

PPG INDUSTRIES INC  
Form 10-Q  
October 31, 2011  
Table of Contents

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

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter Ended September 30, 2011

Commission File Number 1-1687

**PPG INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of

25-0730780  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**One PPG Place, Pittsburgh, Pennsylvania**  
(Address of principal executive offices)

**15272**  
(Zip Code)

**(412) 434-3131**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of September 30, 2011, 154,422,346 shares of the Registrant's common stock, par value \$1.66-2/3 per share, were outstanding.

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**Table of Contents**

**PPG INDUSTRIES, INC. AND SUBSIDIARIES**

**INDEX**

	<b>PAGE(S)</b>
<b><u>Part I. Financial Information</u></b>	
Item 1. <u>Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Statement of Income</u>	2
<u>Condensed Consolidated Balance Sheet</u>	3
<u>Condensed Consolidated Statement of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5-34
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35-45
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	46
<b><u>Part II. Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	47-48
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48-49
Item 6. <u>Exhibits</u>	49
<b><u>Signature</u></b>	50

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PPG INDUSTRIES, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Income (Unaudited)**

(Millions, except per share amounts)

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 3,849	\$ 3,460	\$ 11,368	\$ 10,044
Cost of sales, exclusive of depreciation and amortization	2,353	2,108	6,897	6,128
Selling, general and administrative	806	739	2,432	2,211
Depreciation	86	86	260	260
Amortization (Note 6)	30	30	92	92
Research and development	108	97	321	290
Interest expense	51	46	159	137
Interest income	(11)	(9)	(32)	(25)
Asbestos settlement net (Note 18)	3	3	9	9
Other charges	14	28	60	65
Other earnings	(53)	(54)	(143)	(127)
Income before income taxes	462	386	1,313	1,004
Income tax expense (Note 10)	120	94	340	352
Net income attributable to the controlling and noncontrolling interests	342	292	973	652
Less: net income attributable to noncontrolling interests	(31)	(30)	(94)	(88)
Net income (attributable to PPG)	\$ 311	\$ 262	\$ 879	\$ 564
Earnings per common share (Note 9)	\$ 1.98	\$ 1.59	\$ 5.55	\$ 3.41
Earnings per common share assuming dilution (Note 9)	\$ 1.96	\$ 1.58	\$ 5.48	\$ 3.39
Dividends per common share	\$ 0.57	\$ 0.55	\$ 1.69	\$ 1.63

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

**Table of Contents****PPG INDUSTRIES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheet (Unaudited)**

(Millions)

	Sept. 30, 2011	Dec. 31, 2010
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 1,301	\$ 1,341
Short-term investments	37	637
Receivables (less allowance for doubtful accounts of \$88 and \$91)	3,088	2,778
Inventories (Note 5)	1,737	1,573
Other	777	729
<b>Total current assets</b>	<b>6,940</b>	<b>7,058</b>
Property (net of accumulated depreciation of \$5,868 and \$5,729)	2,669	2,686
Investments	400	550
Goodwill (Note 6)	2,698	2,719
Identifiable intangible assets - net (Note 6)	1,174	1,268
Other assets	662	694
<b>Total</b>	<b>\$ 14,543</b>	<b>\$ 14,975</b>
<b><u>Liabilities and Shareholders' Equity</u></b>		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 7)	\$ 102	\$ 28
Asbestos settlement (Note 18)	575	578
Accounts payable and accrued liabilities	3,105	3,002
Business restructuring (Note 16)	6	17
<b>Total current liabilities</b>	<b>3,788</b>	<b>3,625</b>
Long-term debt (Note 7)	3,590	4,043
Asbestos settlement (Note 18)	237	243
Deferred income taxes	286	293
Accrued pensions	672	819
Other postretirement benefits	1,156	1,151
Other liabilities	908	968
<b>Total liabilities</b>	<b>10,637</b>	<b>11,142</b>
Commitments and contingent liabilities (Note 18)		
Shareholders' equity (Note 13):		
Common stock	484	484
Additional paid-in capital	771	725
Retained earnings	9,159	8,548
Treasury stock, at cost	(5,288)	(4,708)
Accumulated other comprehensive loss	(1,464)	(1,411)
<b>Total PPG shareholders' equity</b>	<b>3,662</b>	<b>3,638</b>

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Noncontrolling interests	244	195
<b>Total shareholders equity</b>	3,906	3,833
<b>Total</b>	<b>\$ 14,543</b>	<b>\$ 14,975</b>

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

**Table of Contents****PPG INDUSTRIES, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Cash Flows (Unaudited)**

(Millions)

	<b>Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities:</b>		
Net income attributable to controlling and noncontrolling interests	\$ 973	\$ 652
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	352	352
Pension expense (Note 11)	101	121
Charge related to change in U.S. tax law (Note 10)		85
Equity affiliate earnings, net of dividends	(30)	(35)
Asbestos settlement, net of tax	6	6
Cash contributions to pension plans	(114)	(217)
Restructuring cash spending (Note 16)	(15)	(78)
Change in certain asset and liability accounts:		
Increase in receivables	(390)	(395)
Increase in inventories	(190)	(101)
Increase in other current assets	(45)	(2)
Increase in accounts payable and accrued liabilities	115	235
(Increase) decrease in noncurrent assets	(16)	8
Increase in noncurrent liabilities	8	1
Change in accrued tax and interest	40	126
Other	(18)	(60)
<b>Cash from operating activities</b>	<b>777</b>	<b>698</b>
<b>Investing activities:</b>		
Capital spending:		
Additions to property and long-term investments	(235)	(158)
Business acquisitions, net of cash balances acquired (Note 4)	(56)	(18)
Deposit of cash into escrow	(3)	(5)
Release of cash held in escrow		6
Proceeds from maturity of short-term investments	724	
Purchase of short-term investments	(125)	
Proceeds from termination of cross currency swap contracts		5
Payments on cross currency swap contracts	(10)	(9)
Collection of notes receivable (Note 16)	90	
Return of capital, equity affiliate (Note 16)	78	
Reductions of other property and investments	31	27
<b>Cash from (used for) investing activities</b>	<b>494</b>	<b>(152)</b>
<b>Financing activities:</b>		
Debt:		
Net change in borrowings with maturities of three months or less	2	(61)
Repayments of other short-term debt		(137)
Proceeds from other short-term debt	1	
Proceeds from other long-term debt	3	
Repayment of term loan (Note 7)	(400)	

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Repayment of other long-term debt	(6)	
Proceeds from termination of interest rate swaps	19	
Other financing activities:		
Issuance of treasury stock (Note 13)	70	69
Purchase of treasury stock (Note 13)	(633)	(275)
Dividends paid (Note 13)	(268)	(270)
Dividends paid on subsidiary common stock to noncontrolling interests (Note 13)	(36)	(31)
Other	(22)	11
<b>Cash used for financing activities</b>	<b>(1,270)</b>	<b>(694)</b>
Effect of currency exchange rate changes on cash and cash equivalents	(41)	21
Net decrease in cash and cash equivalents	(40)	(127)
Cash and cash equivalents, beginning of period	1,341	1,057
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,301</b>	<b>\$ 930</b>

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



**Table of Contents**

**PPG INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**1. Basis of Presentation**

The condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and subsidiaries (the Company or PPG ) as of September 30, 2011, and the results of their operations for the three and nine months ended September 30, 2011 and 2010 and their cash flows for the nine months then ended. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG's Annual Report on Form 10-K for the year ended December 31, 2010.

The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year.

**2. New Accounting Standards**

In April 2011, the Financial Accounting Standards Board ( FASB ) issued revisions to the accounting guidance related to troubled debt restructuring. This new guidance is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. PPG adopted the new requirements in the third quarter of 2011 retrospectively as of January 1, 2011; however, the adoption of this guidance did not have a material effect on its consolidated financial position as of September 30, 2011 or its consolidated results of operations or cash flows for the nine months ended September 30, 2011.

In May 2011, the FASB issued an amendment to the fair value measurement guidance and disclosure requirements that establish common U.S. Generally Accepted Accounting Principles ( GAAP ) and International Financial Reporting Standards ( IFRS ) measurement and reporting requirements. The new requirements are effective for the first interim or annual period beginning after December 15, 2011. The requirements are to be applied prospectively. PPG is currently evaluating the new requirements; however, it does not expect that the adoption of this guidance will have a material effect on its consolidated results of operations, cash flows or financial position.

In June 2011, the FASB issued an amendment to the requirements for presenting comprehensive income. The new requirements are effective for the first interim or annual period beginning after December 15, 2011. The requirements are to be applied retrospectively. The standard requires other comprehensive income to be presented in a continuous statement of comprehensive income that would combine the components of net income and other comprehensive income, or in a separate, but consecutive, statement following the statement of income. PPG will apply these new requirements in the first quarter of 2012; however, it does not expect that the adoption of this guidance will have a material effect on its consolidated results of operations, cash flows or financial position.

**3. Fair Value Measurement**

The accounting guidance on fair value measurement establishes a hierarchy with three levels of inputs used to determine fair value. Level 1 inputs are quoted prices in active markets for identical assets and liabilities, considered to be the most reliable evidence of fair value, and

**Table of Contents**

should be used whenever available. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs used for measuring the fair value of assets or liabilities.

**Assets and liabilities reported at fair value on a recurring basis:****(Millions)**

	Level 1	Level 2	Level 3	Total
<i>At September 30, 2011</i>				
Short-term investments:				
Commercial paper and restricted cash	\$	\$ 33	\$	\$ 33
Marketable equity securities	4			4
Other current assets:				
Foreign currency contracts <sup>(2)</sup>		7		7
Equity forward arrangement <sup>(1)</sup>		37		37
Interest rate swaps <sup>(1)</sup>		1		1
Investments:				
Marketable equity securities	54			54
Other assets:				
Interest rate swaps <sup>(1)</sup>		25		25
Accounts payable and accrued liabilities:				
Foreign currency contracts <sup>(1)</sup>		4		4
Natural gas swap contracts <sup>(1)</sup>		10		10
Forward starting swaps <sup>(1)</sup>		86		86
Other liabilities:				
Cross currency swaps <sup>(1)</sup>		144		144
Foreign currency contracts <sup>(1)</sup>		2		2
<i>At December 31, 2010</i>				
Short-term investments:				
Commercial paper and restricted cash	\$	\$ 632	\$	\$ 632
Marketable equity securities	5			5
Other current assets:				
Foreign currency contracts <sup>(1)</sup>		4		4
Equity forward arrangement <sup>(1)</sup>		55		55
Investments:				
Marketable equity securities	65			65
Other assets:				
Interest rate swaps <sup>(1)</sup>		20		20
Accounts payable and accrued liabilities:				
Foreign currency contracts <sup>(1)</sup>		4		4
Natural gas swap contracts <sup>(1)</sup>		28		28
Other liabilities:				
Cross currency swaps <sup>(1)</sup>		163		163
Forward starting swaps <sup>(1)</sup>		21		21
Natural gas swap contracts <sup>(1)</sup>		3		3

(1) This entire balance is designated as a hedging instrument under U.S. GAAP.

(2) All but \$1 million of this balance is designated as a hedging instrument under U.S. GAAP.

**Table of Contents****4. Acquisitions**

During the nine months ended September 30, 2011, PPG spent \$56 million on several acquisitions, including purchase price adjustments related to acquisitions that were completed prior to December 31, 2010. In May 2011, PPG acquired the assets of Equa-Chlor, Inc. for \$28 million, of which \$3 million is held in escrow. PPG assessed the fair value of the assets acquired and liabilities assumed, which consisted principally of property and operating working capital. PPG recorded a net benefit of \$9 million stemming from a bargain purchase gain of \$10 million reflecting the excess of the fair value of the net assets acquired over the price paid for the business and a \$1 million loss related to the flow-through cost of sales of the step up to fair value of acquired inventory. The gain is reported in Other earnings in the accompanying condensed consolidated statement of income for the nine months ended September 30, 2011. The remaining amounts spent on acquisitions during the nine-month period ending September 30, 2011, relate to several acquisitions in the coatings businesses including the acquisition of a South African automotive refinish distributor.

During the nine months ended September 30, 2010, PPG spent \$18 million on acquisitions (net of cash acquired of \$3 million).

**5. Inventories**

Inventories as of September 30, 2011 and December 31, 2010 are detailed below:

	Sept. 30, 2011	Dec. 31, 2010
	(Millions)	
Finished products	\$ 1,007	\$ 912
Work in process	157	136
Raw materials	458	411
Supplies	115	114
<b>Total</b>	<b>\$ 1,737</b>	<b>\$ 1,573</b>

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 33 percent of total inventories at September 30, 2011 and December 31, 2010. If the first-in, first-out method of inventory valuation had been used, inventories would have been \$230 million and \$201 million higher as of September 30, 2011 and December 31, 2010, respectively.

**6. Goodwill and Other Identifiable Intangible Assets**

The change in the carrying amount of goodwill attributable to each reportable segment for the nine months ended September 30, 2011 was as follows:

	Performance Coatings	Industrial Coatings	Architectural Coatings EMEA	Optical and Specialty Materials (Millions)	Commodity Chemicals	Glass	Total
Balance, Dec. 31, 2010	\$ 1,151	\$ 495	\$ 966	\$ 49	\$ 6	\$ 52	\$ 2,719
Acquisitions	4		1				5
Currency	(19)	(3)	(4)				(26)
Balance, September 30, 2011	\$ 1,136	\$ 492	\$ 963	\$ 49	\$ 6	\$ 52	\$ 2,698

**Table of Contents**

The carrying amount of acquired trademarks with indefinite lives as of September 30, 2011 and December 31, 2010 totaled \$321 million and \$323 million, respectively.

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

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
			(Millions)			
Acquired technology	\$ 515	\$ (301)	\$ 214	\$ 515	\$ (273)	\$ 242
Customer-related intangibles	964	(402)	562	974	(355)	619
Tradenames	117	(47)	70	120	(44)	76
Other	32	(25)	7	31	(23)	8
Balance	\$ 1,628	\$ (775)	\$ 853	\$ 1,640	\$ (695)	\$ 945