PPG INDUSTRIES INC
Form 10-Q
April 24, 2014
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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 March 31, 2014
Commission File Number 1-1687

PPG INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

(412) 434-3131
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.   Yes ý   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 ý   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	ý	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No ý
As of March 31, 2014, 138,260,149 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)
($ in millions, except per share amounts)

	Three Months Ended March 31	
	2014	2013
Net sales	$3,636	$3,108
Cost of sales, exclusive of depreciation and amortization	2,091	1,862
Selling, general and administrative	900	746
Depreciation	89	75
Amortization	30	26
Research and development, net	120	109
Interest expense	47	53
Interest income	(12)	(10)
Asbestos settlement – net	3	3
Other charges	21	25
Other income	(25)	(22)
Income before income taxes	372	241
Income tax expense	89	44
Income from continuing operations	283	197
Income from discontinued operations, net of tax	1,018	2,248
Net income attributable to the controlling and noncontrolling interests	1,301	2,445
Less: Net income attributable to noncontrolling interests	(39)	(35)
Net income (attributable to PPG)	$1,262	$2,410
Amounts attributable to PPG:		
Income from continuing operations, net of tax	$277	$191
Income from discontinued operations, net of tax	985	2,219
Net income (attributable to PPG)	$1,262	$2,410
Earnings per common share:		
Income from continuing operations, net of tax	$1.99	$1.31
Income from discontinued operations, net of tax	7.08	15.18
Net income (attributable to PPG)	$9.07	$16.49
Earnings per common share – assuming dilution:		
Income from continuing operations, net of tax	$1.97	$1.29
Income from discontinued operations, net of tax	7.00	15.02
Net income (attributable to PPG)	$8.97	$16.31
Dividends per common share	$0.61	$0.59

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Comprehensive Income (Unaudited)
($ in millions)

	Three Months Ended March 31	
	2014	2013
Net income attributable to the controlling and noncontrolling interests	$1,301	$2,445
Other comprehensive income, net of tax:		
Defined benefit pension and other postretirement benefits	11	181
Unrealized foreign currency translation adjustment	17	(131)
Net change – derivative financial instruments	3	5
Other comprehensive income, net of tax	$31	$55
Total comprehensive income	1,332	2,500
Less: amounts attributable to noncontrolling interests:		
Net income	(39)	(35)
Unrealized foreign currency translation adjustment	(1)	3
Comprehensive income attributable to PPG	$1,292	$2,468

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet (Unaudited)
($ in millions)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$2,559	$1,116
Short-term investments	480	629
Receivables (less allowance for doubtful accounts of $73 and $74)	3,016	2,736
Inventories	1,929	1,824
Deferred income taxes	433	425
Other	471	484
Total current assets	8,888	7,214
Property, plant and equipment (net of accumulated depreciation of $4,696 and $4,805)	2,724	2,876
Goodwill	2,969	3,008
Identifiable intangible assets, net	1,326	1,339
Deferred income taxes	270	491
Investments	380	393
Other assets	560	542
Total	$17,117	$15,863
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$3,712	$3,265
Asbestos settlement	769	763
Restructuring reserves	66	73
Short-term debt and current portion of long-term debt	19	34
Total current liabilities	4,566	4,135
Long-term debt	3,373	3,372
Accrued pensions	718	728
Other postretirement benefits	1,006	1,007
Asbestos settlement	249	245
Deferred income taxes	281	249
Other liabilities	835	929
Total liabilities	11,028	10,665
Commitments and contingent liabilities (Note 16)		
Shareholders' equity:		
Common stock	484	484
Additional paid-in capital	989	953
Retained earnings	13,934	12,757
Treasury stock, at cost	(8,185)	(8,002)
Accumulated other comprehensive loss	(1,230)	(1,260)
Total PPG shareholders' equity	5,992	4,932
Noncontrolling interests	97	266
Total shareholders' equity	6,089	5,198
Total	$17,117	$15,863

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows (Unaudited)
($ in millions)

	Three Months Ended March 31	
	2014	2013
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$1,301	$2,445
Less: Income from discontinued operations	(1,018)	(2,248)
Income from continuing operations	283	197
Adjustments to reconcile to cash from operations:		
Depreciation and amortization	119	101
Pension expense	18	31
Environmental remediation charge	—	12
Canadian pension settlement charge	—	18
Stock-based compensation expense	18	15
Equity affiliate losses, net of dividends	7	6
Deferred income taxes	(1)	(66)
Cash contributions to pension plans	(5)	(15)
Restructuring cash spending	(20)	(22)
Change in certain asset and liability accounts (net of acquisitions):		
Receivables	(363)	(273)
Inventories	(178)	(109)
Other current assets	(33)	(33)
Accounts payable and accrued liabilities	235	(39)
Noncurrent assets	(24)	(45)
Noncurrent liabilities	(29)	14
Taxes and interest payable	91	74
Other	12	2
Cash from (used for) operating activities - continuing operations	130	(132)
Cash from operating activities - discontinued operations	33	43
Cash from (used for) operating activities	163	(89)
Investing activities:		
Capital expenditures	(103)	(63)
Business acquisitions, net of cash balances acquired	(22)	—
Proceeds from separation and merger of commodity chemicals business, net	—	940
Proceeds from the disposition of PPG's interest in the Transitions Optical joint venture and sunlens businesses (proceeds of $1,735, net of $110 cash divested)	1,625	—
Proceeds from maturity of short-term investments	250	987
Purchase of short-term investments	(132)	(225)
Payments on cross currency swap contracts	(45)	(42)
Proceeds from cross currency swap contracts	19	19
Other	4	—
Cash from investing activities - continuing operations	1,596	1,616
Cash used for investing activities - discontinued operations	(1)	(2)
Cash from investing activities	1,595	1,614
Financing activities:		
Net change in borrowing with maturities of three months or less	(10)	6
Proceeds from the issuance of debt	2	—

Repayment of debt	(2)	(600)
Settlement of forward starting swaps	—	(1)
Purchase of treasury stock	(200)	(140)
Issuance of treasury stock	35	32
Dividends paid on PPG common stock	(85)	(84)
Other	(3)	4
Cash used for financing activities - continuing operations	(263)	(783)
Cash used for financing activities - discontinued operations	(40)	(17)
Cash used for financing activities	(303)	(800)
Effect of currency exchange rate changes on cash and cash equivalents	(12)	(10)
Net increase in cash and cash equivalents	1,443	715
Cash and cash equivalents, beginning of period	1,116	1,306
Cash and cash equivalents, end of period	$2,559	$2,021
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$53	$66
Taxes paid, net of refunds	$59	$57

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

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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 and have been prepared following the requirements of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America for interim reporting. Under these rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. 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 its subsidiaries (the “Company” or “PPG”) as of March 31, 2014, and the results of their operations for the three months ended March 31, 2014 and 2013 and their cash flows for the three months then ended. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. 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, 2013.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three months ended March 31, 2014 and the trends in these unaudited condensed consolidated financial statements may not necessarily be indicative of the results to be expected for the full year.

On March 31, 2014, PPG completed the sale to Essilor International (Compagnie Generale D'Optique) SA ("Essilor") of its 51% ownership interest in its Transitions Optical joint venture and 100% of its wholly-owned sunlens business. Essilor held a 49% interest in the venture. The Company concluded that the accounting requirements for reporting the results of operations and cash flows of these divested businesses as discontinued operations were met when all regulatory approvals were completed in March 2014. The accompanying condensed consolidated statements of income and cash flows for the three months ended March 31, 2013 and the amounts in these notes to the condensed consolidated financial statements related to 2013 have been recast to reflect the presentation of the results of operations and cash flows of the former Transitions Optical and sunlens businesses as discontinued operations. Refer to Note 4, "Discontinued Operations", for additional information regarding this transaction.

Certain prior period amounts have been reclassified to conform to the current period presentation, including the information presented for our reportable segments (See Note 17). These reclassifications had no impact on our previously reported net income, total assets, cash flows or shareholders’ equity.

2. New Accounting Standards

On April 10, 2014, the Financial Accounting Standards Board (the "FASB") issued an Accounting Standards Update ("ASU") that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The new standard is effective in annual periods beginning on or after December 15, 2014 with early adoption permitted. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. Upon adoption of the ASU, PPG will assess discontinued operations using the new criteria and may have to provide expanded disclosure for disposals; however, this ASU will not affect PPG's consolidated financial position, results of operations or cash flows.

On July 18, 2013, the FASB issued an ASU that changes how certain unrecognized tax benefits are to be presented on the consolidated balance sheet. This ASU clarified existing guidance to require that an unrecognized tax benefit or a portion thereof be presented in the consolidated balance sheet as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, similar tax loss, or a tax credit carryforward except when an NOL carryforward, similar tax loss, or tax credit carryforward is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. In such a case, the unrecognized tax benefit would be presented in the consolidated balance sheet as a liability. PPG adopted this standard in the first quarter of 2014 and it did not have a significant effect on PPG's consolidated financial position, results of operations or cash flows.

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3. Acquisitions

On March 3, 2014, PPG completed the acquisition of substantially all of the assets of Hi-Temp Coatings Technology Co., Inc., a privately-owned supplier of high-temperature-resistant and insulative coatings, based in Boxborough, Massachusetts. The acquisition enhances the product portfolio of PPG’s protective and marine coatings business, adding coatings that withstand extreme temperatures to protect both carbon steel and stainless steel substrates. The coatings are used widely in refineries, petrochemical plants, pulp and paper mills, and power plants. The purchase price of this acquisition, and the fair value of the assets and liabilities acquired, were not significant.

On April 1, 2013, PPG finalized the acquisition of the North American architectural coatings business of Akzo Nobel N.V., Amsterdam, the Netherlands ("North American architectural coatings acquisition") for $954 million, net of cash acquired of $14 million, and including a working capital adjustment. The acquisition further extends PPG’s architectural coatings business in the United States, Canada and the Caribbean. With this acquisition, PPG has expanded its reach in all three major North American architectural coatings distribution channels, including home centers, independent paint dealers and company-owned paint stores. Since April 1, 2013, the results of this acquired business have been included in the results of the architectural coatings - Americas and Asia Pacific operating segment, within the Performance Coatings reportable segment. Net sales reported by PPG from the date of acquisition from this acquired business were approximately $1.2 billion for the year ended December 31, 2013 and approximately $350 million for the three month period ended March 31, 2014. Income from this acquisition was in the mid single digit percentage return on sales for the first quarter 2014.
The following table summarizes the fair value of assets acquired and liabilities assumed as reflected in the purchase price allocation for the North American architectural coatings acquisition.

($ in millions)	
Current assets	$558
Property, plant, and equipment	184
Trademarks with indefinite lives	174
Identifiable intangible assets with finite lives	196
Goodwill	228
Other non-current assets	49
Total assets	$1,389
Current liabilities	(322)
Accrued pensions	(29)
Other post-retirement benefits	(40)
Other long-term liabilities	(44)
Total liabilities	$(435)
Total purchase price, net of cash acquired	$954

The following information reflects the net sales of PPG for the three months ended March 31, 2013 on a pro forma basis as if the North American architectural coatings acquisition had been completed on January 1, 2013.
Condensed Consolidated Pro Forma information (unaudited)

($ in millions)	Three months ended March 31, 2013
Net sales	$3,480

The pro forma impact on PPG's results of operations, including the pro forma effect of events that are directly attributable to the acquisition, was not significant. While calculating this impact, no cost savings or operating synergies that may result from the acquisition were included.

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4. Discontinued Operations

On March 31, 2014, the Company completed the sale of its 51% ownership interest in its Transitions Optical joint venture and 100% of its optical sunlens business to Essilor. PPG received cash at closing of $1.735 billion pre-tax or approximately $1.5 billion after-tax. The cash consideration is subject to certain post-closing adjustments and transaction costs. The sale of these businesses, which were previously reported in the former Optical and Specialty Materials segment, resulted in a $1,468 million pre-tax gain ($946 million after-tax) reported in discontinued operations for the quarter ended March 31, 2014. The Company recognized $522 million of tax expense on the sale, of which $262 million is deferred U.S. income tax on the foreign earnings of the sale, as PPG does not consider these earnings to be reinvested for an indefinite period of time. The pre-tax gain on this sale reflects the excess of the sum of the cash proceeds received over the net book value of the net assets of PPG's former Transitions Optical and sunlens businesses. The Company also incurred $55 million of pre-tax expense, primarily for professional services related to the sale, post-closing adjustments, costs and other contingencies under the terms of the agreements. The net gain on the sale includes these related losses and expenses.

The results of operations and cash flows of these businesses for the quarter ended March 31, 2014, and the net gain on the sale, are reported as results from discontinued operations for the quarter ending March 31, 2014. In prior periods presented, the results of operations and cash flows of these businesses were reclassified from continuing operations and presented as results from discontinued operations.

Essilor has also entered into multi-year agreements with PPG for the continued supply of photochromic materials and for research and development services for a period of 5 years, subject to renewal. PPG considered the significance of the revenues associated with the agreements compared to total operating revenues of the disposed businesses and determined that they were not significant.

Net sales and earnings from discontinued operations related to the Transitions Optical and sunlens transaction are presented in the table below for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31	
($ in millions)	2014	2013
Net sales	$247	$231
Income from operations	$104	$77
Net gain from divestiture of the Transitions Optical and sunlens businesses	1,468	—
Income tax expense	(554)	(20)
Income from discontinued operations, net of tax	$1,018	$57
Less: Net income attributable to non-controlling interests, discontinued operations	(33)	(29)
Net income from discontinued operations (attributable to PPG)	$985	$28

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The major classes of assets and liabilities of the Transitions Optical and sunlens businesses included in the PPG balance sheet at December 31, 2013 were as follows:

($ in millions)	December 31, 2013
Cash	$154
Receivables	225
Inventory	68
Other current assets	13
Property, plant, and equipment	158
Goodwill	47
Other non-current assets	3
Total assets	$668
Accounts payable and accrued liabilities	(199)
Short-term debt and current portion of long-term debt	(24)
Accrued pensions	(1)
Other long-term liabilities	(10)
Noncontrolling interests	$(167)
Net assets	$267

On January 28, 2013, the Company completed the previously announced separation of its commodity chemicals business and merger of its wholly-owned subsidiary, Eagle Spinco Inc., with a subsidiary of Georgia Gulf Corporation in a tax efficient Reverse Morris Trust transaction (the “Transaction”). Pursuant to the merger, Eagle Spinco, the entity holding PPG's former commodity chemicals business, became a wholly-owned subsidiary of Georgia Gulf. The closing of the merger followed the expiration of the related exchange offer and the satisfaction of certain other conditions. The combined company formed by uniting Georgia Gulf with PPG's former commodity chemicals business is now named Axiall Corporation (“Axiall”). PPG holds no ownership interest in Axiall. PPG received the necessary ruling from the Internal Revenue Service and as a result this Transaction was generally tax free to PPG and its shareholders.

Under the terms of the exchange offer, 35,249,104 shares of Eagle Spinco common stock were available for distribution in exchange for shares of PPG common stock accepted in the offer. Following the merger, each share of Eagle Spinco common stock automatically converted into the right to receive one share of Axiall Corporation common stock. Accordingly, PPG shareholders who tendered their shares of PPG common stock as part of this offer received 3.2562 shares of Axiall common stock for each share of PPG common stock accepted for exchange. PPG was able to accept the maximum of 10,825,227 shares of PPG common stock for exchange in the offer, and thereby, reduced its outstanding shares by approximately 7%. The completion of this exchange offer was a non-cash financing transaction, which resulted in an increase in "Treasury stock" at a cost of $1.562 billion based on the PPG closing stock price on January 25, 2013.

Under the terms of the Transaction, PPG received $900 million of cash and 35.2 million shares of Axiall common stock (market value of $1.8 billion on January 25, 2013) which was distributed to PPG shareholders by the exchange offer as described above. In addition, PPG received $67 million in cash for a preliminary post-closing working capital adjustment under the terms of the Transaction agreements. The net assets transferred to Axiall included $27 million of cash on the books of the business transferred. In the Transaction, PPG transferred environmental remediation liabilities, defined benefit pension plan assets and liabilities and other post-employment benefit liabilities related to the commodity chemicals business to Axiall.

During the first quarter of 2013, PPG recorded a gain of $2.2 billion on the Transaction reflecting the excess of the sum of the cash proceeds received and the cost (closing stock price on January 25, 2013) of the PPG shares tendered and accepted in the exchange for the 35.2 million shares of Axiall common stock over the net book value of the net assets of PPG's former commodity chemicals business. The Transaction resulted in a net partial settlement loss of $33 million associated with the spin out and termination of defined benefit pension liabilities and the transfer of other post-retirement benefit liabilities under the terms of the Transaction. The Company also incurred $14 million of pre-tax expense, primarily for professional services related to the Transaction during the first quarter 2013 as well as

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approximately $2 million of net expense related to certain retained obligations and post closing adjustments under the terms of the Transaction agreements. The net gain on the Transaction includes these related losses and expenses.
The results of operations and cash flows of PPG's former commodity chemicals business for January 2013 and the net gain on the Transaction are reported as results from discontinued operations for the quarter ended March 31, 2013.
PPG will continue to provide Axiall with certain transition services for up to 24 months following the closing date of the Transaction. These services include logistics, purchasing, finance, information technology, human resources, tax and payroll processing.
Net sales and earnings from discontinued operations are presented in the table below for the three months ended March 31, 2013:

	Three Months Ended March 31	
($ in millions)	2013	
Net sales	$108	
Income from operations	$—	
Net gain from separation and merger of commodity chemicals business	2,192	
Income tax expense	(1	)
Income from discontinued operations, net of tax	$2,191	
Less: Net income attributable to non-controlling interests, discontinued operations	—	
Net income from discontinued operations (attributable to PPG)	$2,191	

5. Inventories
Inventories include:

	March 31, 2014	December 31, 2013
($ in millions)		
Finished products	$1,245	$1,156
Work in process	168	160
Raw materials	454	440
Supplies	62	68
Total	$1,929	$1,824

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 38% of total inventories at March 31, 2014 and December 31, 2013. If the first-in, first-out method of inventory valuation had been used, inventories would have been $186 million and $195 million higher as of March 31, 2014 and December 31, 2013, respectively.

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6. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the three months ended March 31, 2014 was as follows:

($ in millions)	Performance Coatings	Industrial Coatings	Glass	Total
Balance, December 31, 2013	$2,381	$575	$52	$3,008
Acquisitions	3	—	—	3
Divestitures	—	(47)	—	(47)
Currency	4	(2)	3	5
Balance, March 31, 2014	$2,388	$526	$55	$2,969

The carrying amount of acquired trademarks with indefinite lives as of March 31, 2014 and December 31, 2013 totaled $498 million and $499 million, respectively.

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

	March 31, 2014			December 31, 2013		
($ in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired technology	$527	$(379)	$148	$522	$(372)	$150
Customer-related intangibles	1,172	(565)	607	1,177	(557)	620
Trade names	127	(61)	66	127	(61)	66
Other	31	(24)	7	30	(26)	4
Balance	$1,857	$(1,029)	$828	$1,856	$(1,016)	$840

Aggregate amortization expense related to these identifiable intangible assets for the three months ended March 31, 2014 and 2013 was $30 million and $26 million, respectively. As of March 31, 2014, estimated future amortization expense of identifiable intangible assets is as follows: $90 million for the remaining nine months of 2014 and approximately $120 million in 2015, $100 million in 2016, and $90 million in 2017, 2018 and 2019, respectively.

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7. Business Restructuring

The Company records restructuring liabilities that represent charges incurred in connection with consolidations of certain operations, including operations from acquisitions, as well as headcount reduction programs. These charges consist primarily of severance and asset write-downs. The following table summarizes the 2013 restructuring charge and the reserve activity since inception and through the quarter ended March 31, 2014:

($ in millions, except no. of employees)	Severance and Other Costs	Asset Write-offs	Total Reserve	Employees Impacted
Performance Coatings	$74	$5	$79	1,253
Industrial Coatings	14	—	14	165
Glass	4	—	4	14
Corporate	1	—	1	4
Total third quarter 2013 restructuring charge	$93	$5	$98	1,436
2013 activity	(27)	(5)	(32)	(645)
Foreign currency impact	4	—	4	—
Balance as of December 31, 2013	$70	$—	$70	791
2014 activity to date	(15)	—	(15)	(147)
Foreign currency impact	1	—	1	—
Balance as of March 31, 2014	$56	$—	$56	644

All actions in the 2013 restructuring plan are expected to be completed by the end of 2015. At March 31, 2014 and December 31, 2013 there was a remaining reserve of $10 million and $15 million, respectively, related to the 2012 restructuring plan. All remaining accrued amounts for the 2012 restructuring plan are expected to be paid prior to December 31, 2014.

8. Earnings Per Common Share

The following table presents the effect of dilutive securities on the weighted average common shares outstanding included in the calculation of earnings per common share for the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31	
($ in millions, except per share amounts)	2014	2013
Weighted average common shares outstanding	139.1	146.1
Effect of dilutive securities:		
Stock options	0.8	0.9
Other stock compensation plans	0.8	0.7
Potentially dilutive common shares	1.6	1.6
Adjusted weighted average common shares outstanding	140.7	147.7

There were no antidilutive outstanding stock options for the three month periods ended March 31, 2014 and 2013.

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9. Income Taxes

	Three Months Ended March 31,	
	2014	2013
Effective tax rate	24%	18%

The effective tax rate on pre-tax income from continuing operations for the three months ended March 31, 2014 was approximately 24% compared to an effective tax rate of approximately 18% for the first three months of 2013. The effective tax rate on pre-tax income from continuing operations for the three months ended March 31, 2014 includes tax benefits of $1 million on certain acquisition-related costs.

The effective tax rate on pre-tax earnings from continuing operations for the quarter ended March 31, 2013 included tax benefits of $4 million for estimated environmental remediation costs; $5 million for the settlement loss related to certain legacy pension plans; and $1 million for acquisition-related costs. The quarter also included an after-tax benefit of $10 million for the retroactive impact of U.S. tax law changes that were enacted in early 2013.

The effective tax rate for each period presented is lower than the U.S. federal statutory rate primarily due to earnings in foreign jurisdictions which are taxed at rates lower than the U.S. statutory rate, the U.S. tax benefit on foreign dividends paid and the impact of certain U.S. tax incentives.

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 2006. Additionally, the Internal Revenue Service ("IRS") has completed its examination of the Company's U.S. federal income tax returns filed for years through 2011. The IRS is currently conducting its examination of the Company's U.S. federal income tax return for 2012.

10. Pensions and Other Postretirement Benefits

Net periodic benefit cost is included in "Cost of sales, exclusive of depreciation and amortization", "Selling, general and administrative" and "Research and development" in the accompanying condensed consolidated statement of income. The net periodic benefit costs for the three months ended March 31, 2014 and 2013 were as follows:

	Pensions		Other Postretirement Benefits	
	Three Months Ended March 31		Three Months Ended March 31	
	2014	2013	2014	2013
($ in millions)				
Service cost	$13	$15	$ 4	$ 5
Interest cost	59	52	12	12
Expected return on plan assets	(74)	(64)	—	—
Amortization of prior service credit	—	—	(2)	(2)
Amortization of actuarial losses	20	28	4	7
Settlement losses	—	18	—	—
Net periodic pension cost	$18	$49	$ 18	$ 22

PPG does not have a mandatory contribution to make to its U.S. defined benefit pension plans in 2014. PPG expects to make mandatory contributions to its non-U.S. plans in the range of $10 million to $25 million in 2014, of which $5 million was made as of March 31, 2014. PPG expects the net periodic benefit cost for the full year 2014 for pension and other postretirement benefits to be approximately $73 million and $72 million, respectively.

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Separation and Merger

On January 28, 2013, PPG completed the separation of its commodity chemicals business and the merger of the subsidiary holding the PPG commodity chemicals business with a subsidiary of Georgia Gulf (see Note 4). PPG transferred the defined benefit pension plan and other postretirement benefit liabilities for the affected employees in the U.S., Canada, and Taiwan resulting in a net partial settlement loss of $33 million that was recorded in the first quarter of 2013 in "Income from discontinued operations". This transaction lowered the projected benefit obligation of PPG's defined benefit pension plans by approximately $550 million and the accumulated benefit obligation of the other postretirement benefit plans by approximately $165 million. PPG has transferred to Axiall pension assets of $421 million and expects to transfer an additional $75 million upon the completion of the calculation of the total amount required to be transferred under ERISA.

Legacy Canadian settlement charges

As part of a restructuring plan announced by PPG in September 2008, PPG closed its glass manufacturing facility in Owen Sound, Ont., Canada. Under Canadian pension regulations, this plant closure resulted in a full windup of the pension plan for the former hourly employees of this plant. The settlement charge is recorded following the approval of the windup by the Canadian pension authorities and when all of the related cash contributions are completed. Cash contributions are made to plans based on estimated cash requirements and must be completed by the end of the five year period from the effective date of the windup. The full windup of the Owen Sound plan was previously approved by the Canadian pension authorities and the Company made the final contributions to this plan in the first quarter of 2013. As a result, the Company recorded a settlement charge in the amount of $16 million related to the net unrecognized actuarial losses associated with the pension plan. There will be additional windup charges of $55-$70 million related to this plant closure, another Canadian location closed by PPG in 2009, and Canadian plant closures for which PPG has retained certain liabilities for pension and post-employment benefits which are expected to be incurred in 2015 and 2016. The cash contributions related to these windups is expected to total $10-$20 million from 2014 to 2016.

11. Shareholders' Equity

The following tables present the change in total shareholders' equity for the three months ended March 31, 2014 and 2013, respectively:

($ in millions)	Total PPG Shareholders' Equity	Non-controlling Interests	Total
Balance, January 1, 2014	$4,932	$266	$5,198
Net income	1,262	39	1,301
Other comprehensive income, net of tax	30	1	31
Cash dividends	(85)	—	(85)
Issuance of treasury stock	46	—	46
Stock repurchase program	(200)	—	(200)
Stock-based compensation activity	7	—	7
Reduction in non-controlling interests (Note 4)	—	(169)	(169)
Distribution to noncontrolling interests	—	(40)	(40)
Balance, March 31, 2014	$5,992	$97	$6,089

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($ in millions)	Total PPG Shareholders' Equity	Non-controlling Interests	Total
Balance, January 1, 2013	$4,063	$259	$4,322
Net income	2,410	35	2,445
Other comprehensive income, net of tax	58	(3)	55
Cash dividends	(84)	—	(84)
Issuance of treasury stock	44	—	44
Stock repurchase program	(140)	—	(140)
Stock-based compensation activity	(2)	—	(2)
Increase in treasury stock (Note 4)	(1,562)	—	(1,562)
Reduction in noncontrolling interests (Note 4)	—	(19)	(19)
Distribution to noncontrolling interests	—	(18)	(18)
Balance, March 31, 2013	$4,787	$254	$5,041

12. Accumulated Other Comprehensive Loss

($ in millions)	Unrealized Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments, net of tax	Unrealized Gain (Loss) on Derivatives, net of tax	Accumulated Other Comprehensive (Loss) Income
Balance, January 1, 2013	$6	$(1,597)	$(75)	$(1,666)
Current year deferrals to AOCI	36	—	—	36
Current year deferrals to AOCI, tax effected	(80)	330	19	269
Separation & Merger Transaction	—	33	4	37
Reclassifications from AOCI to net income	—	77	(13)	64
Net change	(44)	440	10	406
Balance, December 31, 2013	$(38)	$(1,157)	$(65)	$(1,260)
Current year deferrals to AOCI	(17) (a)	—	—	(17)
Current year deferrals to AOCI, tax effected	33 (b)	(4) (c)	4 (d)	33
Reclassifications from AOCI to net income	—	15 (c)	(1) (d)	14
Net change	16	11	3	30
Balance, March 31, 2014	$(22)	$(1,146)	$(62)	$(1,230)

(a) - Unrealized foreign currency translation adjustments related to translation of foreign denominated balance sheets are not presented net of tax given that no deferred U.S. income taxes have been provided on the undistributed earnings of non-U.S. subsidiaries because they are deemed to be reinvested for an indefinite period of time.
(b) - The tax benefit related to unrealized foreign currency translation adjustments on tax inter-branch transactions and net investment hedges for the period ended March 31, 2014 was $40 million.
(c) - The tax cost related to the adjustment for pension and other postretirement benefits for the period ended March 31, 2014 was insignificant. Reclassifications from AOCI are included in the computation of net periodic pension cost (See Note 10, "Pension and Other Postretirement Benefits").
(d) - The tax cost related to the change in the unrealized gain on derivatives for the period ended March 31, 2014 was insignificant. Reclassifications from AOCI are included in the gain or loss recognized on cash flow hedges (See Note 14, "Financial Instruments and Hedging Activities").

13. Fair Value Measurement

The Company follows a fair value measurement hierarchy to measure its assets and liabilities. The Company's financial assets and liabilities are measured using inputs from the following three levels.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Level 1 inputs are considered to be the most reliable evidence

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of fair value as they are based on unadjusted quoted market prices from various financial information service providers and securities exchanges.

Level 2 inputs are directly or indirectly observable prices that are not quoted on active exchanges, which include quoted prices for similar assets and liabilities in active markets, 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 asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. The fair values of these derivative instruments reflect the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward curves.

Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities. The Company does not have any recurring financial assets or liabilities that are recorded in its consolidated balance sheets as of March 31, 2014 and December 31, 2013 that are classified as Level 3 inputs.

Included in PPG's financial instrument portfolio are cash and cash equivalents, short-term investments, cash held in escrow, marketable equity securities, company-owned life insurance and short and long-term debt instruments. The fair values of these financial instruments approximated their carrying values at March 31, 2014 and December 31, 2013, in the aggregate, except for long-term debt.

Long-term debt (excluding capital lease obligations) had carrying and fair values totaling $3,344 million and $3,726 million, respectively, as of March 31, 2014. Long-term debt (excluding capital lease obligations) had carrying and fair values totaling $3,346 million and $3,683 million, respectively, as of December 31, 2013. The fair values of the debt instruments were based on discounted cash flows and interest rates then currently available to the Company for instruments of the same remaining maturities and were measured using level 2 inputs.

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Assets and liabilities reported at fair value on a recurring basis:

	March 31, 2014		
($ in Millions)	Level 1	Level 2	Level 3
Assets:			
Short-term investments:			
Marketable equity securities	$5	$—	$—
Other current assets:			
Foreign currency forward contracts	—	3	—
Equity forward arrangement	—	214	—
Investments:			
Marketable equity securities	73	—	—
Liabilities:			
Accounts payable and accrued liabilities:			
Foreign currency forward contracts	—	9	—
Other liabilities:			
Cross currency swaps	—	101	—
Foreign currency forward contracts		10	

	December 31, 2013		
($ in Millions)	Level 1	Level 2	Level 3
Assets:			
Short-term investments:			
Commercial paper and certificates of deposit	$—	$50	$—
Other current assets:			
Marketable equity securities	5	—	—
Foreign currency forward contracts	—	25	—
Equity forward arrangement	—	207	—
Investments:			
Marketable equity securities	70	—	—
Other assets:			
Foreign currency forward contracts	—	2	—
Liabilities:			
Accounts payable and accrued liabilities:			
Foreign currency forward contracts	—	7	—
Other liabilities:			
Cross currency swaps	—	120	—
Foreign currency forward contracts	—	11	—

Assets and liabilities reported at fair value on a nonrecurring basis:
There were no significant adjustments to the fair value of nonmonetary assets or liabilities during the three months ended March 31, 2014, or for the year ended December 31, 2013.

14. Financial Instruments and Hedging Activities

The Company has exposure to market risk from changes in foreign currency rates, PPG's stock price and interest rates. As a result, certain derivative financial instruments may be used when available on a cost effective basis to hedge the underlying economic exposure. Certain of these instruments qualify as cash flow, fair value and net investment hedges upon meeting the requisite criteria, including effectiveness of offsetting hedge exposures. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in income from continuing operations in the period incurred.

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PPG’s policies do not permit speculative use of derivative financial instruments. PPG enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company did not realize a credit loss on derivatives during the three-month periods ended March 31, 2014 or 2013.

All of PPG's outstanding derivative instruments are subject to accelerated settlement in the event of PPG’s failure to meet its debt or payment obligations under the terms of the instruments’ contractual provisions. In addition, should the Company be acquired and its payment obligations under the derivative instruments’ contractual arrangements not be assumed by the acquirer, or should PPG enter into bankruptcy, receivership or reorganization proceedings, the instruments would also be subject to accelerated settlement.

No derivative instrument initially designated as a hedge instrument was undesignated or discontinued as a hedging instrument during the three-month periods ended March 31, 2014 and March 31, 2013. Additionally, no amounts deferred in AOCI were reclassified to income from continuing operations during the three-month periods ended March 31, 2014 or 2013 related to hedges of anticipated transactions that were no longer expected to occur.

Refer to Note 13, “Fair Value Measurement,” for additional disclosures related to the Company’s derivative instruments outstanding as of March 31, 2014 and December 31, 2013.

Fair Value Hedges:

PPG has entered into renewable equity forward arrangements to hedge the impact to PPG's income from continuing operations for changes in the fair value of 1,388,889 shares of PPG stock that are to be contributed to the asbestos settlement trust as discussed in Note 16, “Commitments and Contingent Liabilities.” This financial instrument is recorded at fair value as an asset or liability and changes in the fair value of this financial instrument are reflected in the “Asbestos settlement – net” caption of the accompanying condensed consolidated statement of income. The total principal amount payable for these shares is $62 million. PPG will pay to the counterparty interest based on the principal amount and the counterparty will pay to PPG an amount equal to the dividends paid on these shares during the period this financial instrument is outstanding. The difference between the principal amount and any amounts related to unpaid interest or dividends and the current market price for these shares, adjusted for credit risk, represents the fair value of the financial instrument as well as the amount that PPG would pay or receive if the counterparty chose to net settle the financial instrument. Alternatively, the bank may, at its option, require PPG to purchase the shares covered by the arrangement at the principal amount adjusted for unpaid interest and dividends as of the date of settlement. As of March 31, 2014 and December 31, 2013, the fair value of this contract was an asset of $214 million and $207 million, respectively.

Cash Flow Hedges:

PPG designates certain foreign currency forward contracts and forward starting swaps as cash flow hedges of the Company’s exposure to variability in exchange rates on intercompany and third party transactions denominated in foreign currencies and interest rates. In March of 2014, PPG entered into $152 million of foreign currency forward contracts to hedge its exposure to certain foreign denominated transactions. As of March 31, 2014 and December 31 2013, the fair value of all foreign currency forward contracts designated as cash flow hedges was a net liability of $17 million and a net asset of $8 million, respectively.

The Company entered into forward starting swaps in 2009 and 2010 to effectively lock-in a fixed interest rate for future debt refinancings with an anticipated term of ten years based on the ten year swap rate, to which was added a corporate spread. The swaps had a total notional amount of $400 million and were settled on July 30, 2012, resulting in a cash payment of $121 million, which is being amortized to interest expense over the remaining term of the ten-year debt. As of March 31, 2014, the amount of loss recorded in AOCI was $101 million.

Net Investment Hedges:

PPG uses cross currency swaps, foreign currency forward contracts and euro-denominated debt to hedge a portion of its net investment in its European coatings operations. In 2008, PPG entered into U.S. dollar to euro cross currency swap contracts with a total notional amount of $1.16 billion, of which $600 million were to settle on March 15, 2013 and $560 million were to settle on March 15, 2018. In June 2012, $600 million of swaps, with a settlement date of March 15, 2013, were settled with PPG receiving $1 million in cash. On settlement of the remaining outstanding contracts, PPG will receive $560 million U.S. dollars and pay euros to the counterparties to the

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contracts. During the term of these contracts, PPG will receive semiannual payments in March and September of each year based on U.S. dollar, long-term fixed interest rates, and PPG will make annual payments in March of each year to the counterparties based on euro, long-term fixed interest rates. As of March 31, 2014 and December 31, 2013, the fair value of these contracts was a net liability of $101 million and $120 million, respectively.

On March 31, 2014, PPG entered into approximately $940 million of foreign currency forward contracts to hedge an additional portion of its net investment in its European coatings operations. The fair value of these instruments was $0 as of March 31, 2014. Also, as of March 31, 2014 and December 31, 2013, PPG had €300 million of euro-denominated borrowings designated as a net investment hedge. As of March 31, 2014 and December 31, 2013, the Company had accumulated pre-tax unrealized translation losses in AOCI of $42 million and $35 million, respectively, related to both the euro-denominated borrowings and the cross currency swaps.

The following table provides details for the quarter ended March 31, 2014 related to PPG's hedging activities. All dollar amounts are shown on a pre-tax basis.

($ in Millions)	March 31, 2014		
	Gain (Loss)	Gain (Loss) Recognized	
Hedge Type	Deferred in OCI	Amount	Caption
Fair Value			
Foreign currency forward contracts	Not applicable	$—	Sales
Equity forward arrangements	Not applicable	7	Asbestos - net
Total Fair Value		$7	
Cash Flow			
Forward starting swaps	—	$(3)	Interest expense
Foreign currency forward contracts	5	5	Other charges
Total Cash Flow	$5	$2	
Net Investment			
Cross currency swaps	$(6)	$—	Other charges
Foreign denominated debt	(1)	Not applicable	
Total Net Investment	$(7)		

The following table provides details for the three month period ended March 31, 2013 related to fair value, cash flow and net investment hedges by type of financial instrument. All amounts are shown on a pre-tax basis:

($ in Millions)	March 31, 2013		
	Gain (Loss)	Gain (Loss) Recognized	
Hedge Type	Deferred in OCI	Amount	Caption
Fair Value			
Foreign currency forward contracts	Not applicable	—	Sales
Equity forward arrangements	Not applicable	(1)	Asbestos - net
Total Fair Value		$(1)	
Cash Flow			
Forward starting swaps		(3)	Interest expense
Foreign currency forward contracts	(3)	(3)	Other charges
Total Cash Flow	$(3)	$(6)	
Net Investment			
Cross currency swaps	$28	$—	
Foreign denominated debt	11	Not applicable	
Total Net Investment	$39		

15. Stock-Based Compensation

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The Company’s stock-based compensation includes stock options, restricted stock units (“RSUs”) and grants of contingent shares that are earned based on achieving targeted levels of total shareholder return. All current grants of stock options, RSUs and contingent shares are made under the PPG Industries, Inc. Amended and Restated Omnibus Incentive Plan (the “PPG Amended Omnibus Plan”), which was amended and restated effective April 21, 2011. Shares available for future grants under the PPG Amended Omnibus Plan were 6.4 million as of March 31, 2014.

Total stock-based compensation expense was $18 million for the three months ended March 31, 2014 and $15 million for the three months ended March 31, 2013. The total income tax benefit recognized in the accompanying condensed consolidated statement of income related to the stock-based compensation was $6 million for the three months ended March 31, 2014, and $5 million for the three months ended March 31, 2013.

The following are the details of recent grants of stock-based compensation:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Grant Details	Shares	Fair Value	Shares	Fair Value
Stock options	357,781	$43.05	497,711	$27.37
Restricted stock units	116,989	$179.21	152,875	$124.80
Contingent shares (a)	38,756	$187.06	45,388	$131.51

(a) The number of contingent shares represents the target value of the award.

Stock options are generally exercisable beginning from six to 48 months after being granted and have a maximum term of 10 years. Compensation expense for stock options is recorded over the vesting period based on the fair value on the date of grant. The fair value of the stock option grants issued in the three months ended March 31, 2014 was calculated with the following weighted average assumptions:

Weighted average exercise price	$187.06	
Risk free interest rate	2.1	%
Expected life of option in years	6.5	
Expected dividend yield	3.0	%
Expected volatility	30.1	%

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 accounting guidance on the use of the simplified method for determining the expected term of an employee share option. This method is used as the vesting term of stock options was changed to three years in 2004 and, as a result, the historical exercise data does not provide a reasonable basis upon which to estimate the expected life of options. The expected dividend yield and volatility are based on historical stock prices and dividend amounts over past time periods equal in length to the expected life of the options.

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 calendar year-end periods 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 Company’s discretion at the end of the three-year performance period if PPG meets the performance targets.

Contingent share grants (referred to as “TSR awards”) are made annually and are paid out at the end of each three-year period based on the PPG's performance. Performance is measured by determining the percentile rank of the total shareholder return of PPG common stock in relation to the total shareholder return of the S&P 500 for the three-year period following the date of grant. Any payments made at the end of the award period may be in the form of stock, cash or a combination of both. The TSR awards qualify as liability awards, and compensation expense is recognized over the three-year award period based on the fair value of the awards (giving consideration to the Company’s percentile rank of total shareholder return) remeasured in each reporting period until settlement of the awards.

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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 current and past business activities. To the extent that these lawsuits and claims involve personal injury and property damage, PPG believes it has adequate insurance; however, certain of PPG's insurers are contesting coverage with respect to some of these claims, and other insurers, as they had prior to the asbestos settlement described below, may contest coverage with respect to some of the asbestos claims if the settlement is not implemented. PPG's lawsuits and claims against others include claims against insurers and other third parties with respect to actual and contingent losses related to environmental, asbestos and other matters.

The results of any current or future litigation and claims are 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.

Antitrust Matters

In 2010, Transitions Optical, Inc. ("TOI"), a consolidated subsidiary of the Company, entered into a settlement agreement, without admitting liability, with the Federal Trade Commission, which had alleged that TOI violated Section 5 of the Federal Trade Commission Act. Following the announcement of the settlement with the Federal Trade Commission, 30 private putative class cases were filed against TOI, alleging that it has monopolized and/or conspired to monopolize the market for photochromic lenses. All of the federal actions have been transferred and centralized in the Middle District of Florida (the "MDL Action"). Amended complaints in the MDL Action were filed in November and December 2010. In late 2011, the court ruled on TOI's motion to dismiss and allowed the plaintiffs to file new or further amended complaints. Plaintiffs in the MDL Action include Insight Equity A.P. X, LP, d/b/a Vision-Ease Lens Worldwide, Inc., which has sued on its own behalf, and putative classes of "direct purchasers," including laboratories and retailers (the "Lab/Retailer Plaintiffs"), and "indirect purchasers," consisting of end-user consumers. Plaintiffs in the MDL Action generally allege that TOI's exclusive dealing arrangements resulted in higher prices and seek lost profits and damages determined by the price premium attributable to wrongful exclusive deals. The damages sought are subject to trebling. The Lab/Retailer Plaintiffs also allege that TOI and certain affiliates of Essilor International conspired with respect to the wrongful exclusive dealing arrangements. In March 2013, the magistrate judge issued her report and recommendation to deny the class certification motion of the Lab/Retailer Plaintiffs. In May 2013, the magistrate judge issued her report and recommendation to deny the class certification of the end-use consumer plaintiffs. On April 3, 2014, the district court judge accepted the report and recommendation of the magistrate judge and denied the class certification motion of the Lab/Retailer Plaintiffs. TOI believes it has meritorious defenses and continues to defend all of the above-described actions vigorously. Following the Company's divestiture of its 51% ownership interest in the Transitions Optical joint venture to Essilor on March 31, 2014, TOI will continue its defense of this pending legal matter under Essilor's ownership. See Note 4 for information relating to the Company's divestiture of its 51% ownership interest in its Transitions Optical joint venture.

Asbestos Matters

For over 30 years, PPG has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. Most of PPG's potential exposure relates to allegations by plaintiffs that PPG should be liable for injuries involving asbestos-containing thermal insulation products, known as Unibestos, manufactured and distributed by Pittsburgh Corning Corporation ("PC"). PPG and Corning Incorporated are each 50% shareholders of PC. PPG has denied responsibility for, and has defended, all claims for any injuries caused by PC products. As of the April 16, 2000 order which stayed and enjoined asbestos claims against PPG (as discussed below), PPG was one of many defendants in numerous asbestos-related lawsuits involving approximately 114,000 claims served on PPG. During the period of the stay, PPG generally has not been aware of the dispositions, if any, of these asbestos claims.

Background of PC Bankruptcy Plan of Reorganization

On April 16, 2000, PC filed for Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the Western District of Pennsylvania located in Pittsburgh, Pa. Accordingly, in the first quarter of 2000, PPG recorded an after-tax charge of $35 million for the write-off of all of its investment in PC. As a consequence of the bankruptcy filing and various motions and orders in that proceeding, the asbestos litigation against PPG (as well as against PC) has been stayed and the

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