options who exercised options granted under the PPG Industries, Inc. Stock Plan.

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Item 4. Submission of Matters to a Vote of Security Holders

The information set forth under Item 4. Submission of Matters to a Vote of Security Holders of the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2007, is incorporated herein by reference in its entirety.

Item 6. Exhibits

The following exhibits are filed as a part of, or incorporated by reference into, this Form 10-Q.

3	PPG Industries, Inc. Restated Articles of Incorporation, as amended, were filed as Exhibit 3 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 1995.
3.1a	Statement with Respect to Shares, amending the Restated Articles of Incorporation effective April 21, 1998, was filed as Exhibit 3.1 to the Registrant s Annual Report on Form 10-K for the period ended Dec. 31, 1998.
3.1b	Amendment to Restated Articles of Incorporation of PPG Industries, Inc. as amended, effective April 27, 2007.
3.2	PPG Industries, Inc. Bylaws, as amended and restated on April 19, 2007.
4	Rights Agreement, dated as of Feb. 19, 1998, was filed as Exhibit 4 to the Registrant s Current Report on Form 8-K dated Feb. 19, 1998.
4.1	Indenture, dated as of Aug. 1, 1982, was filed as Exhibit 4.1 to the Registrant s Registration Statement on Form S-3 (No. 333-44397) dated Jan. 16, 1998.
4.2	First Supplemental Indenture, dated as of April 1, 1986, was filed as Exhibit 4.2 to the Registrant s Registration Statement on Form S-3 (No. 333- 44397) dated Jan. 16, 1998.
4.3	Second Supplemental Indenture, dated as of Oct. 1, 1989, was filed as Exhibit 4.3 to the Registrant s Registration Statement on Form S-3 (No. 333-44397) dated Jan. 16, 1998.
4.4	Third Supplemental Indenture, dated as of Nov. 1, 1995, was filed as Exhibit 4.4 to the Registrant s Registration Statement on Form S-3 (No. 333-44397) dated Jan. 16, 1998.
4.5	Indenture, dated as of June 24, 2005, was filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K dated June 20, 2005.
*10	PPG Industries, Inc. Nonqualified Retirement Plan, as amended and restated December 13, 2006.
*10.1	PPG Industries, Inc. Supplemental Executive Retirement Plan II, as amended, was filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q for the period ended Sept. 30, 1995.

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*10.2 Form of Change in Control Employment Agreement was filed as Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q for the period ended Sept. 30, 1995.

*10.3 PPG Industries, Inc. Directors Common Stock Plan, as amended Feb. 20, 2002, was filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2003.

*10.4 PPG Industries, Inc. Deferred Compensation Plan for Directors, as amended Feb. 15, 2006 was filed as Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2006.

*10.5 PPG Industries, Inc. Deferred Compensation Plan, as amended and restated December 13, 2006.

*10.6 PPG Industries, Inc. Executive Officers Long Term Incentive Plan was filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K dated Feb. 16, 2005.

*10.7 PPG Industries, Inc. Long Term Incentive Plan for Key Employees was filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K dated Feb. 16, 2005.

*10.8 Form of TSR Share Award Agreement was filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K dated Feb. 16, 2005.

*10.9 Form of Restricted Stock Unit Award Agreement was filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K dated Feb. 15, 2005.

*10.10 PPG Industries, Inc. Executive Officers Annual Incentive Compensation Plan, as amended effective Feb. 18, 2004, was filed as Exhibit 10.1 to the Registrant s Annual Report on Form 10-K for the period ended Dec. 31, 2003.

*10.11 PPG Industries, Inc. Incentive Compensation and Deferred Income Plan for Key Employees, as amended Feb. 15, 2006, was filed as Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the period ended December 31, 2005.

*10.12 PPG Industries, Inc. Management Award and Deferred Income Plan was filed as Exhibit 10.1 to the Registrant s Annual Report on Form 10-K for the period ended Dec. 31, 2002.

*10.13 PPG Industries, Inc. Stock Plan, dated as of April 17, 1997, as amended July 20, 2005, was filed as Exhibit 10.13 to the Registrant s Quarterly Report on Form 10-Q for the period ended Sept. 30, 2005.

*10.14 Form of Non-Qualified Option Agreement was filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K dated Feb. 15, 2005.

*10.15 Form of Non-Qualified Option Agreement for Directors was filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K dated Feb. 15, 2005.

*10.16 Summary of Non-Employee Director Compensation and Benefits was filed as Exhibit 10.16 to the Registrant s Annual Report on Form 10-K for the period ended December 31, 2005.

*10.17	PPG Industries, Inc. Challenge 2000 Stock Plan was filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2003.
*10.18	PPG Industries, Inc. Omnibus Incentive Plan was filed as Exhibit 10.18 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2006.
12	Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended June 30, 2007 and for the Five Years Ended December 31, 2006.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.

* Management contracts, compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 601 of Regulation S-K.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PPG INDUSTRIES, INC.
(Registrant)

Date: July 30, 2007 By /s/ W. H. Hernandez
W. H. Hernandez

Senior Vice President, Finance
(Principal Financial and
Accounting Officer and
Duly Authorized Officer)

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PPG Industries Inc. and Consolidated Subsidiaries

Index to Exhibits

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LOR="#cceeff" STYLE="page-break-inside:avoid ; font-family:Def.-Univers 47 CondensedLight; font-size:10pt">

WEST VIRGINIA 1.2%

Tobacco Settlement Finance Authority, West Virginia Revenue Bonds, Series 2007

0.000% due 06/01/2047 (h)

78,700 4,525

7.467% due 06/01/2047

10,310 10,130

14,655

Total Municipal Bonds & Notes
(Cost $54,749) 58,538

U.S. GOVERNMENT AGENCIES 3.8%

Fannie Mae

3.000% due 01/25/2042 (a)

1,002 96

3.500% due 02/25/2033 (a)

2,529 319

3.819% due 07/25/2040 (a)

1,064 103

5.831% due 07/25/2029

1,490 1,615

8.031% due 07/25/2029

2,010 2,430

Freddie Mac

0.000% due 04/25/2045 - 02/25/2046 (b)(h)

17,360 15,345

0.100% due 02/25/2046 (a)

159,597 264

0.200% due 04/25/2045 (a)

10,054 7

4.069% due 07/15/2039

2,207 1,841

4.821% due 02/15/2034 (a)

2,042 301

4.985% due 03/15/2044

1,485 1,302

5.984% due 02/15/2036

5,228 4,863

6.139% due 11/25/2055 «~

14,446 8,677

9.831% due 12/25/2027

4,432 5,479

13.037% due 03/25/2025

2,329 3,215

Ginnie Mae

3.000% due 12/20/2042 (a)

74 11

3.500% due 09/16/2041 - 06/20/2042 (a)

1,415 225

4.470% due 01/20/2042 (a)

2,301 302

Total U.S. Government Agencies
(Cost $45,454) 46,395

NON-AGENCY MORTGAGE-BACKED SECURITIES 21.3%

Adjustable Rate Mortgage Trust

2.621% due 05/25/2036

1,943 1,152

3.431% due 01/25/2035

4,796 4,248

Banc of America Alternative Loan Trust

6.000% due 01/25/2036 ^

186 181

6.000% due 04/25/2036 ^

3,154 3,167

Banc of America Funding Trust

5.500% due 01/25/2036

226 195

6.000% due 07/25/2037 ^

574 541

BCAP LLC Trust

3.736% due 03/27/2036 ~

3,915 3,339

3.825% due 07/26/2037 ~

158 2

4.926% due 03/26/2037 Ø

1,603 1,670

7.000% due 12/26/2036 ~

4,441 3,986

Bear Stearns ALT-A Trust

3.705% due 08/25/2046 ~

4,876 4,651

3.857% due 08/25/2036 ^~

3,056 2,071

3.921% due 11/25/2036 ^~

746 629

4.259% due 09/25/2035 ^~

1,096 838

4.670% due 11/25/2034 ~

326 323

Bear Stearns Asset-Backed Securities Trust

2.681% due 04/25/2037

15,882 13,270

Bear Stearns Commercial Mortgage Securities Trust		
5.707% due 04/12/2038 ~	370	368
Bear Stearns Mortgage Funding Trust		
7.500% due 08/25/2036 Ø	1,711	1,542
CD Commercial Mortgage Trust		
5.398% due 12/11/2049 ~	12	9
CD Mortgage Trust		
5.688% due 10/15/2048	13,872	7,141
Chase Mortgage Finance Trust		
3.635% due 12/25/2035 ^~	19	19
6.000% due 02/25/2037 ^	1,814	1,403
6.000% due 03/25/2037 ^	456	381
6.000% due 07/25/2037 ^	1,632	1,349
Citigroup Commercial Mortgage Trust		
5.593% due 12/10/2049 ~	647	442
Citigroup Mortgage Loan Trust		
3.585% due 04/25/2037 ^~	3,239	2,828
3.862% due 03/25/2037 ^~	842	827
4.309% due 11/25/2035 ~	17,987	13,988
6.000% due 11/25/2036 ~	14,595	11,614
CitiMortgage Alternative Loan Trust		
5.750% due 04/25/2037 ^	2,675	2,513
Commercial Mortgage Loan Trust		
6.051% due 12/10/2049 ~	4,633	2,849
Countrywide Alternative Loan Resecuritization Trust		
6.000% due 08/25/2037 ^~	2,151	1,658
Countrywide Alternative Loan Trust		
2.490% due 03/20/2046	5,266	4,796
2.551% due 08/25/2035	339	237
2.969% due 04/25/2037 ^ (a)	22,727	2,899
3.821% due 06/25/2047 ~	3,162	2,962
5.250% due 05/25/2021 ^	12	12
5.500% due 03/25/2035	565	423
5.500% due 09/25/2035 ^	5,035	4,584
5.750% due 01/25/2035	626	625
5.750% due 02/25/2035	705	680
6.000% due 02/25/2035	782	756
6.000% due 04/25/2036	1,933	1,466
6.000% due 05/25/2036 ^	2,126	1,660
6.000% due 02/25/2037 ^	712	476
6.000% due 02/25/2037	2,482	2,094
6.000% due 04/25/2037 ^	6,833	5,045
6.000% due 08/25/2037 ^	9,952	7,966
6.250% due 10/25/2036 ^	2,636	2,238
6.250% due 12/25/2036 ^	3,519	2,638
6.500% due 08/25/2036 ^	897	578
6.500% due 09/25/2036 ^	452	371
13.268% due 02/25/2036	1,898	2,040

Countrywide Home Loan Mortgage Pass-Through Trust			
5.500% due 07/25/2037 ^		730	592
6.000% due 04/25/2036 ^		494	447
Credit Suisse Mortgage Capital Mortgage-Backed Trust			
5.750% due 04/25/2036 ^		1,543	1,197
Epic Drummond Ltd.			
0.000% due 01/25/2022	EUR	231	258
Eurosail PLC			
2.150% due 06/13/2045	GBP	4,487	4,388
4.800% due 06/13/2045		1,394	1,568
GS Mortgage Securities Corp.			
4.591% due 10/10/2032 ~	$	10,500	9,390
GS Mortgage Securities Trust			
5.622% due 11/10/2039		1,640	1,416
GSR Mortgage Loan Trust			
4.235% due 03/25/2037 ^~		2,970	2,675
4.468% due 11/25/2035 ^~		1,513	1,416
5.500% due 05/25/2036 ^		200	285
HomeBanc Mortgage Trust			
3.081% due 03/25/2035		230	214
IndyMac Mortgage Loan Trust			
6.500% due 07/25/2037 ^		6,602	4,204
JPMorgan Alternative Loan Trust			
3.617% due 03/25/2037 ~		9,153	8,752
JPMorgan Chase Commercial Mortgage Securities Trust			
5.411% due 05/15/2047		3,600	2,575
5.623% due 05/12/2045		1,860	1,507
JPMorgan Mortgage Trust			
3.725% due 02/25/2036 ^~		1,921	1,626
3.985% due 06/25/2036 ^~		994	935
4.090% due 01/25/2037 ^~		1,184	1,135
4.316% due 10/25/2035 ~		53	52
LB-UBS Commercial Mortgage Trust			
5.407% due 11/15/2038		6,653	5,139
Lehman Mortgage Trust			
6.000% due 07/25/2037 ^		232	219
16.877% due 11/25/2035 ^		261	310

Lehman XS Trust		
2.501% due 06/25/2047	3,428	3,116
MASTR Alternative Loan Trust		
6.750% due 07/25/2036	3,448	2,341
Merrill Lynch Mortgage Investors Trust		
3.554% due 03/25/2036 ^~	3,557	2,709
Morgan Stanley Capital Trust		
6.123% due 06/11/2049 ~	804	810
Motel 6 Trust		
9.206% due 08/15/2019	15,078	15,335
RBSSP Resecuritization Trust		
2.436% due 10/27/2036	3,609	814
2.456% due 08/27/2037	8,000	3,358
Residential Accredit Loans, Inc. Trust		
2.471% due 08/25/2036	1,121	1,047
2.511% due 05/25/2037 ^	339	251
6.000% due 08/25/2036 ^	724	655
6.000% due 05/25/2037 ^	2,226	2,023
Residential Asset Securitization Trust		
5.750% due 02/25/2036 ^	423	310
6.000% due 02/25/2037 ^	1,954	1,460
6.250% due 09/25/2037 ^	5,162	3,500
Residential Funding Mortgage Securities, Inc. Trust		
4.345% due 02/25/2037 ~	3,026	2,380
Structured Adjustable Rate Mortgage Loan Trust		
3.752% due 11/25/2036 ^~	4,779	4,555
3.896% due 01/25/2036 ^~	7,127	5,437
3.963% due 03/25/2037 ^~	1,011	815
4.201% due 07/25/2035 ^~	2,167	2,019
4.239% due 07/25/2036 ^~	912	734
Structured Asset Mortgage Investments Trust		
2.401% due 08/25/2036	196	188
Suntrust Adjustable Rate Mortgage Loan Trust		
3.626% due 02/25/2037 ^~	7,328	7,073
3.753% due 02/25/2037 ^~	645	582
3.792% due 04/25/2037 ^~	692	589
WaMu Mortgage Pass-Through Certificates Trust		
3.473% due 02/25/2037 ^~	1,164	1,132
3.542% due 07/25/2037 ^~	792	659
3.803% due 10/25/2036 ^~	1,680	1,545
3.888% due 07/25/2037 ^~	1,827	1,699
Washington Mutual Mortgage Pass-Through Certificates Trust		
2.786% due 05/25/2047 ^	289	78
6.000% due 10/25/2035 ^	1,687	1,317
6.000% due 03/25/2036 ^	2,318	2,347
6.000% due 02/25/2037	5,570	4,971

Total Non-Agency Mortgage-Backed Securities (Cost $240,849)			259,889
ASSET-BACKED SECURITIES 20.4%			
Adagio CLO DAC			
0.000% due 04/30/2031 ~	EUR	1,800	1,677
Airspeed Ltd.			
2.550% due 06/15/2032	$	5,091	4,897
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates			
3.631% due 03/25/2033		75	75
Apidos CLO			
0.000% due 01/20/2031 ~		8,800	7,995
Belle Haven ABS CDO Ltd.			
2.658% due 07/05/2046		324,260	1,232
BlueMountain CLO Ltd.			
7.886% due 04/13/2027		1,000	1,007
Chrysler Capital Auto Receivables Trust			
0.000% due 01/16/2023 «(h)		14	7,151
CIFC Funding Ltd.			
0.000% due 05/24/2026 ~		4,100	2,644
0.000% due 07/22/2026 ~		3,000	1,646
Citigroup Mortgage Loan Trust			
2.447% due 12/25/2036		6,731	4,460
2.681% due 11/25/2046		6,842	6,707
Cork Street CLO Designated Activity Co.			
0.000% due 11/27/2028 ~	EUR	2,667	3,162
3.600% due 11/27/2028		1,197	1,359
4.500% due 11/27/2028		1,047	1,190
6.200% due 11/27/2028		1,296	1,473
Countrywide Asset-Backed Certificates			
2.451% due 03/25/2037	$	2,970	2,873
2.481% due 06/25/2047		16,796	14,909
2.591% due 09/25/2037 ^		18,346	13,316
4.756% due 08/25/2033		307	296
Credit-Based Asset Servicing & Securitization LLC			
3.703% due 12/25/2035 ^Ø		40	40
Emerald Aviation Finance Ltd.			
6.350% due 10/15/2038 Ø		741	748
First Franklin Mortgage Loan Trust			
2.441% due 10/25/2036		4,894	3,758

Flagship Credit Auto Trust			
0.000% due 05/15/2025 «(h)		16	3,553
Fremont Home Loan Trust			
2.431% due 01/25/2037		6,850	4,010
2.601% due 02/25/2036		13,468	5,225
Glacier Funding CDO Ltd.			
2.611% due 08/04/2035		7,822	1,992
Grosvenor Place CLO BV			
0.000% due 04/30/2029 ~	EUR	750	636
Hart, Inc.			
0.010% due 12/15/2022 «	$	7,010	5,813
Home Equity Mortgage Loan Asset-Backed Trust			
2.441% due 07/25/2037		3,355	2,207
JPMorgan Mortgage Acquisition Trust			
5.830% due 07/25/2036 ^Ø		134	70
Lehman XS Trust			
6.290% due 06/24/2046 Ø		3,090	3,072
LNR CDO Ltd.			
2.575% due 02/28/2043		10,209	6,429
Long Beach Mortgage Loan Trust			
2.581% due 01/25/2036		7,376	6,702
Merrill Lynch Mortgage Investors Trust			
5.895% due 03/25/2037 Ø		7,239	2,160
Morgan Stanley ABS Capital, Inc. Trust			
2.431% due 10/25/2036		7,710	4,988
Morgan Stanley Mortgage Loan Trust			
6.250% due 07/25/2047 ^~		1,276	888
N-Star REL CDO Ltd.			
2.719% due 02/01/2041		1,100	1,091
Park Place Securities, Inc. Asset-Backed Pass-Through Certificates			
3.256% due 07/25/2035		6,000	5,635
Renaissance Home Equity Loan Trust			
5.612% due 04/25/2037 Ø		11,542	5,512
7.238% due 09/25/2037 ^Ø		9,438	5,655
Residential Asset Securities Corp. Trust			
2.861% due 08/25/2034		9,013	7,543
Securitized Asset-Backed Receivables LLC Trust			
2.561% due 03/25/2036		10,893	6,122
SLM Student Loan EDC Repackaging Trust			
0.000% due 10/28/2029 «(h)		8	7,510
SLM Student Loan Trust			
0.000% due 01/25/2042 «(h)		7	4,434
SMB Private Education Loan Trust			
0.000% due 09/18/2046 «(h)		3	3,544
0.000% due 10/15/2048 «(h)		1	1,517
SoFi Professional Loan Program LLC			
0.000% due 05/25/2040 (h)		7,500	4,050

0.000% due 07/25/2040 «(h)		38	2,263
0.000% due 09/25/2040 (h)		3,226	2,076
South Coast Funding Ltd.			
2.941% due 08/10/2038		20,015	4,005
Symphony CLO Ltd.			
7.036% due 07/14/2026		3,600	3,595
7.336% due 10/15/2025		1,400	1,402
Taberna Preferred Funding Ltd.			
2.701% due 12/05/2036		11,547	10,392
2.721% due 08/05/2036		699	634
2.721% due 08/05/2036 ^		13,534	12,282
2.741% due 02/05/2036		7,137	6,708
Tropic CDO Ltd.			
3.239% due 04/15/2034		25,000	23,000
Total Asset-Backed Securities (Cost $241,547)			249,330
SOVEREIGN ISSUES 4.3%			
Argentina Government International Bond			
2.260% due 12/31/2038 Ø	EUR	7,755	4,943
3.375% due 01/15/2023		300	285
3.875% due 01/15/2022		300	305
5.250% due 01/15/2028		200	175
6.250% due 11/09/2047		200	168
7.820% due 12/31/2033		19,140	19,652
41.328% (BADLARPP) due 10/04/2022 ~	ARS	116	5
49.933% (BADLARPP + 3.250%) due 03/01/2020 ~		2,400	73
50.575% (BADLARPP + 2.500%) due 03/11/2019 ~(a)		10,631	318
52.756% (BADLARPP + 2.000%) due 04/03/2022 ~(a)		120,904	3,479
67.491% (ARLLMONP) due 06/21/2020 ~(a)		204,319	6,896
Autonomous Community of Catalonia			
4.900% due 09/15/2021	EUR	2,650	3,231
4.950% due 02/11/2020		50	59
Ghana Government International Bond			
10.750% due 10/14/2030	$	800	963
Peru Government International Bond			
6.350% due 08/12/2028	PEN	5,500	1,691
Republic of Greece Government International Bond			
4.750% due 04/17/2019	EUR	600	691

Ukraine Government International Bond			
7.750% due 09/01/2022	$	9,800	9,549
Venezuela Government International Bond			
6.000% due 12/09/2020 ^(e)		490	123
8.250% due 10/13/2024 ^(e)		70	18
9.250% due 09/15/2027 ^(e)		598	154
Total Sovereign Issues (Cost $67,272)			52,778
		SHARES	
COMMON STOCKS 1.0%			
CONSUMER DISCRETIONARY 0.5%			
Caesars Entertainment Corp. (f)		754,964	6,485
ENERGY 0.0%			
Forbes Energy Services Ltd. (f)(l)		64,837	328
FINANCIALS 0.5%			
Ardonagh Group Ltd. «(l)		3,315,033	5,339
Total Common Stocks (Cost $14,906)			12,152
WARRANTS 0.0%			
INDUSTRIALS 0.0%			
Sequa Corp. - Exp. 04/28/2024 «		1,355,000	115
Total Warrants (Cost $0)			115
PREFERRED SECURITIES 1.7%			
INDUSTRIALS 1.7%			
Sequa Corp.			
9.000% «		28,508	21,027
Total Preferred Securities (Cost $28,169)			21,027
REAL ESTATE INVESTMENT TRUSTS 1.5%			
REAL ESTATE 1.5%			
VICI Properties, Inc.		858,541	18,536
Total Real Estate Investment Trusts (Cost $10,754)			18,536
SHORT-TERM INSTRUMENTS 5.0%			
REPURCHASE AGREEMENTS (m) 2.3%			27,574

		PRINCIPAL AMOUNT (000S)		
SHORT-TERM NOTES 0.0%				
Letras del Banco Central de la Republica Argentina				
45.000% due 11/21/2018 (i)	ARS	2,201		60
46.250% due 11/21/2018 (i)		1,377		37
				97
ARGENTINA TREASURY BILLS 0.2%				
0.275% due 12/28/2018 - 04/30/2019 (g)(h)		66,538		1,947
U.S. TREASURY BILLS 2.5%				
2.163% due 12/13/2018 - 01/24/2019 (g)(h)(p)(r)	$	30,445		30,360
Total Short-Term Instruments (Cost $59,856)				59,978
Total Investments in Securities (Cost $1,632,428)				1,637,608
Total Investments 134.1% (Cost $1,632,428)			**$**	**1,637,608**
Preferred Shares (19.5)%				**(237,950)**
Financial Derivative Instruments (o)(q) (0.9)% (Cost or Premiums, net $(20,303))				**(11,319)**
Other Assets and Liabilities, net (13.7)%				**(167,289)**
Net Assets Applicable to Common Shareholders 100.0%			**$**	**1,221,050**

Notes to Schedule of Investments:

* A zero balance may reflect actual amounts rounding to less than one thousand.

¤ The geographical classification of foreign (non-U.S.) securities in this report, if any, are classified by the country of incorporation of a holding. In certain instances, a security s country of incorporation may be different from its country of economic exposure.

^ Security is in default.

« Security valued using significant unobservable inputs (Level 3).

All or a portion of this amount represent unfunded loan commitments. The interest rate for the unfunded portion will be determined at the time of funding.

~ Variable or Floating rate security. Rate shown is the rate in effect as of period end. Certain variable rate securities are not based on a published reference rate and spread, rather are determined by the issuer or agent and are based on current market conditions. Reference rate is as of reset date, which may vary by security. These securities may not indicate a reference rate and/or spread in their description.

Rate shown is the rate in effect as of period end. The rate may be based on a fixed rate, a capped rate or a floor rate and may convert to a variable or floating rate in the future. These securities do not indicate a reference rate and spread in their description.

Ø Coupon represents a rate which changes periodically based on a predetermined schedule or event. Rate shown is the rate in effect as of period end.

(a) Interest only security.

(b) Principal only security.

(c) When-issued security.

(d) Payment in-kind security.

(e) Security is not accruing income as of the date of this report.

(f) Security did not produce income within the last twelve months.

(g) Coupon represents a weighted average yield to maturity.

(h) Zero coupon security.

(i) Coupon represents a yield to maturity.

(j) Perpetual maturity; date shown, if applicable, represents next contractual call date.

(k) Contingent convertible security.

(l) Restricted Securities:

Issuer Description	Acquisition Date	Cost	Market Value	Market Value as Percentage of Net Assets Applicable to Common Shareholders
Ardonagh Group Ltd.	04/02/2015 - 07/20/2017	$ 4,441	$ 5,339	0.44%
Forbes Energy Services Ltd.	10/09/2014 - 11/18/2016	2,472	328	0.02
		$ 6,913	$ 5,667	0.46%

Borrowings and Other Financing Transactions

(m) Repurchase Agreements:

nding ate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repu Agre at V
300%	10/31/2018	11/01/2018	$ 5,900	U.S. Treasury Bonds 2.750% - 3.375% due 11/15/2042 - 05/15/2044	$ (6,088)	$
750	10/31/2018	11/01/2018	3,774	U.S. Treasury Notes 2.375% due 04/15/2021	(3,853)	
280	10/31/2018	11/01/2018	17,900	U.S. Treasury Notes 1.875% due 01/31/2022 - 02/28/2022	(18,289)	1
e Agreements					**$ (28,230)**	**$ 2**

Reverse Repurchase Agreements:

Counterparty	Borrowing Rate [2]	Settlement Date	Maturity Date		Amount Borrowed [2]	Payable for Reverse Repurchase Agreements
BCY	0.000%	10/04/2018	TBD[3]	$	(2,241)	$ (2,241)
	0.250	10/17/2018	10/17/2020		(282)	(282)
	1.200	09/27/2018	TBD[3]		(2,482)	(2,485)
BPS	1.850	07/16/2018	TBD[3]		(1,951)	(1,960)
BRC	0.250	11/29/2017	TBD[3]		(188)	(187)
	0.250	07/26/2018	TBD[3]		(405)	(405)
	2.100	09/27/2018	TBD[3]		(128)	(128)
CIW	2.610	11/02/2018	11/30/2018		(19,244)	(19,244)
	2.650	10/05/2018	11/02/2018		(19,873)	(19,913)
FOB	2.450	10/23/2018	11/06/2018		(3,452)	(3,454)
JML	0.900	09/03/2018	12/03/2018	GBP	(8,556)	(10,953)
	0.900	10/08/2018	11/08/2018		(968)	(1,237)
JPS	2.680	10/18/2018	11/19/2018	$	(4,099)	(4,103)
RDR	2.530	09/07/2018	12/07/2018		(5,142)	(5,162)
	2.530	09/10/2018	12/10/2018		(4,468)	(4,484)
SOG	2.890	09/12/2018	12/12/2018		(4,758)	(4,777)
	2.890	09/14/2018	12/14/2018		(15,628)	(15,688)
UBS	(0.250)	10/08/2018	11/08/2018	EUR	(23,320)	(26,409)
	1.050	10/08/2018	11/08/2018	GBP	(5,496)	(7,030)
	2.530	09/13/2018	12/13/2018	$	(11,239)	(11,278)
	2.540	08/31/2018	12/03/2018		(14,762)	(14,827)
	2.740	09/10/2018	03/11/2019		(3,845)	(3,860)
	2.760	08/31/2018	12/03/2018		(11,998)	(12,055)
	2.780	08/14/2018	11/14/2018		(9,272)	(9,329)
	2.790	08/07/2018	11/07/2018		(10,736)	(10,808)
	2.860	10/05/2018	01/07/2019		(4,842)	(4,852)
Total Reverse Repurchase Agreements						**$ (197,151)**

(n) Securities with an aggregate market value of $194,198 and cash of $250 have been pledged as collateral under the terms of master agreements as of October 31, 2018.

(1) *Includes accrued interest.*

(2) *The average amount of borrowings outstanding during the period ended October 31, 2018 was $(201,971) at a weighted average interest rate of 2.031%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.*

(3) *Open maturity reverse repurchase agreement.*

(o) Financial Derivative Instruments: Exchange-Traded or Centrally Cleared Swap Agreements:

Credit Default Swaps on Corporate Issues - Sell Protection [1]

Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at October 31, 2018 [2]	Notional Amount [3]	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Market Value [4]	Variation Margin [5] Asset	Variation Margin [5] Liability
Deutsche Bank AG	1.000%	Quarterly	06/20/2019	0.698%	EUR 2,700	$ (8)	$ 17	$ 9	$ 0	$ 0
Frontier Communications Corp.	5.000	Quarterly	06/20/2020	10.700	$ 17,570	(724)	(602)	(1,326)	0	(26)
Frontier Communications Corp.	5.000	Quarterly	06/20/2022	14.925	1,000	(135)	(102)	(237)	0	0
Navient Corp.	5.000	Quarterly	06/20/2022	2.003	300	27	5	32	1	0
Novo Banco S.A.	5.000	Quarterly	09/20/2020	0.000	EUR 8,000	(2,531)	1,674	(857)	0	(179)
						$ (3,371)	$ 992	$ (2,379)	$ 1	$ (205)

Credit Default Swaps on Credit Indices - Sell Protection [1]

Index/Tranches	Fixed Receive Rate	Payment Frequency	Maturity Date	Notional Amount [3]	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Market Value [4]	Variation Margin [5] Asset	Variation Margin [5] Liability
CDX.HY-30 5-Year Index	5.000%	Quarterly	06/20/2023	$ 10,100	$ 592	$ 80	$ 672	$ 29	$ 0
CDX.HY-31 5-Year Index	5.000	Quarterly	12/20/2023	8,000	397	74	471	14	0
CDX.IG-28 5-Year Index	1.000	Quarterly	06/20/2022	1,700	27	4	31	1	0
CDX.IG-30 5-Year Index	1.000	Quarterly	06/20/2023	2,900	46	4	50	1	0
CDX.IG-31 5-Year Index	1.000	Quarterly	12/20/2023	13,800	252	(30)	222	8	0
					$ 1,314	$ 132	$ 1,446	$ 53	$ 0

Interest Rate Swaps

eceive g Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Ma Asset	Lia
e	3-Month USD-LIBOR	2.000%	Semi-Annual	06/20/2023	$ 110,000	$ 4,029	$ 868	$ 4,897	$ 193	$
	3-Month USD-LIBOR	2.750	Semi-Annual	12/19/2023	77,500	(648)	(832)	(1,480)	0	
e [6]	3-Month USD-LIBOR	2.750	Semi-Annual	12/19/2023	90,000	800	875	1,675	182	
	3-Month USD-LIBOR	2.750	Semi-Annual	06/17/2025	145,380	9,193	(11,788)	(2,595)	0	
	3-Month USD-LIBOR	2.250	Semi-Annual	06/15/2026	44,400	2,099	(4,690)	(2,591)	0	
	3-Month USD-LIBOR	2.500	Semi-Annual	12/20/2027	73,900	530	(4,329)	(3,799)	0	
	3-Month USD-LIBOR	3.500	Semi-Annual	06/19/2044	305,100	(9,953)	22,561	12,608	0	(
e	3-Month USD-LIBOR	2.500	Semi-Annual	06/20/2048	486,200	18,618	56,400	75,018	3,396	
e [6]	3-Month USD-LIBOR	3.000	Semi-Annual	12/19/2048	28,000	0	1,783	1,783	215	
	6-Month AUD-BBR-BBSW	3.500	Semi-Annual	06/17/2025	AUD 13,400	332	255	587	0	
e [6]	6-Month EUR-EURIBOR	1.250	Annual	12/19/2028	EUR 4,100	(70)	(49)	(119)	3	
e [6]	6-Month EUR-EURIBOR	1.000	Annual	03/20/2029	38,000	156	19	175	28	
e [6]	6-Month GBP-LIBOR	1.500	Semi-Annual	03/20/2029	GBP 46,600	802	(19)	783	337	
e [6]	6-Month GBP-LIBOR	1.750	Semi-Annual	03/20/2049	7,800	(48)	(17)	(65)	104	
						$ 25,840	$ 61,037	$ 86,877	$ 4,458	$ (
wap Agreements						**$ 23,783**	**$ 62,161**	**$ 85,944**	**$ 4,512**	**$ (**

(p) Securities with an aggregate market value of $3,616 and cash of $31,049 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of October 31, 2018.

[1] *If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or*

(ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) *Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.*

(3) *The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.*

(4) *The prices and resulting values for credit default swap agreements serve as indicators of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.*

(5) *Unsettled variation margin asset of $6 for closed swap agreements is outstanding at period end.*

(6) *This instrument has a forward starting effective date.*

(q) Financial Derivative Instruments: Over the Counter
Forward Foreign Currency Contracts:

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/(Depreciation) Asset	Liability
BOA	11/2018	ARS	19,418	$	527	$ 0	$ (14)
	11/2018	GBP	2,621		3,408	58	0
	11/2018	$	526	ARS	19,418	15	0
	11/2018		1,043	GBP	799	0	(21)
	01/2019	ARS	19,418	$	477	0	(16)
BPS	11/2018		15,064		410	0	(9)
	11/2018	EUR	2,139		2,487	64	0
	11/2018	$	485	ARS	19,684	60	0
	11/2018		103,488	EUR	90,898	0	(532)
	11/2018		11,999	MXN	231,978	0	(596)
	12/2018	EUR	90,898	$	103,748	534	0
	12/2018	PEN	6,366		1,912	27	0
	01/2019	$	84	ARS	3,360	1	0
BRC	11/2018		1,041		41,014	85	0
	12/2018	ARS	976	$	23	0	(2)
	12/2018	$	1,168	GBP	916	4	0
CBK	11/2018	ARS	20,534	$	483	0	(89)
	11/2018	CHF	202		206	5	0
	11/2018	$	613	ARS	23,894	53	0
	11/2018		1,382	EUR	1,203	0	(19)
	11/2018		1,498	GBP	1,174	3	0

	01/2019		681	ARS	27,852	25	0
DUB	11/2018	BRL	7,559	$	2,033	2	0
	11/2018	$	2,025	BRL	7,559	7	0
	12/2018	BRL	7,559	$	2,020	0	(5)
	12/2018	$	141	ARS	5,988	16	0
FBF	01/2019		2,073	RUB	140,330	36	0
GLM	11/2018		3,642	EUR	3,202	0	(15)
HUS	11/2018	BRL	7,559	$	1,827	0	(204)
	11/2018	$	2,033	BRL	7,559	0	(2)
	11/2018		5,297	GBP	4,025	0	(152)
	12/2018		101	ARS	4,246	9	0
JPM	11/2018	GBP	130,919	$	172,538	5,198	0
	01/2019	$	119	ARS	4,520	0	(4)
MSB	11/2018	ARS	20,625	$	483	0	(91)
	11/2018	$	560	ARS	20,626	15	0
NGF	11/2018		61		2,394	5	0
	12/2018		528		21,460	39	(4)
SCX	11/2018	AUD	206	$	149	3	0
SOG	11/2018	$	164,110	GBP	127,799	0	(758)
	12/2018	GBP	127,799	$	164,340	759	0
TOR	11/2018	EUR	89,962		106,177	4,281	0
	12/2018	$	3,638	EUR	3,202	0	(2)
UAG	11/2018		10,739	RUB	689,379	0	(291)
Total Forward Foreign Currency Contracts						**$ 11,304**	**$ (2,826)**

Swap Agreements:

Credit Default Swaps on Corporate and Sovereign Issues - Sell Protection [1]

									Swap Agreements, at Va	
Counterparty	Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at October 31, 2018 [2]	Notional Amount [3]	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Asset	Liability
BPS	Intesa Sanpaolo SpA	1.000%	Quarterly	06/20/2023	4.158%	EUR 5,000	$ (711)	$ (39)	$ 0	$ (750)
	Petrobras Global Finance BV	1.000	Quarterly	12/20/2024	3.037	$ 1,800	(352)	165	0	(187)
BRC	Intesa Sanpaolo SpA	1.000	Quarterly	06/20/2023	4.158	EUR 2,000	(289)	(11)	0	(300)
	Springleaf Finance Corp.	5.000	Quarterly	12/20/2021	1.714	$ 2,700	(40)	316	276	0
	Ukraine Government International Bond	5.000	Quarterly	12/20/2022	4.497	16,900	1,036	(638)	398	0
DUB	Petroleos Mexicanos	1.000	Quarterly	12/20/2021	1.840	100	(9)	7	0	(2)
GST	Petrobras Global Finance BV	1.000	Quarterly	09/20/2020	1.366	20	(3)	3	0	0
	Petrobras Global Finance BV	1.000	Quarterly	12/20/2024	3.037	2,400	(476)	226	0	(250)
HUS	Intesa Sanpaolo SpA	1.000	Quarterly	06/20/2023	4.158	EUR 200	(28)	(2)	0	(30)
	Petrobras Global Finance BV	1.000	Quarterly	12/20/2019	1.025	$ 500	(41)	41	0	0
	Petrobras Global Finance BV	1.000	Quarterly	09/20/2020	1.366	60	(8)	8	0	0
	Petrobras Global Finance BV	1.000	Quarterly	12/20/2024	3.037	3,000	(623)	311	0	(312)
JPM	Intesa Sanpaolo SpA	1.000	Quarterly	06/20/2023	4.158	EUR 3,000	(408)	(42)	0	(450)

	JBS Investments GmbH	1.000	Quarterly	12/20/2018	3.258	$ 15,000	(440)	411	0	(29)
	Russia Government International Bond	1.000	Quarterly	06/20/2019	0.720	28,600	(1,957)	2,041	84	0
	Russia Government International Bond	1.000	Quarterly	12/20/2020	0.993	1,300	(149)	151	2	0
	Springleaf Finance Corp.	5.000	Quarterly	06/20/2022	2.153	6,570	620	44	664	0
MYC	Novo Banco S.A.	5.000	Quarterly	09/20/2020	0.000	EUR 3,000	(28)	(294)	0	(322)
	Petrobras Global Finance BV	1.000	Quarterly	12/20/2019	1.025	$ 14,500	(1,342)	1,355	13	0
UAG	Park Aerospace Holdings Ltd. «	5.000	Quarterly	07/01/2020	1.618	1,900	111	2	113	0
							$ (5,137)	$ 4,055	$ 1,550	$ (2,632)

Credit Default Swaps on Credit Indices - Sell Protection [(1)]

								Swap Agreements, at Valu (4)	
Counterparty	Index/Tranches	Fixed Receive Rate	Payment Frequency	Maturity Date	Notional Amount [(3)]	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Asset	Liability
BRC	ABX.HE.AAA.6-2 Index	0.110%	Monthly	05/25/2046	$ 60,605	$ (12,363)	$ 7,976	$ 0	$ (4,387)
DUB	CMBX.NA.BBB-.6 Index	3.000	Monthly	05/11/2063	3,200	(195)	(248)	0	(443)
	CMBX.NA.BBB-.8 Index	3.000	Monthly	10/17/2057	4,400	(507)	163	0	(344)
	CMBX.NA.BBB-.9 Index	3.000	Monthly	09/17/2058	2,800	(351)	136	0	(215)
FBF	CMBX.NA.BBB-.10 Index	3.000	Monthly	11/17/2059	100	(11)	4	0	(7)
	CMBX.NA.BBB-.6 Index	3.000	Monthly	05/11/2063	300	(36)	(6)	0	(42)
	CMBX.NA.BBB-.7 Index	3.000	Monthly	01/17/2047	400	(36)	11	0	(25)
	CMBX.NA.BBB-.8 Index	3.000	Monthly	10/17/2057	1,300	(203)	101	0	(102)

GST	ABX.HE.AA.6-1 Index	0.320	Monthly	07/25/2045	22,714	(1,079)	(276)	0	(1,355)
	ABX.HE.AAA.6-2 Index	0.110	Monthly	05/25/2046	4,257	(901)	593	0	(308)
	CMBX.NA.A.6 Index	2.000	Monthly	05/11/2063	4,300	(219)	122	0	(97)
	CMBX.NA.BB.6 Index	5.000	Monthly	05/11/2063	2,900	(392)	(315)	0	(707)
	CMBX.NA.BBB-.6 Index	3.000	Monthly	05/11/2063	6,500	(358)	(543)	0	(901)
	CMBX.NA.BBB-.7 Index	3.000	Monthly	01/17/2047	1,100	(56)	(12)	0	(68)
	CMBX.NA.BBB-.9 Index	3.000	Monthly	09/17/2058	6,400	(797)	306	0	(491)
MEI	ABX.HE.AAA.6-2 Index	0.110	Monthly	05/25/2046	58,659	(11,770)	7,524	0	(4,246)
	CMBX.NA.BBB-.10 Index	3.000	Monthly	11/17/2059	100	(10)	3	0	(7)
MYC	ABX.HE.AAA.6-2 Index	0.110	Monthly	05/25/2046	63,859	(8,202)	3,580	0	(4,622)
	CMBX.NA.BBB-.10 Index	3.000	Monthly	11/17/2059	6,850	(731)	266	0	(465)
	CMBX.NA.BBB-.6 Index	3.000	Monthly	05/11/2063	3,250	(176)	(274)	0	(450)
	CMBX.NA.BBB-.7 Index	3.000	Monthly	01/17/2047	2,200	(97)	(40)	0	(137)
	CMBX.NA.BBB-.8 Index	3.000	Monthly	10/17/2057	1,100	(127)	41	0	(86)
	CMBX.NA.BBB-.9 Index	3.000	Monthly	09/17/2058	3,100	(381)	143	0	(238)
						$ (38,998)	$ 19,255	$ 0	$ (19,743)

Interest Rate Swaps

unterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, Asset	Liabi
B	Pay	3-Month USD-LIBOR	3.850%	Semi-Annual	07/13/2022	$ 600,000	$ 67	$ 184	$ 251	$
C	Pay	3-Month USD-LIBOR	3.140	Semi-Annual	12/07/2023	200,000	0	(402)	0	(4
							$ 67	$ (218)	$ 251	$ (4

Total Return Swaps on Interest Rate Indices

ve (5)	Underlying Reference	# of Units	Financing Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)	Swa A
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	06/20/2019	$ 900	$ (4)	$ (5)	$
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	12/20/2018	900	(5)	(10)	
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	03/20/2019	800	(4)	(6)	
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	12/20/2018	300	(2)	(2)	
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	03/20/2019	400	(1)	(1)	
	iBoxx USD Liquid High Yield Index	N/A	3-Month USD-LIBOR plus a specified spread	Maturity	06/20/2019	400	(2)	(1)	
							$ (18)	$ (25)	$
							$ (44,086)	**$ 23,067**	**$**

(r) Securities with an aggregate market value of $20,891 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of October 31, 2018.

(1) *If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.*

(2) *Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.*

(3) *The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.*

(4) *The prices and resulting values for credit default swap agreements serve as indicators of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.*

(5) *Receive represents that the Fund receives payments for any positive net return on the underlying reference. The Fund makes payments for any negative net return on such underlying reference. Pay represents that the Fund receives payments for any negative net return on the underlying reference. The Fund makes payments for any positive net return on such underlying reference.*

Fair Value Measurements

The following is a summary of the fair valuations according to the inputs used as of October 31, 2018 in valuing the Fund s assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 10/31/2018
Investments in Securities, at Value				
Loan Participations and Assignments	$ 0	$ 69,182	$ 15,658	$ 84,840
Corporate Bonds & Notes				
Banking & Finance	0	387,926	0	387,926
Industrials	0	300,382	657	301,039
Utilities	0	78,292	0	78,292
Convertible Bonds & Notes				
Industrials	0	6,773	0	6,773
Municipal Bonds & Notes				
California	0	12,536	0	12,536
Illinois	0	27,436	0	27,436
Iowa	0	474	0	474
Texas	0	2,088	0	2,088
Virginia	0	1,349	0	1,349
West Virginia	0	14,655	0	14,655
U.S. Government Agencies	0	37,718	8,677	46,395
Non-Agency Mortgage-Backed Securities	0	259,889	0	259,889
Asset-Backed Securities	0	213,545	35,785	249,330
Sovereign Issues	0	52,778	0	52,778
Common Stocks				
Consumer Discretionary	6,485	0	0	6,485
Energy	328	0	0	328
Financials	0	0	5,339	5,339
Warrants				
Industrials	0	0	115	115
Preferred Securities				
Industrials	0	0	21,027	21,027
Real Estate Investment Trusts				
Real Estate	18,536	0	0	18,536
Short-Term Instruments				
Repurchase Agreements	0	27,574	0	27,574
Short-Term Notes	0	97	0	97
Argentina Treasury Bills	0	1,947	0	1,947
U.S. Treasury Bills	0	30,360	0	30,360
Total Investments	$ 25,349	$ 1,525,001	$ 87,258	$ 1,637,608
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	0	4,512	0	4,512
Over the counter	0	12,992	113	13,105
	$ 0	$ 17,504	$ 113	$ 17,617

Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	0	(3,296)	0	(3,296)
Over the counter	0	(25,646)	0	(25,646)
	$ 0	$ (28,942)	$ 0	$ (28,942)
Total Financial Derivative Instruments	$ 0	$ (11,438)	$ 113	$ (11,325)
Totals	$ 25,349	$ 1,513,563	$ 87,371	$ 1,626,283

There were no significant transfers among Levels 1 and 2 during the period ended October 31, 2018.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the period ended October 31, 2018:

Category and Subcategory	Beginning Balance at 07/31/2018	Net Purchases [1]	Net Sales [1]	Accrued Discounts/(Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/(Depreciation) [2]	Transfers into Level 3	Transfers out of Level 3	Ending Balance at 10/31/2018	Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at 10/31/2018 [2]
Investments in Securities, at Value										
Loan Participations and Assignments	$ 13,878	$ 50	$ (1,087)	$ (5)	$ 2	$ (59)	$ 2,879	$ 0	$ 15,658	$ (57)
Corporate Bonds & Notes										
Industrials	1,701	0	(2)	2	0	(27)	0	(1,017)	657	(23)
U.S. Government Agencies	8,706	0	(32)	47	12	(56)	0	0	8,677	(57)
Asset-Backed Securities	28,531	15,916	0	40	0	(2,576)	0	(6,126)	35,785	(2,387)
Common Stocks										
Financials	5,221	0	0	0	0	118	0	0	5,339	118
Warrants										
Industrials	340	0	0	0	0	(225)	0	0	115	(225)
Preferred Securities										
Industrials	25,299	358	0	0	0	(4,630)	0	0	21,027	(4,630)
	$ 83,676	$ 16,324	$ (1,121)	$ 84	$ 14	$ (7,455)	$ 2,879	$ (7,143)	$ 87,258	$ (7,261)

Financial Derivative Instruments - Assets

Over the counter	$ 80	$ 0	$ 0	$ 0	$ 0	$ 33	$ 0	$ 0	$ 113	$ 33
Totals	$ 83,756	$ 16,324	$ (1,121)	$ 84	$ 14	$ (7,422)	$ 2,879	$ (7,143)	$ 87,371	$ (7,228)

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory		Ending Balance at 10/31/2018	Valuation Technique	Unobservable Inputs		Input Value(s) (% Unless Noted Otherwise)
Investments in Securities, at Value						
Loan Participations and Assignments	$	5,421	Proxy Pricing	Base Price		97.000 - 98.129
		10,237	Third Party Vendor	Broker Quote		40.000 - 105.250
Corporate Bonds & Notes						
Industrials		657	Reference Instrument	Yield		10.890
U.S. Government Agencies		8,677	Proxy Pricing	Base Price		60.160
Asset-Backed Securities		35,785	Proxy Pricing	Base Price		82.823 - 131,400.000
Common Stocks						
Financials		5,339	Other Valuation Techniques [3]			
Warrants						
Industrials		115	Other Valuation Techniques [3]			
Preferred Securities						
Industrials		21,027	Fundamental Valuation	Company Assets	$	438,000,000.000
Financial Derivative Instruments - Assets						
Over the counter		113	Indicative Market Quotation	Broker Quote		5.341
Total	$	87,371				

[1] *Net Purchases and Sales for Financial Derivative Instruments may include payments made or received upon entering into swap agreements to compensate for differences between the stated terms of the swap agreement and prevailing market conditions.*

[2] *Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at October 31, 2018 may be due to an investment no longer held or categorized as Level 3 at period end.*

[3] *Includes valuation techniques not defined in the Notes to Schedule of Investments as securities valued using such techniques are not considered significant to the Fund.*

See Accompanying Notes

Notes to Financial Statements

1. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The net asset value (NAV) of the Fund s shares is determined by dividing the total value of portfolio investments and other assets attributable to the Fund less any liabilities by the total number of shares outstanding of the Fund.

On each day that the New York Stock Exchange (NYSE) is open, Fund shares are ordinarily valued as of the close of regular trading (NYSE Close). Information that becomes known to the Fund or its agents after the time as of which NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. The Fund reserves the right to change the time as of which its NAV is calculated if the Fund closes earlier, or as permitted by the U.S. Securities and Exchange Commission (the SEC).

For purposes of calculating a NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from established market makers or prices (including evaluated prices) supplied by the Funds approved pricing services, quotation reporting systems and other third-party sources (together, Pricing Services). The Fund will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. If market value pricing is used, a foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by Pacific Investment Management Company LLC (PIMCO or the Manager) to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services. The Fund s investments in open-end management investment companies, other than exchange-traded funds (ETFs), are valued at the NAVs of such investments.

If a foreign (non-U.S.) equity security s value has materially changed after the close of the security s primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees (the Board). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Fund may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Fund may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Fund may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. For these purposes, any movement in the applicable reference index or instrument (zero trigger) relating to the non-U.S security being fair valued between the earlier close of the applicable foreign market and the NYSE Close may be deemed to be a significant event, prompting the application of the pricing model (effectively resulting in daily fair valuations). Foreign exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for

business, which may result in the Fund s portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. As a result, the value of such investments and, in turn, the NAV of the Fund s shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of investments traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the Fund is not open for business. As a result, to the extent that the Fund holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Fund s next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board (Valuation Oversight Committee), generally based on recommendations provided by the Manager. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, indicative market quotations (Broker Quotes), Pricing Services prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Fund s securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Manager the responsibility for monitoring significant events that may materially affect the values of the Fund s securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Fund uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation may require subjective determinations about the value of a security. While the Fund s policy is intended to result in a calculation of the Fund s NAV that fairly reflects security values as of the time of pricing, the Fund cannot ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that the Fund could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Fund may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP describes fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks

associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

Level 1 Quoted prices in active markets or exchanges for identical assets and liabilities.

Level 2 Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

Level 3 Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets or liabilities categorized as Level 2 or 3 as of period end have been transferred between Levels 2 and 3 since the prior period due to changes in the method utilized in valuing the investments. Transfers from Level 2 to Level 3 are a result of a change, in the normal course of business, from the use of methods used by Pricing Services (Level 2) to the use of a Broker Quote or valuation technique which utilizes significant unobservable inputs due to an absence of current or reliable market-based data (Level 3). Transfers from Level 3 to Level 2 are a result of the availability of current and reliable market-based data provided by Pricing Services or other valuation techniques which utilize significant observable inputs. In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers into and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Fund.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers into and out of the Level 3 category during the period. The end of period value is used for the transfers between Levels of the Fund s assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Fund.

(c) Valuation Techniques and the Fair Value Hierarchy

Level 1 and Level 2 trading assets and trading liabilities, at fair value The valuation methods (or techniques) and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buyback transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using Pricing Services that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts and options contracts derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate (OIS), London Interbank Offered Rate (LIBOR) forward rate, interest rates, yield curves and credit spreads. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and liabilities categorized as Level 3 of the fair value hierarchy are as follows:

Proxy pricing procedures set the base price of a fixed income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Oversight Committee. Significant changes in the unobservable inputs of the proxy pricing process (the base price) would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy.

If third-party evaluated vendor pricing is not available or not deemed to be indicative of fair value, the Manager may elect to obtain Broker Quotes directly from the broker-dealer or passed through from a third-party vendor. In the event that fair value is based upon a single sourced Broker Quote, these securities are categorized as Level 3 of the fair value hierarchy. Broker Quotes are typically received from established market participants. Although independently received, the Manager does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the Broker Quote would have direct and proportional changes in the fair value of the security.

Reference instrument valuation estimates fair value by utilizing the correlation of the security to one or more broad-based securities, market indices, and/or other financial instruments, whose pricing information is readily available. Unobservable inputs may include those used in algorithm formulas based on percentage change in the reference instruments and/or weights of each reference instrument. Significant changes in the unobservable inputs would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy.

Fundamental analysis valuation estimates fair value by using an internal model that utilizes financial statements of the non-public underlying company. Significant changes in the unobservable inputs would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

2. FEDERAL INCOME TAX MATTERS

The Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the Code) and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

The Fund may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Manager has reviewed the Fund s tax positions for all open tax years. As of October 31, 2018, the Fund has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Fund files U.S. federal, state, and local tax returns as required. The Fund s tax returns are subject to examination by relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

Glossary: (abbreviations that may be used in the preceding statements) (Unaudited)

Counterparty Abbreviations:

BCY	Barclays Capital, Inc.	FICC	Fixed Income Clearing Corporation	MSB	Morgan Stanley Bank, N.A
BOA	Bank of America N.A.	FOB	Credit Suisse Securities (USA) LLC	MYC	Morgan Stanley Capital Services, Inc.
BOS	Banc of America Securities LLC	GLM	Goldman Sachs Bank USA	NGF	Nomura Global Financial Products, Inc.
BPS	BNP Paribas S.A.	GST	Goldman Sachs International	RDR	RBC Capital Markets LLC
BRC	Barclays Bank PLC	HUS	HSBC Bank USA N.A.	SCX	Standard Chartered Bank
CBK	Citibank N.A.	JML	JP Morgan Securities Plc	SOG	Societe Generale
CIW	CIBC World Markets Corp.	JPM	JP Morgan Chase Bank N.A.	TOR	Toronto Dominion Bank
DUB	Deutsche Bank AG	JPS	JP Morgan Securities, Inc.	UAG	UBS AG Stamford
FBF	Credit Suisse International	MEI	Merrill Lynch International	UBS	UBS Securities LLC

Currency Abbreviations:

ARS	Argentine Peso	EUR	Euro	PEN	Peruvian New Sol
AUD	Australian Dollar	GBP	British Pound	RUB	Russian Ruble
BRL	Brazilian Real	MXN	Mexican Peso	USD (or $)	United States Dollar
CHF	Swiss Franc				

Index/Spread Abbreviations:

ABX.HE	Asset-Backed Securities Index - Home Equity	CDX.HY	Credit Derivatives Index - High Yield	EUR003M	3 Month EUR Swap Rate
ARLLMONP	Argentina Blended Policy Rate	CDX.IG	Credit Derivatives Index - Investment Grade	LIBOR03M	3 Month USD-LIBOR
BADLARPP	Argentina Badlar Floating Rate Notes	CMBX	Commercial Mortgage-Backed Index	US0003M	3 Month USD Swap Rate
BP0003M	3 Month GBP-LIBOR				

Other Abbreviations:

ABS	Asset-Backed Security	CDO	Collateralized Debt Obligation	PIK	Payment-in-Kind
ALT	Alternate Loan Trust	CLO	Collateralized Loan Obligation	TBA	To-Be-Announced
BABs	Build America Bonds	DAC	Designated Activity Company	TBD	To-Be-Determined
BBR	Bank Bill Rate	EURIBOR	Euro Interbank Offered Rate	TBD%	Interest rate to be determined when loan settles
BBSW	Bank Bill Swap Reference Rate	LIBOR	London Interbank Offered Rate		

Item 2. Controls and Procedures

(a) The principal executive officer and principal financial & accounting officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this report.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 3. Exhibits

A separate certification for each principal executive officer and principal financial & accounting officer of the registrant as required by Rule 30a-2 under the 1940 Act is attached as Exhibit 99.CERT.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PIMCO Corporate & Income Opportunity Fund

By: /s/ Peter G. Strelow

Peter G. Strelow
President (Principal Executive Officer)

Date: December 21, 2018

By: /s/ Trent W. Walker

Trent W. Walker
Treasurer (Principal Financial & Accounting Officer)

Date: December 21, 2018
Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Peter G. Strelow

Peter G. Strelow
President (Principal Executive Officer)

Date: December 21, 2018

By: /s/ Trent W. Walker

Trent W. Walker
Treasurer (Principal Financial & Accounting Officer)

Date: December 21, 2018