

EMAGIN CORP
Form DEF 14A
April 30, 2018
SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for the use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

EMAGIN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

eMagin Corporation

2018

NOTICE OF ANNUAL MEETING

AND

PROXY STATEMENT

June 13, 2018

at 9:00 a.m. Eastern Time

620 Eighth Avenue

New York, New York 10018

eMagin Corporation

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 13, 2018

The 2018 Annual Meeting of Stockholders (the “Annual Meeting”) of eMagin Corporation (“eMagin” or the “Company”) will be held at the offices of Goodwin Procter LLP at The New York Times Building, 620 Eighth Avenue, New York, New York 10018, on Thursday, June 13, 2018, at 9:00 a.m. Eastern Time, to consider the following proposals:

1. To elect the seven director nominees named in the Proxy Statement to hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified;
2. To ratify the appointment of RSM US LLP as the Company’s independent auditors for the fiscal year ending December 31, 2018;
3. To conduct a non-binding, advisory vote to approve the compensation of our named executive officers;
4. To conduct a non-binding, advisory vote on the frequency of future non-binding advisory votes to approve the compensation of our named executive officers; and
5. To act on such other matters as may properly come before the meeting or any adjournment thereof.

BECAUSE OF THE SIGNIFICANCE OF THESE PROPOSALS TO THE COMPANY AND ITS STOCKHOLDERS, IT IS VITAL THAT EVERY STOCKHOLDER VOTE AT THE ANNUAL MEETING IN PERSON OR BY PROXY.

These proposals are fully set forth in the accompanying Proxy Statement which you are urged to read thoroughly. For the reasons set forth in the Proxy Statement, your Board of Directors recommends a vote “FOR” Proposals 1 – 3 and a vote for “EVERY YEAR” on Proposal 4. A list of all stockholders entitled to vote at the Annual Meeting will be available at the principal office of the Company during usual business hours for examination by any stockholder for any purpose germane to the Annual Meeting for 10 days prior to the date thereof. Stockholders are cordially invited to attend the Annual Meeting. If you plan to attend the Annual Meeting in person, please be sure to bring your proxy card and photo identification. However, whether or not you plan to attend the meeting in person, your shares should be represented and voted. After reading the enclosed Proxy Statement, please sign, date, and return promptly the enclosed Proxy in the accompanying postpaid envelope we have provided for your convenience to ensure that your shares will be represented.

In accordance with Securities and Exchange Commission, or SEC, rules, we are using the Internet as our primary means of furnishing proxy materials to stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We will instead send these stockholders a Notice of Internet Availability of Proxy Materials with instructions for accessing the proxy materials, including our Proxy Statement and annual report, and voting via the Internet. The Notice of Internet Availability of Proxy Materials also provides information on how stockholders may obtain paper copies of our proxy materials if they so choose. We believe this rule makes the proxy distribution process more efficient, less costly, and helps in conserving natural resources.

You may wish to provide your response by telephone or electronically through the Internet by following the instructions set out on the enclosed Proxy card. If you do attend the meeting and wish to vote your shares personally, you may revoke your Proxy.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held June 13, 2018. The Proxy Statement and our 2017 Annual Report on Form 10-K to Stockholders are available at: <http://www.cstproxy.com/emagin/2018>.

By Order of the Board of Directors

/s/ Jill J. Wittels
Jill J. Wittels
Chair of the Board of Directors

WHETHER OR NOT YOU PLAN ON ATTENDING THE MEETING IN PERSON, PLEASE VOTE AS PROMPTLY AS POSSIBLE TO ENSURE THAT YOUR VOTE IS COUNTED.

eMagin Corporation

2070 Route 52

Hopewell Junction, NY 12533

(845) 838-7900

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of eMagin Corporation (“eMagin” or the “Company”) to be voted at the Annual Meeting of Stockholders (the “Annual Meeting”) which will be held at the offices of Goodwin Procter LLP at The New York Times Building, 620 Eighth Avenue, New York, New York 10018 on Thursday, June 13, 2018, at 9:00 a.m. Eastern Time, and at any postponements or adjournments thereof. The proxy materials will be furnished to stockholders on or about April 30, 2018.

REVOCABILITY OF PROXY AND SOLICITATION

Any stockholder executing a proxy that is solicited hereby has the power to revoke it prior to the voting of the proxy. Revocation may be made by attending the Annual Meeting and voting the shares of stock in person, or by delivering to the Chief Financial Officer of the Company at the principal office of the Company prior to the Annual Meeting a written notice of revocation or a later-dated, properly executed proxy. Solicitation of proxies may be made by directors, officers and other employees of the Company by personal interview, telephone, facsimile transmittal or electronic communications. No additional compensation will be paid for any such services. This solicitation of proxies is being made by the Company, which will bear all costs associated with the mailing of this Proxy Statement and the solicitation of proxies.

RECORD DATE

Stockholders of record at the close of business on April 19, 2018, will be entitled to receive notice of, attend and vote at the Annual Meeting.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these materials?

eMagin Corporation has made these materials available to you on the Internet or, upon your request, has delivered printed versions of these materials to you by mail, in connection with the Company’s solicitation of proxies for use at the Annual Meeting of Stockholders to be held on June 13, 2018, at 9:00 a.m. local time at the offices of Goodwin Procter LLP at The New York Times Building, 620 Eighth Avenue, New York, New York 10018. These materials describe the proposals on which the Company would like you to vote and also give you information on these proposals so that you can make an informed decision. We are first furnishing our proxy materials on or about May 3, 2018 to all stockholders of record entitled to vote at the Annual Meeting.

What is included in these materials?

These materials, which are available on the internet at: <http://www.cstproxy.com/emagin/2018>, include:

- this Proxy Statement for the Annual Meeting;
- the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017; and
- if you requested printed versions of these materials by mail, the proxy card or vote instructions for the Annual Meeting.

What is the proxy card?

The proxy card enables you to appoint Andrew G. Sculley, our Chief Executive Officer, and Jeffrey P. Lucas, our Chief Financial Officer, as your representatives at the Annual Meeting. By completing and returning a proxy card, you are authorizing these individuals to vote your shares at the Annual Meeting in accordance with your instructions on the proxy card. This way, your shares will be voted whether or not you attend the Annual Meeting.

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting on the cover page of this Proxy Statement, including (i) the election of seven persons named herein as nominees for directors of the Company, to hold office subject to the provisions of the bylaws of the Company, until the next annual meeting of stockholders and until their successors are duly elected and qualified, (ii) ratification of the appointment of RSM US LLP as the Company's independent auditors for the fiscal year ending December 31, 2018; (iii) a non-binding, advisory vote to approve the compensation of our named executive officers; and (iv) a non-binding, advisory vote on the frequency of future non-binding, advisory votes to approve the compensation of our named executive officers. In addition, management will report on the performance of the Company during fiscal year 2017 and respond to questions from stockholders.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the number of shares of common stock and Series B Convertible Preferred Stock (on an as-converted basis with the common stock) issued and outstanding on the record date will constitute a quorum permitting the meeting to conduct its business. As of the record date, there were 45,111,273 shares of eMagin common stock and 5,659 shares of Series B Convertible Preferred Stock, convertible into 7,545,333 shares of common stock, issued and outstanding. Each share of Series B Convertible Preferred Stock is entitled to voting rights equal to the number of shares of common stock issuable upon conversion of the Series B Convertible Preferred Stock. Thus, the presence of the holders of common stock and Series B Convertible Preferred Stock (on an as-converted basis with the common stock) representing at least 26,328,303 votes will be required to establish a quorum.

What is the difference between a stockholder of record and a beneficial owner of shares held in street name?

Most of our stockholders hold their shares in an account at a brokerage firm, bank or other nominee holder, rather than holding share certificates in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially in street name.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

Pursuant to rules adopted by the SEC, the Company has elected to provide access to its proxy materials over the Internet. Accordingly, the Company is sending the Notice to the Company's stockholders of record and beneficial owners. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. The Company encourages you to take advantage of the availability of the proxy materials on the Internet.

How can I get electronic access to the proxy materials?

The Notice provides you with instructions regarding how to:

- view the Company's proxy materials for the Annual Meeting on the Internet;
- request hard copies of the materials; and
- instruct the Company to send future proxy materials to you electronically by email.

Choosing to receive future proxy materials by email will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company's annual meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect until you terminate it.

Stockholder of Record

If, on April 19, 2018, your shares were registered directly in your name with our transfer agent, Continental Stock Transfer & Trust Company, you are considered a stockholder of record with respect to those shares, and the Notice of Annual Meeting and Proxy Statement was sent directly to you by the Company. As the stockholder of record, you have the right to direct the voting of your shares by returning the proxy card to us. Whether or not you plan to attend the Annual Meeting, if you do not vote over the Internet, please complete, date, sign and return a proxy card to ensure that your vote is counted.

Beneficial Owner of Shares Held in Street Name

If, on April 19, 2018, your shares were held in an account at a brokerage firm, bank, broker-dealer, or other nominee holder, then you are considered the beneficial owner of shares held in “street name,” and the Notice of Annual Meeting & Proxy statement was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As the beneficial owner, you have the right to instruct that organization on how to vote the shares held in your account. However, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you receive a valid proxy from the organization.

How do I vote?

Stockholders of Record. If you are a stockholder of record, you may vote by any of the following methods:

- Via the Internet. You may vote by proxy via the Internet by following the instructions provided on the enclosed Proxy Card.
- By Telephone. You may vote by calling the toll free number found on the Proxy Card.
- By Mail. You may vote by completing, signing, dating and returning your proxy card in the pre-addressed, postage-paid envelope provided.
- In Person. You may attend and vote at the Annual Meeting. The Company will give you a ballot when you arrive. You must bring valid photo identification such as your driver's license or passport and may be requested to provide proof of stock ownership as of the record date.

Beneficial Owners of Shares Held in Street Name. If you are a beneficial owner of shares held in street name, you may vote by any of the following methods:

- Via the Internet. You may vote by proxy via the Internet by following the instructions provided on the enclosed Proxy Card.
- By Telephone. You may vote by proxy by calling the toll free number found on the vote instruction form.
- By Mail. You may vote by proxy by filling out the vote instruction form and returning it in the pre-addressed, postage-paid envelope provided.
- In Person. If you are a beneficial owner of shares held in street name and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the organization that holds your shares prior to the Annual Meeting. You must bring valid photo identification such as your driver's license or passport.

What are abstentions and broker non-votes?

While the inspector of elections will treat shares represented by proxies that reflect abstentions or include "broker non-votes" as shares that are present and entitled to vote for purposes of determining the presence of a quorum, abstentions or "broker non-votes" do not constitute a vote "for" or "against" any matter and thus will be disregarded in any calculation of "votes cast." However, abstentions and "broker non-votes" will have the effect of a negative vote if an item requires the approval of a majority of a quorum or of a specified proportion of all issued and outstanding shares.

Brokers holding shares of record for customers generally are not entitled to vote on "non-routine" matters, unless they receive voting instructions from their customers. As used herein, "uninstructed shares" means shares held by a broker who has not received voting instructions from its customers on a proposal. A "broker non-vote" occurs when a nominee holding uninstructed shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that non-routine matter. In connection with the treatment of abstentions and broker non-votes, the proposed ratification of RSM US LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018 is considered a "routine" matter. Accordingly, brokers are entitled to vote uninstructed shares with respect to this proposal. All other matters are considered non-routine matters and, accordingly, brokers do not have discretionary voting power with respect to such matters.

What happens if I do not give specific voting instructions?

Stockholders of Record. If you are a stockholder of record and you:

- indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board of Directors, or
- sign and return a proxy card without giving specific voting instructions,

then the proxy holders will vote your shares in the manner recommended by the Board of Directors on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

Beneficial Owners of Shares Held in Street Name. If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters, such as the ratification of RSM US LLP as the Company's independent registered public accounting firm for the year ending December 31, 2018, but cannot vote on non-routine matters, such as the other proposals presented in this Proxy Statement.

What are the Board's recommendations?

The Board's recommendation is set forth together with the description of each item in this Proxy Statement. In summary, the Board recommends a vote:

- for election of the seven directors nominated by the Company to hold office subject to the provisions of the Bylaws of the Company, until the next annual meeting of stockholders and until their successors are duly elected and qualified;
- for ratification of the appointment of RSM US LLP as the Company's independent auditors for fiscal year 2017;
- for approval, on a non-binding, advisory basis, of the compensation of our named executive officers; and
- for every year on the frequency of future non-binding advisory votes to approve the compensation of our named executive officers.

With respect to any other matter that properly comes before the Annual Meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

How are proxy materials delivered to households?

Only one copy of the Notice of Internet Availability of Proxy Materials will be delivered to an address where two or more stockholders reside with the same last name or who otherwise reasonably appear to be members of the same family based on the stockholders' prior express or implied consent.

We will deliver promptly upon written or oral request a separate copy of the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2017 and this Proxy Statement. If you share an address with at least one other stockholder, currently receive one copy of our Annual Report on Form 10-K and Proxy Statement at your residence, and would like to receive a separate copy of our Annual Report on Form 10-K and Proxy Statement for future stockholder meetings of the Company, please specify such request in writing and send such written request to eMagin Corporation, 2070 Route 52, Hopewell Junction, NY 12533; Attention: Chief Financial Officer.

Interest of Officers and Directors in Matters to Be Acted Upon

Except for the election to our Board of the seven nominees set forth herein, none of our officers or directors has any interest in any of the matters to be acted upon at the Annual Meeting.

How much stock is owned by 5% stockholders, directors, and executive officers?

The following table sets forth the number of shares known to be beneficially owned by all persons who own at least 5% of eMagin's outstanding common stock, the Company's directors, the Company's executive officers, and the directors and executive officers as a group as of April 19, 2018, unless otherwise noted. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

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In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of FASB Statement No. 157, Fair Value Measurements (SFAS No. 157) until the first quarter of 2009, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company has applied the provisions of FSP FAS 157-2 to its financial statement disclosures beginning in the first quarter of 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, (SFAS No. 161) which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. PPG has applied the provisions of SFAS No. 161 to its financial statement disclosures beginning in the first quarter of 2009.

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3. Other New Accounting Standards

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard will change how we reference various elements of GAAP when preparing our financial statement disclosures, but will have no impact on PPG's financial position, results of operation or cash flows.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (SFAS No 167) which amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This statement is effective for fiscal years beginning after November 15, 2009, and for interim periods within that first annual reporting period. PPG is currently evaluating the effects that SFAS No. 167 may have on our consolidated financial statements.

4. Fair Value Measurement

SFAS No. 157 defines fair value, establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. The standard establishes a hierarchy of inputs employed to determine fair value measurements, with three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities, are considered to be the most reliable evidence of fair value, and should be used whenever available. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities.

The fair values of outstanding derivative instruments were determined using quoted market prices. The fair value of interest rate swaps was determined using discounted cash flows and current interest rates.

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The Company's financial assets and liabilities that are reported at fair value on a recurring basis in the accompanying condensed consolidated balance sheet, as of June 30, 2009, were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
Other current assets:				
Foreign currency contracts (1)	\$	\$ 2	\$	\$ 2
Interest rate swaps (1)		2		2
Marketable equity securities	4			4
Investments:				
Marketable equity securities	51	1		52
Other assets:				
Interest rate swaps (1)		4		4
Cross currency swaps (1)		8		8
Accounts payable and accrued liabilities:				
Foreign currency contracts (1)		13		13
Equity forward arrangement (1)		3		3
Natural gas swap contracts (1)		72		72
Other liabilities:				
Foreign currency contracts (1)		3		3
Cross currency swaps (1)		212		212
Natural gas swap contracts (1)		20		20

(1) This entire balance is designated as a hedging instrument under U.S. generally accepted accounting principles.

The Company's financial assets and liabilities that are reported at fair value on a recurring basis in the accompanying condensed consolidated balance sheet, as of December 31, 2008, were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
Other current assets:				
Foreign currency contracts	\$	\$ 7	\$	\$ 7
Marketable equity securities	4			4
Investments:				
Marketable equity securities	48	2		50
Other assets:				
Natural gas swap contracts		1		1
Interest rate swaps		3		3
Cross currency swaps		21		21
Accounts payable and accrued liabilities:				
Foreign currency contracts		16		16
Equity forward arrangement		6		6
Natural gas swap contracts		62		62
Other liabilities:				
Foreign currency contracts		6		6
Natural gas swap contracts		24		24
Cross currency swaps		151		151

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The Company's financial assets and liabilities that are reported at fair value on a nonrecurring basis in the accompanying condensed consolidated balance sheet, as of June 30, 2009, were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
Property	\$	\$	\$ 4	\$ 4

As a result of finalizing a restructuring plan, as discussed in Note 7, Business Restructuring, long-lived assets with a carrying amount of \$36 million were written-down to their fair value of \$4 million, resulting in a charge of \$32 million, which was included within the business restructuring charge in March of 2009.

5. Acquisitions

During the six months ended June 30, 2009, PPG spent \$21 million on acquisitions, including purchase price adjustments related to 2008 acquisitions and \$11 million related to earn-out and holdback payments on acquisitions that were completed prior to December 31, 2008.

During the six months ended June 30, 2008, PPG spent \$1,584 million on acquisitions (net of cash acquired of \$136 million), including purchase price adjustments related to 2007 acquisitions. Most of this spending was related to the January 2, 2008 acquisition of SigmaKalon, a worldwide coatings producer based in Uithoorn, Netherlands, from global private investment firm Bain Capital (the seller). SigmaKalon produces architectural, protective and marine and industrial coatings and is a leading coatings supplier in Europe and other key markets across the globe, with an increasing presence in Africa and Asia. SigmaKalon sells coatings through a combination of approximately 500 company-owned stores, home centers, paint dealers, independent distributors, and directly to customers. The results of SigmaKalon have been included in PPG's consolidated results of operations from January 2, 2008 onward.

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

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The following table summarizes the final purchase price allocation for the SigmaKalon acquisition.

(Millions)	
Current assets (including cash of \$136)	\$ 1,415
Property, plant, and equipment	635
Customer-related intangibles	685
Trade names	277
Acquired technology	122
Goodwill (non-deductible)	1,353
Other	172
 Total assets	 4,659
Short-term debt	(1,507)
Current liabilities	(798)
Long-term debt	(10)
Deferred taxes	(389)
Other long-term liabilities	(305)
 Net assets	 1,650
In-process research and development	23
 Total purchase price	 \$ 1,673

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

6. Divestiture of Automotive Glass and Services Business

During the third quarter of 2007, the Company entered into an agreement to sell its automotive glass and services business to Platinum Equity, (Platinum) for approximately \$500 million. In the fourth quarter of 2007, PPG was notified that affiliates of Platinum had filed suit in the Supreme Court of the State of New York, County of New York, alleging that Platinum was not obligated to consummate the agreement. Platinum also terminated the agreement. PPG has sued Platinum and certain of its affiliates for damages, including the \$25 million breakup fee stipulated by the terms of the agreement, based on various alleged actions of the Platinum parties.

In July 2008, PPG entered into an agreement with affiliates of Kohlberg & Company, LLC, under which PPG would divest the automotive glass and services business to a new company formed by affiliates of Kohlberg. The transaction with affiliates of Kohlberg was completed on September 30, 2008, with PPG receiving total proceeds of \$315 million, including \$225 million in cash and two 6-year notes totaling \$90 million (\$60 million at 8.5% interest and \$30 million at 10% interest). Both notes, which may be prepaid at any time without penalty, are senior to the equity of the new company. In addition, PPG received a minority interest of approximately 40 percent in the new company, Pittsburgh Glass Works LLC. PPG will account for its interest in Pittsburgh Glass Works LLC under the equity method of accounting from October 1, 2008 onward. PPG has retained certain liabilities for pension and post-employment benefits earned for service up to September 30, 2008. As of December 31, 2008, these liabilities included approximately \$280 million for employees who were active as of the divestiture date and approximately \$520 million for individuals who were retirees of the business as of the divestiture date. In 2009, PPG expects to recognize expense totaling \$40 million related to these obligations. In addition, PPG is providing certain transition services, including information technology and accounting services, to Pittsburgh Glass Works LLC for a period of up to two years.

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

In the second quarter of 2009, Pittsburgh Glass Works LLC made the full \$2 million interest payment that was due; however, the first quarter of 2009, interest payment due to PPG of \$2 million was not paid in cash but rather added to the principal amount of the notes, in accordance with the provisions of the notes. The amount due to PPG under the notes totaled \$92 million at June 30, 2009. PPG's consolidated results for the three and six months ended June 30, 2009 include equity income of \$3 million and equity losses of \$4 million, respectively, related to its investment in Pittsburgh Glass Works LLC.

Pittsburgh Glass Works LLC ceased production at its Oshawa, Canada plant in the first quarter of 2009 and also has announced that it will close its Hawkesbury, Canada plant in the first quarter of 2010. Under Canadian pension regulations, these plant closures will result in partial wind-ups of the pension plan for former employees in Canada the liability for which was retained by PPG. Each of these partial wind-ups will result in settlement charges against PPG earnings currently estimated at \$20-\$30 million and required cash contributions currently estimated at \$10-\$15 million. These amounts can be funded over the five year period following completion of the required reviews of the partial wind-ups by the Canadian pension authorities, which are expected to occur later in 2009 or 2010. The settlement charge will be taken when the related cash contributions are completed.

7. Business Restructuring

In March of 2009, the Company finalized a restructuring plan focused on further reducing its global cost structure, driven by global economic conditions, low-end market demand and acceleration of cost-savings from the integration of the 2008 acquisition of SigmaKalon. As part of the restructuring, PPG will close its paints coatings manufacturing facility in Saultain, France, by the end of 2009, as well as several smaller production, laboratory, warehouse and distribution facilities across PPG's businesses and regions and will reduce staffing across the company globally.

As a result of this restructuring plan, in March of 2009, the Company recorded a charge of \$186 million for business restructuring, including severance and other costs of \$154 million and asset write-offs of \$32 million.

The Company also expects to incur additional costs of approximately \$12 million directly associated with the restructuring actions for demolition, dismantling, relocation and training that will be charged to expense as incurred. The Company expects to incur these additional expenses in the second half of 2009.

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The following table summarizes the activity in the first quarter 2009 restructuring reserve through June 30, 2009:

(Millions, except no. of employees)	Severance and Other Costs	Asset Write-offs	Total Reserve	Employees Impacted
Industrial Coatings	\$ 77	\$ 16	\$ 93	935
Performance Coatings	37	4	41	764
Architectural Coatings - EMEA	13		13	130
Glass	11	2	13	247
Optical & Specialty Materials	3	9	12	219
Commodity Chemicals	6		6	42
Corporate	7	1	8	91
Total	\$ 154	\$ 32	\$ 186	2,428
Activity to date	(30)	(32)	(62)	(1,142)
Currency impact	6		6	
Balance as of June 30, 2009	\$ 130	\$	\$ 130	1,286

During the third quarter of 2008, the Company finalized a restructuring plan that is part of implementing PPG's global transformation strategy and the integration of its 2008 acquisition of SigmaKalon. As part of the restructuring, PPG closed its coatings manufacturing facility in Clarkson, Ont., Canada and will close the coatings manufacturing facility in Geldermalsen, Netherlands in the third quarter 2009. The consultation with the applicable works council at Geldermalsen has been completed. Other staffing reductions will occur in PPG's coatings businesses in North America and Europe. PPG also closed its Owen Sound, Ont., Canada, glass manufacturing facility, and idled one float glass production line at its Mt. Zion, Ill., facility in the fourth quarter of 2008. Other actions included writing off idle production assets in PPG's fiber glass and chemicals businesses.

In the third quarter of 2008, the Company recorded a charge of \$163 million for business restructuring, including severance and other costs of \$73 million, pension curtailments of \$21 million and asset write-offs of \$69 million. Severance and other restructuring costs related to the SigmaKalon acquisition totaling \$33 million have been recorded as part of the purchase price allocation, effectively increasing goodwill. The restructuring reserve recorded in 2008 totaled \$196 million.

The company also expects to incur additional costs of approximately \$10 million directly associated with the restructuring actions for demolition, dismantling, relocation and training that will be charged to expense as incurred. The company expects to incur these additional expenses in the second half of 2009.

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The following table summarizes the details through June 30, 2009:

(Millions, except no. of employees)	Severance and Other Costs	Pension Curtailment Losses	Asset Write-offs	Total Reserve	Employees Impacted
Industrial Coatings	\$ 45	\$ 9	\$ 10	\$ 64	577
Performance Coatings	30		15	45	270
Architectural Coatings - EMEA	19			19	215
Glass	12	12	31	55	285
Commodity Chemicals			13	13	10
Total	\$ 106	\$ 21	\$ 69	\$ 196	1,357
Activity to date	(49)	(21)	(69)	(139)	(1,050)
Currency impact	(6)			(6)	
Balance as of June 30, 2009	\$ 51	\$	\$	\$ 51	307

8. Inventories

Inventories as of June 30, 2009 and December 31, 2008 are detailed below.

	June 30, 2009	Dec. 31, 2008
	(Millions)	
Finished products	\$ 1,022	\$ 1,045
Work in process	139	134
Raw materials	398	412
Supplies	113	111
Total	\$ 1,672	\$ 1,702

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 \$236 million and \$213 million higher as of June 30, 2009 and December 31, 2008, respectively.

9. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the six months ended June 30, 2009 was as follows:

	Performance Coatings	Industrial Coatings	Architectural Coatings - EMEA	Optical and Specialty Materials	Glass	Total
	(Millions)					
Balance, December 31, 2008	\$ 1,078	\$ 482	\$ 976	\$ 50	\$ 55	\$ 2,641
Currency translation	32	2	19	1	1	55

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Balance, June 30, 2009	\$ 1,110	\$ 484	\$ 995	\$ 51	\$ 56	\$ 2,696
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The carrying amount of acquired trademarks with indefinite lives as of June 30, 2009 and December 31, 2008 totaled \$339 million.

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

	June 30, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(Millions)					
Acquired technology	\$ 524	\$ (223)	\$ 301	\$ 520	\$ (201)	\$ 319
Customer-related intangibles	960	(239)	721	927	(195)	732
Trade names	107	(29)	78	97	(23)	74
Other	27	(20)	7	26	(18)	8
Balance	\$ 1,618	\$ (511)	\$ 1,107	\$ 1,570	\$ (437)	\$ 1,133

Aggregate amortization expense related to these identifiable intangible assets for the three and six months ended June 30, 2009 was \$31 million and \$61 million, respectively, and for the three and six months ended June 30, 2008 was \$37 million and \$71 million, respectively. As of June 30, 2009, estimated future amortization expense of identifiable intangible assets is as follows: \$60 million for the remaining quarters of 2009 and \$120 million in each of the next five years.

10. Debt

In June 2009, PPG entered into a \$400 million three year unsecured term loan. The proceeds will be used to repay outstanding debt. During the second quarter \$165 million of the proceeds from this term loan were used to retire outstanding amounts under our \$650 million revolving credit facility; the remainder of the loan proceeds will be used to retire our 7.05% bonds, which are to mature in August of 2009 and to repay additional amounts under our \$650 million revolving credit facility. The principal amount of this loan is due in three years. The interest rate on borrowings under this facility is variable based on a spread over LIBOR.

In December 2007, PPG issued \$617 million of commercial paper and borrowed \$1,056 million (\$717 million) under a \$1 billion bridge loan agreement with multiple lenders and Credit Suisse as administrative agent for those lenders. The proceeds from these borrowings were deposited into escrow in December 2007. Upon closing of the SigmaKalon acquisition on January 2, 2008, these amounts were released from escrow and paid to the seller. Also, in January 2008, PPG borrowed \$1,143 million, representing the remaining \$417 million (\$283 million) available under the \$1 billion bridge loan agreement and \$726 million (\$493 million) under its three year \$650 million revolving credit facility. The proceeds from these borrowings and cash on hand of \$116 million were used to refinance \$1,259 million of the \$1,517 million of SigmaKalon debt outstanding on the date of acquisition.

On March 18, 2008, PPG completed a public offering of \$600 million in aggregate principal amount of its 5.75% Notes due 2013 (the 2013 Notes), \$700 million in aggregate principal amount of its 6.65% Notes due 2018 (the 2018 Notes) and \$250 million in aggregate principal amount of its 7.70% Notes due 2038 (the 2038 Notes) and, together with the 2013 Notes and the 2018 Notes, the Notes. The Notes were offered by the Company pursuant to its existing shelf registration. The proceeds of this offering of \$1,538 million (net of discount and issuance costs) and additional borrowings of \$195 million under the \$650 million revolving credit facility were used to repay existing debt, including certain short-term debt and the amounts outstanding under the \$1 billion bridge loan. No further amounts can be borrowed under the \$1 billion bridge loan. The discount and issuance costs related to the Notes, which totaled \$12 million, will be amortized to interest expense over the respective lives of the Notes.

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11. Earnings Per Common Share

The following table presents the earnings per common share calculations for the three and six months ended June 30, 2009 and 2008.

(Millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Earnings per common share (attributable to PPG)				
Net income (attributable to PPG)	\$ 146	\$ 250	\$ 35	\$ 350
Weighted average common shares outstanding	163.8	164.6	163.9	164.5
Earnings per common share (attributable to PPG)	\$ 0.89	\$ 1.52	\$ 0.21	\$ 2.13
Earnings per common share - assuming dilution (attributable to PPG)				
Net income (attributable to PPG)	\$ 146	\$ 250	\$ 35	\$ 350
Weighted average common shares outstanding	163.8	164.6	163.9	164.5
Effect of dilutive securities:				
Stock options	0.0	0.5	0.0	0.6
Other stock compensation plans	0.6	0.5	0.6	0.6
Potentially dilutive common shares	0.6	1.0	0.6	1.2
Adjusted weighted average common shares outstanding	164.4	165.6	164.5	165.7
Earnings per common share - assuming dilution (attributable to PPG)	\$ 0.89	\$ 1.51	\$ 0.21	\$ 2.12

Excluded from the computation of diluted earnings per share due to their antidilutive effect were 7.0 million and 7.1 million outstanding stock options for the three and six months ended June 30, 2009, respectively, and 3.2 million and 3.0 million outstanding stock options for the three and six months ended June 30, 2008, respectively.

12. 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 2003. Additionally, the Internal Revenue Service (IRS) has completed its examination of the Company's U.S. federal income tax returns filed for years through 2006. The IRS is currently conducting its examination of the Company's U.S. federal income tax return for 2007. This examination is expected to be completed in the fourth quarter of 2009 or early 2010 and is not expected to result in a significant adjustment to the Company's income tax expense.

Table of Contents**13. Pensions and Other Postretirement Benefits**

The net periodic benefit costs for the three and six months ended June 30, 2009 and 2008 were as follows:

	Pensions			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	(Millions)			
Service cost	\$ 17	\$ 19	\$ 34	\$ 40
Interest cost	61	66	122	131
Expected return on plan assets	(57)	(74)	(113)	(148)
Amortization of prior service cost	2	2	3	5
Amortization of actuarial losses	32	18	64	33
Special termination benefits and curtailment (Note 6)		18		18
Net periodic pension cost	\$ 55	\$ 49	\$ 110	\$ 79

PPG does not have a mandatory contribution to make to its U.S. defined benefit pension plans in 2009; however, due in large part to the negative investment return on pension plan assets in 2008, PPG made a voluntary contribution in the amount of \$160 million to these plans in January 2009, and will make an additional voluntary contribution to these plans in 2009 in an amount of \$55 million, which the Company expects will be in the form of PPG stock. PPG expects to make mandatory contributions to its non-U.S. plans in 2009 of approximately \$60 million, of which approximately \$50 million was made as of June 30, 2009. Of this \$50 million, approximately \$18 million was made in the form of PPG stock.

The net periodic other postretirement benefit costs for the three and six months ended June 30, 2009 and 2008 were as follows:

	Other Postretirement Benefits			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	(Millions)			
Service cost	\$ 7	\$ 5	\$ 13	\$ 12
Interest cost	17	16	34	33
Amortization of prior service cost	(4)	(4)	(7)	(9)
Amortization of actuarial losses	9	8	17	15
Special termination benefits (Note 6)		1		1
Net periodic other postretirement benefit cost	\$ 29	\$ 26	\$ 57	\$ 52

Table of Contents**14. Comprehensive Income**

Total comprehensive income for the three and six months ended June 30, 2009 and 2008 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	(Millions)			
Net income attributable to the controlling and noncontrolling interests	\$ 169	\$ 278	\$ 78	\$ 404
Other comprehensive income (loss), net of tax:				
Pension and other postretirement benefits (Note 13)	56	(19)	36	(1)
Unrealized currency translation adjustment	195	49	(15)	206
Unrealized losses on marketable securities		(1)		(2)
Net change derivatives (Note 17)	19	50	(3)	83
Other comprehensive income, net of tax	270	79	18	286
Total comprehensive income	439	357	96	690
Less: amounts attributable to noncontrolling interests:				
Net income	(23)	(28)	(43)	(54)
Unrealized currency translation adjustment	(6)	(1)	(3)	(4)
Comprehensive income attributable to PPG	\$ 410	\$ 328	\$ 50	\$ 632

15. Shareholders' Equity

The following table presents the change in total shareholders' equity for the six months ended June 30, 2009 and 2008, respectively.

(Millions)	Total PPG Shareholders Equity	Non-controlling Interests	Total
Balance, January 1, 2009	\$ 3,333	\$ 156	\$ 3,489
Net income	35	43	78
Other comprehensive income, net of tax	15	3	18
Cash dividends	(174)		(174)
Issuance of treasury stock	34		34
Stock option activity	(9)		(9)
Other changes in noncontrolling interests		1	1
Dividends paid on subsidiary common stock to noncontrolling interests		(10)	(10)
Equity forward agreement (1)	(59)		(59)
Balance, June 30, 2009	\$ 3,175	\$ 193	\$ 3,368

- (1) - In December of 2008, the Company entered into an agreement with a counterparty to repurchase 1.5 million shares of the Company's stock. Under the terms of the agreement, the counterparty purchased the shares in the open market in January of 2009 and is now holding the shares until such time as the Company pays the agreed upon price of \$39.53 per share and takes possession of these shares. These shares are not considered outstanding for basic and diluted earnings per share calculation, and total shareholders' equity at June 30, 2009 has been reduced by approximately \$59 million, representing the amount that will be paid by PPG to the counterparty upon settlement.

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(Millions)	Total PPG Shareholders Equity	Non-controlling Interests	Total
Balance, January 1, 2008	\$ 4,151	\$ 161	\$ 4,312
Net income	350	54	404
Other comprehensive income, net of tax	282	4	286
Cash dividends	(171)		(171)
Purchase of treasury stock	(7)		(7)
Issuance of treasury stock	28		28
Stock option activity	(7)		(7)
Increase of noncontrolling interests through acquisition		19	19
Other changes in noncontrolling interests		(1)	(1)
Dividends paid to subsidiary common stock to noncontrolling interests		(43)	(43)
Transition adjustment for adoption of EITF No. 06-10	(2)		(2)
Balance, June 30, 2008	\$ 4,624	\$ 194	\$ 4,818

16. Financial Instruments, Excluding Derivative Financial Instruments

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

Long-term debt (excluding capital lease obligations) had carrying and fair values totaling \$3,395 million and \$3,549 million, respectively, as of June 30, 2009. Long-term debt (excluding capital lease obligations) had carrying and fair values totaling \$3,122 million and \$3,035 million, respectively, as of December 31, 2008. The fair values of the debt instruments were based on discounted cash flows and interest rates currently available to the Company for instruments of the same remaining maturities.

17. Derivative Financial Instruments and Hedge Activities

The Company recognizes all derivative instruments as either assets or liabilities at fair value on the balance sheet. The accounting for changes in the fair value of a derivative depends on the use of the instrument. To the extent that a derivative is effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the instrument is deferred in accumulated other comprehensive (loss) income (AOCI). Any portion considered to be ineffective is reported in earnings immediately, including changes in value related to credit risk. To the extent that a derivative is effective as a hedge of an exposure to future changes in fair value, the change in the derivative's fair value is offset in the consolidated statement of income by the change in fair value of the item being hedged. To the extent that a derivative or a financial instrument is effective as a hedge of a net investment in a foreign operation, the change in the derivative's fair value is deferred as an unrealized currency translation adjustment in AOCI.

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, unrecognized firm sales commitments, and cash flows denominated in foreign currencies. PPG uses foreign denominated debt and cross currency swap contracts to hedge investments in foreign operations. Interest rate swaps are used to manage the Company's exposure to changing interest rates as such rate changes effect the fair value of fixed rate borrowings. PPG also uses an equity forward arrangement to hedge the Company's exposure to changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 20, Commitments and Contingent Liabilities.

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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 six month periods ended June 30, 2009 or 2008.

PPG centrally manages its foreign currency transaction risk to minimize the volatility in cash flows caused by currency fluctuations. Decisions on whether to use derivative financial instruments to hedge the net transaction exposures, related to all regions of the world, are made based on the amount of those exposures, by currency, and, in certain situations, an assessment of the near-term outlook for certain currencies. This net hedging strategy does not qualify for hedge accounting under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities; therefore, the change in the fair value of these instruments is recorded in Other charges in the accompanying condensed consolidated statement of income in the period of change. As of June 30, 2009, the fair value of these contracts was less than \$1 million.

PPG designates forward currency contracts as hedges against the Company's exposure to variability in exchange rates on short-term intercompany borrowings denominated in foreign currencies. To the extent effective, changes in the fair value of these instruments are deferred in AOCI and subsequently reclassified to Other charges in the accompanying condensed consolidated statement of income as foreign exchange gains and losses are recognized on the related intercompany borrowings. The portion of the change in fair value considered to be ineffective is recognized immediately in Other charges in the accompanying condensed consolidated statement of income. All amounts deferred in AOCI as of June 30, 2009 will be reclassified to earnings within the next twelve months. As of June 30, 2009, the fair value of these instruments was a liability of \$1 million.

PPG designates forward currency contracts as hedges against the Company's exposure to future changes in fair value related to certain firm sales commitments denominated in foreign currencies. These contracts are designated as fair value hedges. As such, they are reported at fair value in the Company's condensed consolidated balance sheet, with changes in the fair value of these contracts and that of the related firm sales commitments reported in net sales. These contracts convert \$102 million to the South Korean won over the 24 month period ended June 30, 2011. As of June 30, 2009, the fair value of the contracts was a liability of \$13 million.

PPG has entered into ten U.S. dollar to euro cross currency swap contracts with a total notional amount of \$1.3 billion, of which \$600 million will settle on March 15, 2013 and \$700 million will settle on March 15, 2018. On settlement of all of the outstanding contracts, PPG will receive \$1.3 billion U.S. dollars and pay euros to the counterparties to the 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. The Company has designated these swaps as hedges of its net investment in SigmaKalon and, as a result, mark to fair value adjustments of the swaps have been and will be recorded as a component of AOCI and the cash flow impact of these swaps has been and will be classified as investing activities in the condensed consolidated statement of cash flows. As of June 30, 2009, the fair value of these contracts was a net liability of \$204 million.

PPG designated 400 million euro-denominated borrowings as a hedge of a portion of PPG's net investment in the Company's European operations. As a result, the change in book value from adjusting these foreign-denominated borrowings to current spot rates as of June 30, 2009 was deferred in AOCI.

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Deferrals in AOCI related to hedges of the Company's net investments in European operations would be reclassified and recognized in earnings upon a substantial liquidation, sale or partial sale of such investments or upon impairment of all or a portion of such investments.

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. Generally, the Company maintains variable interest rate debt at a level of approximately 25% to 50% of total borrowings. PPG principally manages its fixed and variable interest rate risk by retiring and issuing debt from time to time and through the use of interest rate swaps. As of June 30, 2009, these swaps converted \$125 million of fixed rate debt to variable rate debt. These swaps are designated as fair value hedges. As such, the swaps are carried at fair value. Changes in the fair value of these swaps and that of the related debt are recorded in Interest expense in the accompanying condensed consolidated statement of income. As of June 30, 2009, the fair value of these contracts was \$6 million.

The Company uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap contracts. These instruments mature over the next 37 months. To the extent that these instruments are effective in hedging PPG's exposure to price changes, changes in the fair values of the hedge contracts are deferred in AOCI and reclassified to Cost of sales, exclusive of depreciation and amortization as the natural gas is purchased. The amount of ineffectiveness is reported in Other charges in the accompanying condensed consolidated statement of income, immediately. As of June 30, 2009, the fair value of these contracts was a liability of \$92 million. An after-tax loss of \$57 million was deferred in AOCI, of which \$45 million related to contracts that mature within the twelve month period ended June 30, 2010.

PPG has entered into a one-year renewable equity forward arrangement with a bank in order to mitigate the impact of changes in the fair value of 1,388,889 shares of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 20, Commitments and Contingent Liabilities. 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 the Asbestos settlement net caption of the accompanying condensed consolidated statement of income. The total principal amount for these shares is \$62 million. PPG will pay to the bank interest based on the principal amount and the bank will pay to PPG an amount equal to the dividends paid on these shares during the period this 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 instrument as well as the amount that PPG would pay or receive if the bank chose to net settle the instrument. Alternatively, the bank may, at its option, require PPG to purchase the shares covered by the arrangement at the market price on the date of settlement. As of June 30, 2009, the fair value of this contract was a liability of \$3 million.

No derivative instrument initially designated as a hedge instrument was undesignated or discontinued as a hedging instrument during the six month period ended June 30, 2009. Nor were any amounts deferred in AOCI reclassified to earnings during the six month period ended June 30, 2009 related to hedges of anticipated transactions that were no longer expected to occur.

All of the outstanding derivative instruments are subject to accelerated settlement in the event of PPG's failure to meet its debt obligations 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

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should PPG enter into bankruptcy, receivership or reorganization proceedings, the instruments would also be subject to accelerated settlement. In addition, the contractual terms of a small portion of the Company's derivative instruments require the Company's credit ratings related to its long-term borrowings to be investment grade or higher. If PPG's credit ratings were to fall below investment grade, the counterparty to these derivative instruments could require PPG to accelerate the settlement of their contracts.

During the first six months of 2009, other comprehensive income included a net loss of \$3 million, net of tax, related to derivative financial instruments, excluding those designated as hedges of net investments. This loss was comprised of realized losses of \$57 million and unrealized losses of \$60 million, net of tax. The realized losses related to the settlement during the period of natural gas contracts, foreign currency contracts, and interest rate swaps owned by one of the Company's investees accounted for under the equity method of accounting. The unrealized losses related to the changes in fair value of the natural gas and foreign currency contracts, partially offset by unrealized gains on interest rate swaps owned by one of the Company's investees accounted for under the equity method of accounting.

During the first six months of 2008, other comprehensive income included a net gain due to derivatives of \$83 million, net of tax. This gain was comprised of realized losses of \$1 million and unrealized gains of \$82 million. The realized losses related to the settlement during the period of foreign currency contracts and interest rate swaps owned by one of the Company's investees accounted for under the equity method of accounting, offset in part by gains realized from the settlement of natural gas contracts. The unrealized gains related to the change in fair value of the natural gas contracts, partially offset by unrealized losses on interest rate swaps owned by one of the Company's investees accounted for under the equity method of accounting and foreign currency contracts.

Refer to Note 4, Fair Value Measurement, for additional disclosures related to the Company's derivative instruments outstanding as of June 30, 2009 and December 31, 2008.

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The following tables provide details related to fair value, cash flow and net investment hedges, by type of derivative instrument. All dollar amounts are pretax and relate to the six month period ended June 30, 2009.

(Millions)

Hedge Type	Gain (Loss) Deferred in OCI	Amount	Gain (Loss) Recognized Caption
Fair Value			
Interest rate swaps (a)	Not applicable	\$ 1	Interest expense
Foreign currency contracts (a)	Not applicable	(8)	Sales
Equity forward arrangements (a)	Not applicable	3	Asbestos - net
Total Fair Value		\$ (4)	
Cash Flow			
Natural gas swaps (a)	\$ (70)	\$ (62)	Cost of sales
Interest rate swaps of an equity method investee	1	(1)	Other earnings
Foreign currency contracts (b)	(29)	(29)	Other charges
Total Cash Flow	\$ (98)	\$ (92)	
Net Investment			
Cross currency swaps (b)	\$ (121)	\$	Other charges
Foreign denominated debt	(5)	Not applicable	
Total Net Investment	\$ (126)		
Non-Hedge			
Foreign currency contracts	Not applicable	\$ (c)	Other charges
Total Non-Hedge		\$	

- (a) The ineffective portion related to this item was less than \$1 million. Such amount is not reflected in the amounts reported in this table.
 (b) The ineffective portion related to this item was less than \$2 million. Such amount is not reflected in the amounts reported in this table.
 (c) The earnings impact related to these contracts rounds to less than \$1 million.

18. Cash Flow Information

Cash from operating activities for the six months ended June 30, 2009 was \$106 million versus \$402 million for the comparable period of 2008. Cash from operating activities in 2009 includes the negative impact of pension contributions of approximately \$190 million, including a \$160 million voluntary contribution that we made to our U.S. pension plans during the first quarter 2009. Pension contributions in the first two quarters of 2008 totaled \$50 million.

Cash payments for interest were \$110 million, and the net cash payment under the cross currency swaps that effectively convert U.S. dollar borrowings to euro borrowings totaled \$44 million for the six months ended June 30, 2009. Cash payments for interest were \$110 million for the six months ended June 30, 2008. Net cash payments for income taxes for the six months ended June 30, 2009 and 2008 were \$111 million and \$137 million, respectively.

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

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19. Stock-Based Compensation

The Company's stock-based compensation includes stock options, restricted stock units (RSUs) and grants of contingent shares that are earned based on achieving targeted levels of total shareholder return. All current grants of stock options, RSUs and contingent shares are made under the PPG Industries, Inc. Omnibus Incentive Plan (PPG Omnibus Plan). Shares available for future grants under the PPG Omnibus Plan were 5.8 million as of June 30, 2009.

Total stock-based compensation cost was \$6 million and \$13 million for the three and six months ended June 30, 2009, respectively, and \$6 million and \$15 million for the three and six months ended June 30, 2008, respectively. The total income tax benefit recognized in the accompanying condensed consolidated statement of income related to the stock-based compensation was \$3 million and \$5 million for the three and six months ended June 30, 2009, respectively, and \$3 million and \$6 million for the three and six months ended June 30, 2008, respectively.

Stock Options

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

In the first half of 2009, PPG granted 926,380 stock options from the PPG Omnibus Plan, at a weighted average exercise price of \$34.19 per share. The weighted average fair value of options granted was \$6.79 per share.

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

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The fair value of the first quarter 2009 grant was calculated with the following weighted average assumptions:

Risk free interest rate	2.8%
Expected life of option in years	6.5
Expected dividend yield	3.2%
Expected volatility	25.6%

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 Company's discretion at the end of the three-year vesting period if PPG meets the performance targets. For awards granted in 2007, the actual amount paid for performance-based awards may range from 0% to 150% of the original grant, as 50% of the grant vests in each year that one of the two targets is met during the three-year period. If the designated performance targets are not met in any of the three years in an award period, no payout will be made on the performance-based RSUs. For awards granted in 2008 and 2009, the amount paid for performance-based awards may range from 0% to 180% of the original grant, based upon the frequency with which the earnings per share growth and cash flow return on capital performance targets are met over the three-year period. For the purposes of expense recognition PPG has assumed that performance-based RSUs granted in 2007, 2008 and 2009 will vest at the 100% level. The performance targets for 2007 and 2008 were achieved as it relates to the 2007 grant. With respect to the 2008 grant, one of the two performance targets was met in 2008.

In the first half of 2009, PPG granted 420,281 RSUs at a weighted average fair value of \$28.06 per share.

Contingent Share Grants

The Company also provides grants of contingent shares to selected key executives that may be earned based on PPG total shareholder return over the three-year period following the date of grant. Contingent share grants (TSR) are made annually and are paid out at the end of each three-year period based on the Company's performance. For awards granted in 2007, performance is measured by determining the percentile rank of the total shareholder return of PPG common stock (stock price plus accumulated dividends) in relation to the total shareholder return of the S&P 500 and the S&P 500 Materials sector for the three-year period following the date of grant. For awards granted in 2008 and 2009, performance is measured by determining the percentile rank of the total shareholder return of PPG common stock in relation to the total shareholder return of the S&P 500 for the three-year period following the date of grant. The payment of awards following the three-year award period will be based on performance achieved in accordance with the scale set forth in the plan agreement and may range from 0% to 220% of the initial grant. A payout of 100% is earned if the target performance is achieved. Contingent share awards earn dividend equivalents during the three-year award period, which are credited to participants in the form of common stock equivalents. Any payments made at the end of the award period may be in the form of

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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.

20. Commitments and Contingent Liabilities

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

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

Antitrust Matters

Several complaints were filed in late 2007 and early 2008 in different federal courts naming PPG and other flat glass producers as defendants in purported antitrust class actions. The complaints allege that the defendants conspired to fix, raise, maintain and stabilize the price and the terms and conditions of sale of flat glass in the United States in violation of federal antitrust laws. In June 2008, these cases were consolidated into one federal court class action in Pittsburgh, Pa. Many allegations in the complaints are similar to those raised in ongoing proceedings by the European Commission in which fines were levied against other flat glass producers arising out of alleged antitrust violations. PPG is not involved in any of the proceedings in Europe. PPG divested its European flat glass business in 1998. A complaint containing allegations substantially similar to the U.S. litigation was filed in the Superior Court in Windsor, Ontario, Canada in August 2008 regarding the sale of flat glass in Canada. PPG is aware of no wrongdoing or conduct on its part in the operation of its flat glass businesses that violated any antitrust laws, and it intends to vigorously defend its position.

Asbestos Matters

For over 30 years, PPG has been a defendant in lawsuits involving claims alleging personal injury from exposure to asbestos. Most of PPG's potential exposure relates to allegations by plaintiffs that PPG should be liable for injuries involving asbestos-containing thermal insulation products, 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

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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 filing of additional asbestos suits against them has been enjoined, until 30 days after the effective date of a confirmed plan of reorganization for PC substantially in accordance with the settlement arrangement among PPG and several other parties discussed below. The stay may be terminated if the Bankruptcy Court determines that such a plan will not be confirmed, or the settlement arrangement set forth below is not likely to be consummated.

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

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

The terms of the 2002 PPG Settlement Arrangement and the 2003 Corning Settlement Arrangement were incorporated into a bankruptcy reorganization plan for PC along with a disclosure statement describing the plan, which PC filed with the Bankruptcy Court on April 30, 2003. Amendments to the plan and disclosure statement were subsequently filed. On November 26, 2003, after considering objections to the second amended disclosure statement and plan of reorganization, the Bankruptcy Court entered an order approving such disclosure statement and directing that it be sent to creditors, including asbestos claimants, for voting. In March 2004, the second amended PC plan of reorganization (the "second amended PC plan of reorganization") received the required votes to approve the plan with a channeling injunction for present and future asbestos claimants under §524(g) of the Bankruptcy Code. After voting results for the second amended PC plan of reorganization were received, the Bankruptcy Court judge conducted a hearing regarding the fairness of the settlement, including whether the plan would be fair with respect to present and future claimants, whether such claimants would be treated in substantially the same manner, and whether the protection provided to PPG and its participating insurers would be fair in view of the assets they would convey to the asbestos settlement trust (the "Trust") to be established as part of the second amended PC plan of reorganization. At that hearing, creditors and other parties in interest raised objections to the second amended PC plan of reorganization. Following that hearing, the Bankruptcy Court scheduled oral arguments for the contested items.

The Bankruptcy Court heard oral arguments on the contested items on November 17-18, 2004. At the conclusion of the hearing, the Bankruptcy Court agreed to consider certain post-hearing written submissions. In a further development, on February 2, 2005, the Bankruptcy Court established a briefing schedule to address whether certain aspects of a decision of the U.S. Third Circuit Court of Appeals in an unrelated case have any applicability to the PC plan of reorganization. Oral arguments on these matters were subsequently held in March 2005. During an omnibus hearing on February 28, 2006, the Bankruptcy Court judge stated that she was

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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, in December 2006, the court denied confirmation of the second amended PC plan of reorganization, on the basis that the plan was too broad in the treatment of allegedly independent asbestos claims not associated with PC.

Terms of 2002 PPG Settlement Arrangement

PPG had no obligation to pay any amounts under the 2002 PPG Settlement Arrangement until 30 days after the second amended PC plan of reorganization was finally approved by an appropriate court order that was no longer subject to appellate review (the Effective Date). If the second amended PC plan of reorganization had been approved as proposed, PPG and certain of its insurers (along with PC) would have made payments on the Effective Date to the Trust, which would have provided 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 have conveyed the following assets to the Trust: (i) the stock it owns in PC and Pittsburgh Corning Europe, (ii) 1,388,889 shares of PPG's common stock and (iii) aggregate cash payments to the Trust of approximately \$998 million, payable according to a fixed payment schedule over 21 years, beginning on June 30, 2003, or, if later, the Effective Date. PPG would have had the right, in its sole discretion, to prepay these cash payments to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. In addition to the conveyance of these assets, PPG would have paid \$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 were not participating in the settlement, the rights to which would be assigned to the Trust by PPG.

Under the proposed 2002 PPG Settlement Arrangement, PPG's participating historical insurance carriers would have made cash payments to the Trust of approximately \$1.7 billion between the Effective Date and 2023. These payments could also have been 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 have assigned to the Trust its rights, insofar as they related to the asbestos claims to have been resolved by the Trust, to the proceeds of policies issued by certain insurance carriers that were not participating in the 2002 PPG Settlement Arrangement and from the estates of insolvent insurers and state insurance guaranty funds.

Under the proposed 2002 PPG Settlement Arrangement, PPG would have granted asbestos releases to all participating insurers, subject to a coverage-in-place agreement with certain insurers for the continuing coverage of premises claims (discussed below). PPG would have granted certain participating insurers full policy releases on primary policies and full product liability releases on excess coverage policies. PPG would have also granted certain other participating excess insurers credit against their product liability coverage limits.

If the second amended PC plan of reorganization incorporating the terms of the 2002 PPG Settlement Arrangement and the 2003 Corning Settlement Arrangement had been approved by the Bankruptcy Court, the Court would have entered 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 have also prohibited codefendants in those cases from asserting claims against PPG for contribution, indemnification or other recovery. All such claims would have been filed with the Trust and only paid from the assets of the Trust.

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Modified Third Amended PC Plan of Reorganization

To address the issues raised by the Bankruptcy Court in its December 2006 ruling, the interested parties engaged in extensive negotiations regarding the terms of a third amended PC plan of reorganization, including modifications to the 2002 PPG Settlement Arrangement. A modified third amended PC plan of reorganization (the "third amended PC plan of reorganization"), including a modified PPG settlement arrangement (the "2009 PPG Settlement Arrangement"), was filed with the Bankruptcy Court on January 29, 2009. The parties also filed a disclosure statement describing the third amended PC plan of reorganization with the court. The third amended PC plan of reorganization also includes a modified settlement arrangement of Corning Incorporated.

Several creditors and other interested parties filed objections to the disclosure statement. Those objections were overruled by the Bankruptcy Court by order dated July 6, 2009 approving the disclosure statement. The third amended PC plan of reorganization and disclosure statement will therefore be sent to creditors, including asbestos claimants, for voting. In 2004, creditors and claimants voted overwhelmingly in favor of the second amended PC plan of reorganization, which included the 2002 PPG Settlement Arrangement. Assuming a favorable vote by creditors and claimants on the third amended PC plan of reorganization, the Bankruptcy Court would then conduct a hearing regarding the fairness of the proposed plan, including whether (i) the plan would be fair with respect to present and future claimants, (ii) such claimants would be treated in substantially the same manner, and (iii) the protection provided to PPG and its participating insurers would be fair in view of the assets they would convey to the trust (the "Trust") to be established as part of the third amended PC plan of reorganization. At that hearing, creditors and parties in interest could raise objections to the third amended PC plan of reorganization. The hearing is scheduled for January 2010. Following that hearing, the Bankruptcy Court, after considering objections to the third amended PC plan of reorganization, will enter a confirmation order if all requirements to confirm a plan of reorganization under the Bankruptcy Code have been satisfied. Such an order could be appealed to the U.S. District Court for the Western District of Pennsylvania. Assuming that the District Court approves a confirmation order, interested parties could appeal the order to the U.S. Third Circuit Court of Appeals and subsequently could seek review by the U.S. Supreme Court.

The 2009 PPG Settlement Arrangement will not become effective until the third amended PC plan of reorganization is finally approved by an appropriate court order that is no longer subject to appellate review, and PPG's initial contributions will not be due until 30 business days thereafter (the "Funding Effective Date").

Asbestos Claims Subject to Bankruptcy Court's Channeling Injunction

If the third amended PC plan of reorganization is approved by the Bankruptcy Court and becomes effective, a channeling injunction will be entered under §524(g) of the Bankruptcy Code prohibiting present and future claimants from asserting asbestos claims against PC. With regard to PPG, the channeling injunction will prohibit present and future claimants from asserting claims against PPG that arise, in whole or in part, out of exposure to Unibestos, or any other asbestos or asbestos-containing products actually or allegedly manufactured, sold and/or distributed by PC, or asbestos on or emanating from any PC premises. The injunction will also prohibit codefendants in these cases that are subject to the channeling injunction from asserting claims against PPG for contribution, indemnification or other recovery. The channeling injunction will also preclude the prosecution of claims against PPG arising from

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alleged exposure to asbestos or asbestos-containing products to the extent that a claimant is alleging or seeking to impose liability, directly or indirectly, for the conduct of, claims against or demands on PC by reason of PPG's: (i) ownership of a financial interest in PC; (ii) involvement in the management of PC, or service as an officer, director or employee of PC or a related party; (iii) provision of insurance to PC or a related party; or (iv) involvement in a financial transaction affecting the financial condition of PC or a related party. The foregoing PC related claims are referred to as PC Relationship Claims and constitute, in PPG management's opinion, the vast majority of the pending asbestos personal injury claims against PPG. All claims channeled to the Trust will be paid only from the assets of the Trust.

Asbestos Claims Retained by PPG

The channeling injunction provided for under the third amended PC plan of reorganization will not extend to any claim against PPG that arises out of exposure to any asbestos or asbestos-containing products actually or allegedly manufactured, sold and/or distributed by PPG or its subsidiaries that is not a PC Relationship Claim, and in this respect differs from the channeling injunction contemplated by the second amended PC plan of reorganization filed in 2003. While management believes that the vast majority of the approximately 114,000 claims against PPG alleging personal injury from exposure to asbestos relate to products manufactured, distributed or sold by PC, the potential liability for any non-PC Relationship Claims will be retained by PPG. Because a determination of whether an asbestos claim is a non-PC Relationship Claim would typically not be known until shortly before trial and because the filing and prosecution of asbestos claims (other than certain premises claims) against PPG has been enjoined since April 2000, the actual number of non-PC Relationship Claims that may be pending at the expiration of the stay or the number of additional claims that may be filed against PPG in the future cannot be determined at this time. PPG does not expect the Court to lift the stay until after confirmation or rejection of the third amended PC plan of reorganization. PPG intends to defend against all such claims vigorously and their ultimate resolution in the court system is expected to occur over a period of years.

In addition, similar to what was contemplated by the second amended PC plan of reorganization, the channeling injunction will not extend to claims against PPG alleging personal injury caused by asbestos on premises owned, leased or occupied by PPG (so called premises claims), which generally have been subject to the stay imposed by the Bankruptcy Court. Historically, a small proportion of the claims against PPG and its subsidiaries have been premises claims, 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. Beginning in late 2006, the Bankruptcy Court lifted the stay with respect to certain premises claims against PPG. As a result, PPG and its primary insurers have settled approximately 500 premises claims. PPG's insurers agreed to provide insurance coverage for a major portion of the payments made in connection with the settled claims, and PPG accrued the portion of the settlement amounts not covered by insurance. PPG and its primary insurers are evaluating the voluminous factual, medical, and other relevant information pertaining to approximately 500 additional claims that are being considered for potential settlement. Premises claims remain subject to the stay, as outlined above, although certain claimants have requested the Court to lift the stay with respect to these claims and the stay has been lifted as to some claims. PPG believes that any financial exposure resulting from such premises claims, taking into account available insurance coverage, will not have a material adverse effect on PPG's consolidated financial position, liquidity or results of operations.

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PPG's Funding Obligations

PPG has no obligation to pay any amounts under the third amended PC plan of reorganization until the Funding Effective Date. If the third amended PC plan of reorganization is approved, PPG and certain of its insurers will make the following contributions to the Trust. On the Funding Effective Date, PPG will relinquish any claim to its equity interest in PC, convey the stock it owns in Pittsburgh Corning Europe and transfer 1,388,889 shares of PPG's common stock or cash equal to the fair value of such shares as defined in the 2009 PPG Settlement Arrangement. PPG will make aggregate cash payments to the Trust of approximately \$825 million, payable according to a fixed payment schedule over the period to 2023. The first payment is due on the Funding 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. PPG's participating historical insurance carriers will also make cash payments to the Trust of approximately \$1.6 billion between the Funding Effective Date and 2027. 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. PPG will grant asbestos releases and indemnifications to all participating insurers, subject to amended coverage-in-place arrangements with certain insurers for remaining coverage of premises claims. PPG will grant certain participating insurers full policy releases on primary policies and full product liability releases on excess coverage policies. PPG will also grant certain other participating excess insurers credit against their product liability coverage limits. PPG will retain insurance rights against non-participating insurance policies and insolvent insurance policies that would have been assigned to the Trust under the second amended PC plan of reorganization and will retain any net proceeds of the claims against such non-participating insurers. However, PPG will contribute to the Trust any net proceeds it recovers from claims against certain other nonparticipating insurers, and will use reasonable efforts to pursue such claims.

PPG's obligation under the 2009 PPG Settlement Arrangement at December 31, 2008 was \$162 million less than the amount that would have been due under the 2002 PPG Settlement Arrangement. This reduction is attributable to a number of negotiated provisions in the 2009 PPG Settlement Arrangement, including the provisions relating to the channeling injunction under which PPG retains liability for any non-PC Relationship Claims. PPG will retain such amount as a reserve for asbestos-related claims that will not be channeled to the Trust, as this amount represents PPG's best estimate of its liability for these claims. PPG does not have sufficient current claim information or settlement history on which to base a better estimate of this liability, in light of the fact that the Bankruptcy Court's stay has been in effect since 2000.

Following the effective date of the third amended PC plan of reorganization and the lifting of the Bankruptcy Court stay, PPG will monitor the activity associated with asbestos claims which are not channeled to the Trust pursuant to the third amended PC plan of reorganization, and evaluate its estimated liability for such claims and related insurance assets then available to the Company as well as underlying assumptions on a periodic basis to determine whether any adjustment to its reserve for these claims is required.

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Of the total obligation of \$745 million under the 2009 PPG Settlement Arrangement at June 30, 2009, \$514 million is reported as a current liability and the present value of the payments due in the years 2011 to 2023 totaling \$231 million is reported as a non-current liability in the accompanying condensed consolidated balance sheet. The future accretion of the noncurrent portion of the liability will total \$157 million and be reported as expense in the consolidated statement of income over the period through 2023, as follows (in millions):

Remainder of 2009	\$ 7
2010	14
2011	14
2012 2023	122
Total	\$ 157

The following table summarizes the impact on PPG's financial statements for the three and six months ended June 30, 2009 resulting from the 2009 PPG Settlement Arrangement and for the three and six months ended June 30, 2008 resulting from the 2002 PPG Settlement Arrangement including the change in fair value of the stock to be transferred to the Trust and the equity forward instrument (see Note 17, Derivative Financial Instruments and Hedge Activities) and the increase in the net present value of the future payments to be made to the Trust.

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2009	2008	2009	2008
	(Millions)			
Increase (decrease) in expense:				
Change in fair value:				
PPG stock	\$ 10	\$ (4)	\$ 3	\$ (18)
Equity forward instrument	(10)	3	(3)	12
Accretion of asbestos liability	3	5	7	10
Asbestos settlement net expense	\$ 3	\$ 4	\$ 7	\$ 4

The fair value of the equity forward instrument is included as an other current liability as of June 30, 2009 and December 31, 2008 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, 2009, consists of all such payments required through June 2010, the fair value of PPG's common stock and the value of PPG's investment in Pittsburgh Corning Europe. The amount due June 30, 2011, of \$9 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.

Enjoined Claims

If the 2009 PPG Settlement Arrangement is not implemented, for any reason, and the Bankruptcy Court stay expires, PPG intends to defend vigorously the pending and any future asbestos claims, including PC Relationship Claims, asserted against it and its subsidiaries. PPG continues to assert that it is not responsible for any injuries caused by PC products, which it believes account for the vast majority of the pending claims against PPG. Prior to 2000, PPG had never been found liable for any PC-related claims. In numerous cases PPG had been dismissed on motions prior to trial, and in others PPG was released as part of settlements by PC. PPG was found not responsible for PC-related claims at trial in two cases. In January 2000, one jury found PPG, for the first time, partly

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responsible for injuries to five plaintiffs alleged to be caused by PC products. PPG intends to appeal that adverse verdict in the event the 2009 PPG Settlement Arrangement does not become effective, or the stay is lifted as to these claims, which are the subject of a motion to lift the stay. Although PPG has successfully defended asbestos claims brought against it in the past, in view of the number of claims, and the significant verdicts that other companies have experienced in asbestos litigation, the result of any future litigation of such claims is inherently unpredictable.

Environmental Matters

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. 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 operations of any particular period in which costs, if any, are recognized. Management anticipates that the resolution of the Company's environmental contingencies will occur over an extended period of time.

As of June 30, 2009 and December 31, 2008, PPG had reserves for environmental contingencies totaling \$292 million and \$299 million, respectively, of which \$43 million and \$44 million, respectively, were classified as current liabilities. The reserve at June 30, 2009 included \$191 million for environmental contingencies associated with PPG's former chromium manufacturing plant in Jersey City, N.J., \$44 million for environmental contingencies associated with the Calcasieu River estuary and three operating plant sites in PPG's chemicals business, \$31 million for pre-acquisition environmental contingencies related to SigmaKalon operations and \$26 million for other environmental contingencies, including PPG's estimated obligations related to sites on the National Priority List. The reserve at December 31, 2008 included \$193 million for environmental contingencies associated with the former chromium manufacturing plant in New Jersey, \$48 million for environmental contingencies associated with the Calcasieu River estuary and three operating plant sites in PPG's chemical business, \$31 million for pre-acquisition environmental contingencies related to SigmaKalon operations, and \$27 million for other environmental contingencies, including National Priority List sites. Pretax charges against income for environmental remediation costs totaled \$3 million and \$5 million, respectively, for the three and six months ended June 30, 2009, and \$5 million and \$7 million, respectively, for the three and six months ended June 30, 2008, and are included in "Other charges" in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental remediation aggregated \$7 million and \$12 million for the three and six months ended June 30, 2009, and \$6 million and \$8 million for the three and six months ended June 30, 2008.

The Company's continuing efforts to analyze and assess the environmental issues associated with a former chromium manufacturing plant site located in Jersey City, N.J., and at the Calcasieu River Estuary located near the Lake Charles, La., chlor-alkali plant resulted in a pre-tax charge of \$173 million in the third quarter of 2006 for the estimated costs of remediating these sites. These charges for estimated environmental remediation costs in 2006 were significantly higher than PPG's historical range. Excluding 2006, pretax charges against income have ranged between \$10 million and \$49 million per year for the past 15 years. PPG anticipates that charges against income in 2009 for environmental remediation costs will be within this historical range.

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Management expects cash outlays for environmental remediation costs to be approximately \$35 million in 2009 and to range from \$45 million to \$75 million annually through 2013. It is possible that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter the Company's expectations with respect to charges against income and future cash outlays. Specifically, the level of expected cash outlays is highly dependent upon 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.

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 14 remaining sites is the former chromium manufacturing location in Jersey City. 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. The Company submitted a feasibility study work plan to the NJDEP in October 2006 that includes a 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, in situ chemical stabilization of soil and groundwater, and in situ solidification of soils. PPG has submitted a Remedial Action Work Plan 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 adjacent to the former manufacturing site with completion expected in 2009 to 2010. Investigation activities have not yet begun for the remaining six sites covered by the ACO, but PPG believes the results of the study at the former chromium manufacturing location will also provide the Company with relevant information concerning remediation alternatives at these 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 described above, the Company recorded a pretax charge of \$165 million in the third quarter of 2006. The charge included estimated costs for remediation at the 14 remaining ACO sites, including the former manufacturing site, and for the resolution of litigation filed by NJDEP in May 2005 as discussed below. The principal estimated cost elements of the third quarter 2006 charge and of the remaining reserve at June 30, 2009 were based on competitively derived or readily available remediation industry cost data for representative remedial options, e.g., excavation and in situ stabilization/solidification. The major cost components are (i) in place soil treatment and transportation and disposal of excavated soil and (ii) construction services (related to soil excavation, groundwater management and site security), which account for approximately 50% and 30% of the reserve, respectively, as of June 30, 2009. The reserve also includes estimated costs for remedial investigation, interim remedial measures, engineering and project management. The most significant assumptions underlying the reserve are those related to the extent and concentration of chromium impacts in the soil, as these will determine the quantity of soil that must be treated in place, the quantity that will have to be excavated and transported for offsite disposal, and the nature of disposal required. The charges are exclusive of any third party indemnification, as management believes the likelihood of receiving any such amounts to be remote.

Multiple future events, including completion of feasibility studies, remedy selection, remedy design and remedy implementation involving governmental 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

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during 2010 for the former chromium plant and six adjacent sites, while remedy design and approval could occur during 2010 to 2011, and remedy implementation could occur during 2011 to 2015, with some period of long-term monitoring for remedy effectiveness to follow related to these seven sites. One other site is expected to be remediated during 2009 to 2010. Activities at the six other sites have not yet begun and the timing of future events related to these sites cannot be predicted at this time. As these events occur and to the extent that the cost estimates of the environmental remediation remedies change, the existing reserve for this environmental remediation will be adjusted. Based on current information, PPG expects cash outlays related to remediation efforts in New Jersey to range from \$10 million to \$15 million in 2009 and \$30 million to \$50 million annually from 2010 through 2013.

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. During the third quarter of 2008, the parties reached an agreement in principle on all claims relating to these 53 sites (the Orphan Sites Settlement). Under the terms of the proposed Orphan Sites Settlement, PPG would, among other things, accept responsibility for remediation of 6 of the 53 sites, one half of the cost for remediating 9 sites where chrome ore processing residue was used as fill in connection with the installation or repair of sewer pipes owned by the City, reimburse the NJDEP for a portion of past costs in the amount of \$5 million and be responsible for the NJDEP's oversight costs associated with the sites for which PPG is wholly or partially responsible. The Orphan Sites Settlement would not affect PPG's responsibilities for the 14 remaining unremediated sites covered by PPG's ACO. However, a settlement agreement in the form of a Judicial Consent Order (the JCO) has been reached with the NJDEP and the City of Jersey City regarding a new process for the review of the technical reports PPG must submit for the investigation and remedy selection for the 14 ACO sites and the 6 sites for which PPG has accepted sole responsibility under the terms of the Orphan Sites Settlement. The JCO, which was entered by the Court on June 26, 2009, provides for the appointment of a court-approved Site Administrator who will be responsible for establishing a master schedule for the remediation of the 14 ACO sites. On July 6, 2009, former United States Environmental Protection Agency Deputy Administrator, Michael McCabe, was appointed as Site Administrator under the JCO. The JCO also resolves reparation claims by the City of Jersey City with the payment of \$1.5 million over a 4-5 year time period. The JCO does not otherwise affect PPG's responsibility for the remediation of the 14 ACO sites. PPG's estimated costs under the Orphan Sites Settlement and the JCO are included in the June 30, 2009 previously established reserve for New Jersey chrome environmental remediation matters.

In Lake Charles, the U.S. Environmental Protection Agency (USEPA) 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. 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 conducted additional investigations and submitted a revised feasibility report to

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the agencies in the third quarter of 2008. Government officials have indicated that a U.S. Army Corps of Engineers study has concluded that the proposed remedy will not adversely affect drainage in communities adjacent to Bayou d Inde. Consequently, the government and potentially responsible parties are in the process of resolving final comments on the feasibility report, which could be issued for public comment as soon as the third quarter 2009.

Multiple future events, such as feasibility study approval, remedy selection, remedy design and remedy implementation involving agency action or approvals related to the Calcasieu River estuary 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 2009, remedy design and approval could occur during 2010, and remedy implementation could occur during 2010 to 2013, with some period of long-term monitoring for remedy effectiveness to follow. In addition PPG's obligation related to any potential remediation will be dependent in part upon the final allocation of responsibility among the potentially responsible parties. Negotiations with respect to this allocation are ongoing, but the outcome is uncertain.

In addition to the amounts currently reserved for environmental remediation, 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, 2008. 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 additional costs at the former chromium manufacturing plant site and related sites in Jersey City, N.J., and about 30% relates to three operating PPG plant sites in the Company's 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.

The status of the remediation activity at the sites in New Jersey and at the Calcasieu River Estuary in Louisiana and the factors that could result in the need for additional environmental remediation reserves at those sites are described above. Initial remedial actions are occurring at the three operating plant sites in the chemicals businesses. These three operating plant sites are in Barberton, Ohio, Lake Charles, La., and Natrium, W.Va. At Barberton, PPG has completed a Facility Investigation and Corrective Measure Study (CMS) under USEPA's Resource Conservation and Recycling Act (RCRA) Corrective Action Program. Currently, PPG is implementing the remediation alternatives recommended in the CMS using a performance-based approach with USEPA Region V oversight. Similarly, the Company has completed a Facility Investigation and CMS for the Lake Charles facility under the oversight of the LDEQ. The LDEQ has accepted the proposed remedial alternatives which are expected to be incorporated into the facility's RCRA operating permit during 2009. Planning for or implementation of these proposed alternatives is in progress. At the 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.

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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.

Other Matters

The Company, with the assistance of outside counsel, has conducted an investigation into potential violations of the U.S. export control laws, related to the export of small quantities (approximately 1,000 gallons) of protective coatings for potential use in Pakistan in 2006. The Company made a preliminary disclosure of potential U.S. export control violations to the U.S. Department of Commerce in February 2007, and made further disclosures in its supplemental memorandum in support of its disclosure in April 2009. The Company is cooperating fully with the U.S. Department of Commerce's Bureau of Industry and Security and with the U.S. Department of Justice in connection with their ongoing investigation relating to this export controls issue, and has responded to administrative subpoenas from the Commerce Department and a federal grand jury subpoena. Violations of the export control laws may result in civil, administrative or criminal fines or penalties, loss of export privileges, debarment or a combination of these penalties. At this time the Company is unable to determine the outcome of the government's investigation or its possible effect on the Company.

PPG is a defendant in a matter in the California State Court in San Francisco in which plaintiffs claim that PPG and other defendants manufactured a defective product, the dry cleaning solvent perchloroethylene (PCE), and failed to provide adequate warnings regarding the environmental risks associated with the use of PCE. The plaintiffs claim the defendants are responsible for remediation of soil and groundwater contamination at 18 dry cleaner sites in Modesto, California. Prior to submission of the case to the jury, the Court granted nonsuit motions filed by all the defendants that limited PPG's potential liability to one of the 18 sites. The damages sought at this one site totaled \$27 million. A jury verdict in the amount of \$18 million was returned against PPG and The Dow Chemical Company on May 18, 2009. The verdict was not apportioned. The jury was not able to reach a verdict on the statute of limitations issue on the site in question. The statute of limitations issue will be retried in September 2009. If the issue is decided in PPG's favor, the May verdict would be nullified. If the issue is not decided in PPG's favor, PPG will request that the Court apply prior settlement credits to reduce the May verdict amount. The amounts of any prior settlement credits which will be applied to the verdict will be the subject of briefing and a Court decision prior to the entry of a final judgment, if one is entered.

The Company accrues for product warranties at the time the products are sold based on historical claims experience. As of June 30, 2009 and December 31, 2008, the reserve for product warranties was \$10 million. Pretax charges against income for product warranties and the related cash outlays were not material for the three and six months ended June 30, 2009 and 2008.

The Company had outstanding letters of credit of \$90 million and guarantees of \$66 million as of June 30, 2009. The Company does not believe any loss related to such guarantees is likely.

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The automotive industry continues to be adversely impacted in 2009 by declining economic conditions. In the second quarter of 2009, production of automobiles and light trucks declined by 49% in North America and 26% in Western Europe as compared to the second quarter of 2008. Continued declines in the global production of automobiles and light trucks of this magnitude would adversely impact our sales volume. The North American automotive industry continues to experience structural change, including the loss of U.S. market share by General Motors and Chrysler. Further deterioration of market conditions could cause certain of our customers and suppliers to experience liquidity problems, possibly resulting in the write-off of amounts due from these customers and cost impacts of changing suppliers.

On April 30, 2009, Chrysler's U.S. operations filed for bankruptcy. General Motors' U.S. operations filed for bankruptcy on June 1, 2009. PPG has collected substantially all amounts that were due from Chrysler and General Motors as of the dates of the respective bankruptcy filings. As such, there was no charge to earnings in the second quarter of 2009 as a result of these customer bankruptcies. Our worldwide sales to General Motors and Chrysler in the second quarter of 2009 were approximately \$52 million. Our total asset exposure related to General Motors and Chrysler was approximately \$51 million at June 30, 2009, including approximately \$6 million of trade receivables related to sales in the U.S. to these customers. Chrysler and General Motors have subsequently emerged from bankruptcy, on June 10, 2009 and July 10, 2009, respectively. We expect to collect substantially all of the trade receivables due from these customers at June 30, 2009, and accordingly have recorded no reserves related to these amounts. However, we remain focused on the continual management of this credit risk. Additionally, the same economic conditions that are adversely impacting our continuing businesses that serve the automotive OEM market are significantly impacting the divested automotive glass and services business, in which PPG maintains an approximately 40 percent interest.

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21. Reportable Segment Information

PPG is a multinational manufacturer with 13 operating segments that are organized based on the Company's major products lines. These operating segments are also the Company's reporting units for purposes of testing goodwill for impairment. The operating segments have been aggregated based on economic similarities, the nature of their products, production processes, end-use markets and methods of distribution into six reportable business segments.

The Performance Coatings reportable segment is comprised of the refinish, aerospace, architectural coatings Americas and Asia Pacific and protective and marine coatings operating segments. This reportable segment primarily supplies a variety of protective and decorative coatings, sealants and finishes along with paint strippers, stains and related chemicals, as well as transparencies and transparent armor.

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 Architectural Coatings EMEA reportable segment is comprised of the architectural coatings EMEA operating segment. This reportable segment primarily supplies a variety of coatings under a number of brands and purchased sundries to painting contractors and consumers in Europe, the Middle East and Africa.

The Optical and Specialty Materials reportable segment is comprised of the optical products and silicas operating segments. The primary Optical and Specialty Materials products are Transitions® lenses, sunlenses, optical materials, polarized film and amorphous precipitated silica products. 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, calcium hypochlorite, ethylene dichloride and phosgene derivatives.

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

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Reportable segment net sales and segment income (loss) for the three and six months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	(Millions)			
Net sales:				
Performance Coatings	\$ 1,066	\$ 1,269	\$ 1,994	\$ 2,383
Industrial Coatings	741	1,152	1,385	2,210
Architectural Coatings - EMEA	527	667	936	1,203
Optical and Specialty Materials	255	310	500	605
Commodity Chemicals	319	495	680	918
Glass (a)	207	581	403	1,117
Total (b)	\$ 3,115	\$ 4,474	\$ 5,898	\$ 8,436
Segment income (loss):				
Performance Coatings	\$ 158	\$ 171	\$ 247	\$ 291
Industrial Coatings	28	109	12	204
Architectural Coatings - EMEA	55	71	58	80
Optical and Specialty Materials	61	76	121	150
Commodity Chemicals	42	68	125	136
Glass (a)	(7)	30	(34)	60
Total	337	525	529	921
Legacy items (c)	(12)	(3)	(37)	(7)
Business restructuring (Note 7)			(186)	
Acquisition related costs (d)				(117)
Depreciation catch-up charge (e)		(17)		(17)
Divestiture related benefit costs (f)		(19)		(19)
Asbestos settlement net	(3)	(4)	(7)	(4)
Interest expense, net of interest income	(42)	(60)	(84)	(119)
Unallocated stock based compensation (Note 19)	(6)	(6)	(13)	(15)
Other unallocated corporate expense net	(21)	(22)	(60)	(46)
Income before income taxes	\$ 253	\$ 394	\$ 142	\$ 577

- (a) Glass net sales and segment income include the results of the automotive glass and services business for the three and six months ended June 30, 2008 (See Note 6, "Divestiture of the Automotive Glass and Services Business").
- (b) Intersegment net sales for the three and six months ended June 30, 2009 and 2008 were not material.
- (c) Legacy items include current costs related to former operations of the Company, including certain environmental remediation, pension and other postretirement benefit costs, and certain charges for legal and other matters. Legacy items also include an equity earnings/(loss) from PPG's approximately 40 percent investment in the former automotive glass and services business for the three and six months ended June 30, 2009. These legacy items are excluded from the segment income (loss) that is used to evaluate the performance of the operating segments.
- (d) Represents costs related to the SigmaKalon acquisition, including \$94 million for the flow-through cost of sales of the step up to fair value of acquired inventory and \$23 million for the write-off of in-process research and development. These costs are considered to be unusual and non-recurring and will not reduce the segment earnings used to evaluate the performance of the operating segments.
- (e) For the three and six months ended June 30, 2008, represents the catch-up of depreciation expense through March 31, 2008, which was suspended when the automotive glass and services business was classified as a discontinued operation in September 2007.

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- (f) Represents special termination benefits and pension curtailment loss relating to the impact of benefit changes, including accelerated vesting, negotiated as part of the pending sale of the automotive glass and services business for the three and six months ended June 30, 2008. These costs are considered to be unusual and non-recurring and will not reduce the segment earnings used to evaluate the performance of the operating segments.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*****Performance in Second Quarter of 2009 Compared to Second Quarter of 2008******Performance Overview***

Sales decreased 30% in the second quarter of 2009 to \$3,115 million compared to \$4,474 million for the second quarter of 2008. Lower volumes in all reportable segments accounted for a decrease of 18%, weaker foreign currency and the absence of sales from the divested automotive glass and services business each accounted for a decrease of 6%.

Cost of sales, exclusive of depreciation and amortization, decreased by \$931 million for the second quarter of 2009 to \$1,898 million compared to \$2,829 million for the second quarter of 2008. Cost of sales as a percentage of sales was 60.9% for the second quarter of 2009 compared to 63.2% for the second quarter of 2008. This decrease was primarily a result of lower raw material costs and improved sales mix.

Selling, general and administrative expenses decreased by \$205 million in the second quarter of 2009 compared to the second quarter of 2008 due to lower sales volumes, specific overhead cost reduction actions taken in response to the decline in the global economy and the impact of foreign currency translation.

Depreciation expense declined to \$88 million in the second quarter of 2009 as compared to \$128 million in the second quarter of 2008 due to the impact of foreign currency translation, our restructuring actions over the past nine months and the divestiture of our automotive glass and services business. Research and development costs declined from \$118 million in the second quarter of 2008 to \$97 million in the second quarter of 2009 largely due to cost reduction efforts and the impact of foreign currency translation. Interest expense declined from \$65 million to \$49 million in the second quarter of 2009, reflective of the lower debt balances and interest rates in the second quarter of 2009.

The effective tax rate on pretax earnings was 33% for the second quarter of 2009 compared to 29.5% for the second quarter of 2008. The second quarter 2009 effective tax rate includes a tax benefit of 38.5% on the adjustment to increase the current value of the Company's obligation relating to asbestos claims under the proposed asbestos settlement. The second quarter 2008 effective tax rate included a tax benefit of 36% on the charges for the catch-up of depreciation expense and the impact of benefit changes related to the divestiture of the automotive glass and services business 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 proposed asbestos settlement. The effective tax rate was 33% on the remaining pretax earnings for the second quarter of 2009 compared to 30% for the second quarter of 2008.

Net income (attributable to PPG) and earnings per share assuming dilution (attributable to PPG) are summarized below:

(Millions, except per share amounts)

Three Months ended June 30, 2009

	Net Income	
	\$	EPS
Net income (attributable to PPG)	\$ 146	\$ 0.89
Net income (attributable to PPG) includes:		
Charge related to asbestos settlement ⁽¹⁾	2	0.02

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(Millions, except per share amounts)

Three Months ended June 30, 2008

	Net Income	
	\$	EPS
Net income (attributable to PPG)	\$ 250	\$ 1.51
Net income (attributable to PPG) includes:		
Charge related to asbestos settlement ⁽¹⁾	2	0.01
Depreciation catch-up charge ⁽²⁾	11	0.07
Divestiture related benefit costs ⁽³⁾	12	0.07

- (1) Net increase in the current value of the Company's obligation under the proposed asbestos settlement.
- (2) Represents the catch-up of depreciation expense, which was suspended when the automotive glass and services business was classified previously as a discontinued operation.
- (3) Represents special termination benefits and a pension curtailment loss relating to the impact of benefit changes, including accelerated vesting, negotiated as part of the sale of the automotive glass and services business.

Performance of Reportable Business Segments

Performance Coatings sales decreased 16% to \$1,066 million for the second quarter of 2009 compared to \$1,269 million for the second quarter of 2008. Sales declined 12% as a result of lower sales volumes, particularly in the automotive refinish business and architectural coatings Americas and Asia/Pacific business. The volume decline in automotive refinish was most pronounced in the U.S. and Europe, while the decline in architectural coatings was mainly in the U.S. and Latin America. Weaker foreign currency also reduced sales by 7%. Sales increased 3% due to improved pricing in all businesses. Segment income was \$158 million for the second quarter of 2009 compared to \$171 million for the second quarter of 2008. The earnings impact of lower volumes was offset by increased selling prices and lower overhead costs. The remaining decline in segment earnings was due to the impact of currency.

Industrial Coatings sales decreased 36% to \$741 million for the second quarter of 2009 compared to \$1,152 million for the second quarter of 2008. Sales decreased 31% due primarily to lower sales volumes, most notably in the automotive and industrial businesses, reflecting the continued severe decline in global demand. Volume declines in these businesses occurred in all major geographic regions. Sales also declined 8% due to the negative impact of foreign currency translation. Sales increased 2% due to the positive impact of acquisitions and 1% due to increased selling prices. Segment income was \$28 million for the second quarter of 2009 compared to segment income of \$109 million for the same quarter in 2008 due mostly to significantly lower volumes as well as some negative currency impact. Factors increasing segment income were lower overhead costs, lower production input costs and higher selling prices.

Architectural Coatings - EMEA (Europe, Middle East and Africa) sales decreased 21% to \$527 million for the second quarter of 2009 compared to \$667 million for the second quarter of 2008. Sales decreased due, in large part, to the negative impact of foreign currency translation. Lower sales volumes were slightly offset by increased selling prices. Segment income was \$55 million for the second quarter of 2009 compared to \$71 million for the same quarter in 2008. Factors decreasing segment income were lower sales volumes, negative currency impacts and inflation. These factors were partially offset by higher selling prices and lower overhead costs.

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Optical and Specialty Materials sales decreased \$55 million to \$255 million for the second quarter of 2009 compared to \$310 million for the second quarter of 2008. Sales volumes decreased 14% in part reflecting the decline from strong second quarter 2008 volumes associated with the launch of Transitions Optical's next generation lens product. Volumes were also lower in the silicas business as a result of the deterioration of the automotive OEM market. Sales declined 5% due to the negative impact of foreign currency translation, which was partially offset by a slight increase in selling prices. Segment income was \$61 million for the second quarter of 2009 compared to \$76 million for the same quarter in 2008. The decrease in segment income was primarily the result of the lower sales volumes offset somewhat with lower manufacturing costs, higher prices and lower overhead costs.

Commodity Chemicals sales decreased 36% to \$319 million for the second quarter of 2009 compared to \$495 million for the second quarter of 2008. Sales declined due to a combination of lower sales volumes and selling prices. Segment income was \$42 million for the second quarter of 2009 compared to \$68 million for the same quarter in 2008. Segment income decreased in large part due to negative impact of lower sales volumes and higher manufacturing costs stemming from the lower production levels. The impact of lower input costs, primarily natural gas, was counteracted by the lower selling prices.

Glass sales decreased 64% to \$207 million for the second quarter of 2009 compared to \$581 million for the second quarter of 2008. About \$253 million of the decline in sales was due to the divestiture of a majority interest in the automotive glass and services business, which was completed in September 2008. Sales also declined by 18% due to lower volumes reflecting reduced construction and general industrial demand and 2% due to weaker foreign currency. Segment loss was \$7 million for the second quarter of 2009 compared to segment earnings of \$30 million for the same quarter in 2008. The decline in segment earnings was due to the negative impact of lower sales volumes, lower equity earnings and the absence of earnings from the divested automotive glass and services business. Lower overhead and production input costs positively impacted segment income.

Performance in the First Six Months of 2009 Compared to First Six Months of 2008

Performance Overview

Sales decreased 30% for the first six months of 2009 to \$5,898 million compared to \$8,436 million for the first six months of 2008. Lower volumes in all reportable segments accounted for a decrease of 19%, weaker foreign currency accounted for a decrease of 7% and the absence of sales from the divested automotive glass and services business accounted for a decrease of 6%. These sales decreases were slightly offset by a 2% increase stemming from improved selling prices.

Cost of sales, exclusive of depreciation and amortization, decreased by \$1,809 million for the first six months of 2009 to \$3,616 million compared to \$5,425 million for the first six months of 2008. This decrease corresponds with the decrease in sales. Cost of sales as a percentage of sales was 61.3% for the first six months of 2009 compared to 64.3% for the first six months of 2008. Cost of sales in the first six months of 2008 includes \$94 million for the flow through cost of sales of the step up to fair value of acquired inventory. The remaining reduction in cost of sales as a percentage of sales was due to increased selling prices in 2009 and favorable mix.

Selling, general and administrative expenses decreased by \$358 million in the first six months of 2009 compared to the first six months of 2008 due to lower sales volumes, specific overhead cost reduction actions taken in response to the decline in the global economy, the impact of foreign currency translation and the absence of the 2008 charge of \$19 million for special termination benefits and a pension curtailment loss relating to the sale of the automotive glass and services business.

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Depreciation expense declined to \$176 million in the first six months of 2009 as compared to \$235 million in the first six months of 2008 due to both the impact of foreign currency translation, our restructuring actions and the divestiture of the automotive glass and services business. Research and development costs declined from \$230 million in the first six months of 2008 to \$191 million in the first six months of 2009 largely due cost reduction efforts and the impact of foreign currency translation. Interest expense declined from \$131 million to \$97 million in the first six months of 2009, reflective of the lower debt balances and interest rates in the first six months of 2009.

The charge for in-process research and development in the first six months of 2008 of \$23 million was related to the 2008 SigmaKalon acquisition.

The business restructuring charge of \$186 million in the first six months of 2009 represents costs under a restructuring plan focused on further reducing PPG's global cost structure. The actions included in the restructuring plan are expected to deliver pretax cost savings of approximately \$60 million in 2009, growing to an annual run rate of about \$140 million in 2010.

Other earnings decreased to \$54 million in the first six months of 2009 as compared to \$81 million for the first six months of 2008. This decrease was largely due to lower equity earnings, including equity losses from PPG's investment in the former automotive glass and services business and lower equity earnings from our Asian fiber glass joint ventures.

The effective tax rate on pretax earnings was 45% for the first six months of 2009 compared to 30% for the first six months of 2008. The effective tax rate for the first six months of 2009 includes a tax benefit of 24% related to the business restructuring charge and a tax benefit of 38.5% on the adjustment to increase the current value of the Company's obligation relating to asbestos claims under the proposed settlement. The effective tax rate for the first six months of 2008 included a tax benefit of \$6 million related to the settlement with the Internal Revenue Service of our U.S. tax returns for the years 2004 and 2005, a tax benefit of 24% on costs related to the acquisition of SigmaKalon, a tax benefit of 36% on the charges for the catch-up of depreciation expense and the impact of benefit changes related to the divestiture of the automotive glass and services business 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 proposed settlement. The effective tax rate was 33% on the remaining pretax earnings for the first six months of 2009 compared to 30% for the first six months of 2008.

Net income (attributable to PPG) and earnings per share assuming dilution (attributable to PPG) are summarized below:

(Millions, except per share amounts)

Six Months ended June 30, 2009	Net Income	
	\$	EPS
Net income (attributable to PPG)	\$ 35	\$ 0.21
Net income (attributable to PPG) includes:		
Business restructuring charge	141	0.86
Charge related to asbestos settlement ⁽¹⁾	4	0.03

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(Millions, except per share amounts)

Six Months ended June 30, 2008

	Net Income	
	\$	EPS
Net income (attributable to PPG)	\$ 350	\$ 2.12
Net income (attributable to PPG) includes:		
Charge related to asbestos settlement ⁽¹⁾	2	0.01
Acquisition-related costs ⁽³⁾	89	0.54
Depreciation catch-up charge ⁽⁴⁾	11	0.07
Divestiture related benefit costs ⁽⁵⁾	12	0.07

- (1) Net increase in the current value of the Company's obligation relating to asbestos claims under the proposed asbestos settlement.
- (2) Costs related to SigmaKalon acquisition, including \$66 million aftertax for the flow-through cost of sales of the step up to fair value of acquired inventory and \$23 million aftertax for the write-off of in-process research and development.
- (3) Represents the catch-up of depreciation expense, which was suspended when the automotive glass and services business was classified previously as a discontinued operation.
- (4) Represents special termination benefits and a pension curtailment loss relating to the impact of benefit changes, including accelerated vesting, negotiated as part of the sale of the automotive glass and services business.

Performance of Reportable Segments

Performance Coatings sales decreased 16% to \$1,994 million for the first six months of 2009 compared to \$2,383 million for the first six months of 2008. Sales declined 13% as a result of lower sales volumes, particularly in the automotive refinishing business and architectural coatings Americas and Asia/Pacific business. The volume decline in automotive refinishing was most pronounced in the U.S. and Europe, while the decline in architectural coatings was mainly in the U.S. and Latin America. Weaker foreign currency also reduced sales by 7%. Sales increased 4% due to improved pricing in all businesses. Segment income was \$247 million for the first six months of 2009 compared to \$291 million for the first six months of 2008. The lower volumes and weaker foreign currencies reduced segment income, while increased selling prices and lower overhead costs partially offset these decreases.

Industrial Coatings sales decreased 37% to \$1,385 million for the first six months of 2009 compared to \$2,210 million for the first six months of 2008. Sales decreased 32% due to lower sales volumes, most notably in the automotive and industrial businesses, reflecting the continued severe decline in global demand. Volume declines in these businesses occurred in all major regions. Sales also declined 8% due to the negative impact of foreign currency translation. Sales increased 2% due to the positive impact of acquisitions and 1% due to increased selling prices. Segment income was \$12 million for the first six months of 2009 compared to \$204 million for the same period in 2008. The lower sales volumes significantly reduced segment earnings. Factors increasing segment income were lower overhead costs, higher selling prices and deflation.

Architectural Coatings - EMEA sales decreased 22% to \$936 million for the first six months of 2009 compared to \$1,203 million for the first six months of 2008. Sales decreased 16% due to the negative impact of foreign currency translation and 9% from lower sales volumes. These factors were slightly offset by increased selling prices. Segment income was \$58 million for the first six months of 2009 compared to \$80 million for the same period in 2008. The lower sales volumes, inflation and weaker foreign currency reduced segment income. This decrease was not fully offset by lower overhead costs and higher selling prices.

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Optical and Specialty Materials sales decreased 17% to \$500 million for the first six months of 2009 compared to \$605 million for the first six months of 2008. Sales volumes decreased 14% in part reflecting strong first half of 2008 volumes associated with the launch of Transitions Optical's next generation lens product in North America. Volumes were also lower in the silicas business as a result of the deterioration of the automotive OEM market. Sales declined 4% due to the negative impact of foreign currency translation, which was partially offset by a slight increase in selling prices. Segment income was \$121 million for the first six months of 2009 compared to \$150 million for the same period in 2008. The decrease in segment income was primarily the result of lower sales volumes.

Commodity Chemicals sales decreased 26% to \$680 million for the first six months of 2009 compared to \$918 million for the first six months of 2008. Sales declined largely due to lower sales volumes with smaller contributions from price and currency translation. Segment income was \$125 million for the first six months of 2009 compared to \$136 million for the same period in 2008. Segment income decreased in large part due to the negative impact of lower sales volumes, higher manufacturing costs stemming from the lower production levels and lower selling prices. Factors increasing segment income were lower energy and raw material costs.

Glass sales decreased 64% to \$403 million for the first six months of 2009 compared to \$1,117 million for the first six months of 2008. About \$495 million of the decline in sales was due to the divestiture of a majority interest in the automotive glass and services business, which was completed in September 2008. Sales also declined by 18% due to lower volumes reflecting reduced construction and general industrial demand and 2% due to weaker foreign currency. Segment loss was \$34 million for the first six months of 2009 compared to segment earnings of \$60 million for the same period in 2008. The decline in segment earnings was due to the negative impact of lower sales volumes, lower equity earnings, the absence of earnings from the divested automotive glass and services business and higher manufacturing costs stemming from reduced operating rates. Increased selling prices and lower overhead costs positively impacted segment income.

Liquidity and Capital Resources

Cash from operating activities for the six months ended June 30, 2009 was \$106 million versus cash from operations of \$402 million for the comparable period of 2008. This decline in cash from operating activities in 2009 is primarily due to lower earnings and the negative impact of pension contributions totaling approximately \$190 million, including a \$160 million voluntary contribution that we made to our U.S. pension plans during the period. Pension contributions in the first six months of 2008 totaled \$50 million. Cash from operations and the Company's debt capacity are expected to continue to be sufficient to fund operating activities, capital spending, including acquisitions, dividend payments, debt service, amounts due under the proposed asbestos settlement, share repurchases, and contributions to pension plans.

The ratio of total debt, including capital leases, to total debt and equity was 57% at June 30, 2009 and 53% at December 31, 2008. The increase at June 30, 2009 is primarily due to a reduction of equity driven by the first quarter net loss, dividends and adjustments to accumulated other comprehensive loss for unrealized currency translation adjustment.

We do not have a mandatory contribution to make to our U.S. defined benefit pension plans in 2009; however, due in large part to the negative investment return on pension plan assets in 2008, we made a voluntary contribution in the amount of \$160 million to these plans in January 2009, and we will make an additional voluntary contribution to these plans in 2009 in an amount of \$55 million, which is expected to be in the form of PPG stock. We expect to make mandatory contributions to our non-U.S. plans in 2009 of approximately \$60 million, of which approximately \$50 million was made in the first six months of 2009.

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In June 2009, PPG entered into a \$400 million three year unsecured term loan. The proceeds will be used to repay outstanding debt. During the second quarter \$165 million of the proceeds from this term loan were used to retire outstanding amounts under our 650 million revolving credit facility; the remainder of the loan proceeds will be used to retire our 7.05% bonds, which are to mature in August of 2009 and to repay additional amounts under our 650 million revolving credit facility. The principal amount of this loan is due in three years. The interest rate on borrowings under this facility is variable based on a spread over LIBOR.

In December of 2008, the Company entered into an agreement with a counterparty to repurchase 1.5 million shares of the Company's stock. Under the terms of the agreement, the counterparty purchased the shares in the open market in January of 2009 and is now holding the shares until such time as the Company pays the agreed upon price of \$39.53 per share and takes possession of these shares. These shares are not considered outstanding for basic and diluted earnings per share calculations and total shareholders' equity at June 30, 2009 has been reduced by approximately \$59 million, representing the amount that will be paid by PPG to the counterparty upon settlement.

New Accounting Standards

Note 2, Newly Adopted Accounting Standards, to the accompanying condensed consolidated financial statements describes the Company's adoption of SFAS No. 165, Subsequent Events, SFAS No. 141 (revised 2007), Business Combinations, SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, EITF Issue No. 07-1, Accounting for Collaborative Arrangements, FSP FAS 157-2, Effective Date of FASB Statement No. 157, SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, FSP FAS 157-4, Determining Fair Value When Market Activity Has Decreased, FSP FAS 115-2 and FAS 124-2, Other-Than-Temporary Impairment, and FSP FAS 107-1/APB 28-1, Interim Fair Value Disclosures for Financial Instruments.

Note 3, Other New Accounting Standards, to the accompanying condensed consolidated financial statements describes the potential impact on PPG of accounting standards that are not yet effective, including SFAS No. 167, Amendments to FASB Interpretation No. 46(R) and SFAS No. 168, The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162.

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 20, 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 asbestos settlement. As discussed in Part II, Item 1 and Note 20, 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 20 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.

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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. 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 operations of any particular period in which costs, if any, are recognized. Management anticipates that the resolution of the Company's environmental contingencies will occur over an extended period of time.

As of June 30, 2009 and December 31, 2008, PPG had reserves for environmental contingencies totaling \$292 million and \$299 million, respectively, of which \$43 million and \$44 million, respectively, were classified as current liabilities. Pretax charges against income for environmental remediation costs totaled \$3 million and \$5 million, respectively, for the three and six months ended June 30, 2009, and \$5 million and \$7 million, respectively, for the three and six months ended June 30, 2008, and are included in Other charges in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental remediation aggregated \$7 million and \$12 million for the three and six months ended June 30, 2009, and \$6 million and \$8 million for the three and six months ended June 30, 2008.

In addition to the amounts currently reserved for environmental remediation, 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, 2008. 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 additional costs at the former chromium manufacturing plant site and related sites in Jersey City, N.J., and about 30% relates to three operating PPG plant sites in the Company's 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.

Management expects cash outlays for environmental remediation costs to be approximately \$35 million in 2009 and to range from \$45 million to \$75 million annually through 2013. It is possible that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter the Company's expectations with respect to charges against income and future cash outlays. Specifically, the level of expected cash outlays is highly dependent upon 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.

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 Annual Report 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.

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Many factors could cause actual results to differ materially from the Company's forward-looking statements. Such factors include global economic conditions, increasing price and product competition by foreign and domestic competitors, fluctuations in cost and availability of raw materials, the ability to maintain favorable supplier relationships and arrangements, difficulties in integrating acquired businesses and achieving expected synergies therefrom, economic and political conditions in international markets, the ability to penetrate existing, developing and emerging foreign and domestic markets, which also depends on economic and political conditions, foreign exchange rates and fluctuations in such 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, 2008 under the caption Item 1a. Risk Factors are considered representative, no such list should 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 compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties, other factors set forth in Item 1a Risk Factors of the Company's Form 10-K for the year ended December 31, 2008 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, 2008.

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

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

For over 30 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 asbestos arrangement, see Note 20, Commitments and Contingent Liabilities under Part I, Item 1 of this Form 10-Q.

As described in Note 20, the Company continues to cooperate with the U.S. Department of Commerce's Bureau of Industry and Security and with the U.S. Department of Justice in connection with their ongoing investigation relating to potential violations of the U.S. export control laws. At this time the Company is unable to determine the outcome of the government's investigation or its possible effect on the Company.

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.

A Notice of Intent (NOI) to File a Citizen Suit under the federal Clean Water Act has been received by PPG from the West Virginia Rivers Coalition and Oceana. The NOI alleges that PPG exceeded permitted discharge limits at its Natrium, West Virginia plant. The West Virginia Department of Environmental Protection filed suit in State Court for the permit exceedances covered by the NOI and informed PPG that it intended to seek a civil penalty. In PPG's experience, resolution of matters such as these is difficult to predict, but PPG considers it probable that a civil penalty in excess of \$100,000 will be assessed for this matter.

PPG has received a Consolidated Compliance Order and Notice of Proposed Penalty (CO/NOPP) from the Louisiana Department of Environmental Quality (DEQ) alleging violation of various requirements of its Lake Charles, La., facility's air permit based largely upon permit deviations self-reported by PPG. The CO/NOPP did not contain a proposed civil penalty. PPG filed a request for

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hearing and has engaged DEQ in settlement discussions. In PPG's experience, resolution of such matters is difficult to predict; however, additional self-reported air permit deviations were recently incorporated into the proceeding, and PPG now considers it probable that a civil penalty in excess of \$100,000 will be assessed for this matter.

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, 2008. However, we wish to reiterate that we sell products to the U.S.-based automotive original equipment manufacturers. The automotive industry continues to be adversely impacted in 2009 by declining economic conditions. In the second quarter of 2009, production of automobiles and light trucks declined by 49% in North America and 26% in Western Europe as compared to the second quarter of 2008. Continued declines in the global production of automobiles and light trucks of this magnitude would adversely impact our sales volume. The North American automotive industry continues to experience structural change, including the loss of U.S. market share by General Motors and Chrysler. Further deterioration of market conditions could cause certain of our customers and suppliers to experience liquidity problems, possibly resulting in the write-off of amounts due from these customers and cost impacts of changing suppliers.

On April 30, 2009, Chrysler's U.S. operations filed for bankruptcy. General Motor's U.S. operations filed for bankruptcy on June 1, 2009. PPG has collected substantially all amounts that were due from Chrysler and General Motors as of the dates of the respective bankruptcy filings. As such, there was no charge to earnings in the second quarter of 2009 as a result of these customer bankruptcies. Our worldwide sales to General Motors and Chrysler in the second quarter of 2009 were approximately \$52 million. Our total asset exposure related to General Motors and Chrysler was approximately \$51 million at June 30, 2009, including approximately \$6 million of trade receivables related to sales in the U.S. to these customers. Chrysler and General Motors have subsequently emerged from bankruptcy, on June 10, 2009 and July 10, 2009, respectively. We expect to collect substantially all of the trade receivables due from these customers at June 30, 2009, and accordingly have recorded no reserves related to these amounts. However, we remain focused on the continual management of this credit risk. Additionally, the same economic conditions that are adversely impacting our continuing businesses that serve the automotive OEM market are significantly impacting the divested automotive glass and services business, in which PPG maintains an approximately 40 percent interest.

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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). 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 2009, the directors, as a group, were credited with 3,764 common stock equivalents under this plan. The value of each common stock equivalent, when credited, ranged from \$45.13 to \$46.11.

Issuer Purchases of Equity Securities

There was no stock repurchase activity during the second quarter of 2009. The maximum number of shares that may yet be purchased under the publicly announced programs is 3,850,009 shares. This amount has not yet been reduced to reflect the impact of an agreement with a counterparty to repurchase 1,500,000 shares of PPG stock. Under the terms of this agreement, the counterparty purchased shares in the open market in January of 2009 and is now holding the shares until such time as the Company pays the agreed upon price of \$39.53 per share and takes possession of these shares.

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, 2009, is incorporated herein by reference in its entirety.

Item 6. Exhibits

(a) See the Index to Exhibits on Page 54.

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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 27, 2009

By /s/ W. H. Hernandez
 W. H. Hernandez

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

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PPG Industries Inc. and Consolidated Subsidiaries

Index to Exhibits

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

- 10 Material terms of retirement arrangement with William H. Hernandez, filed as Exhibit 10 to the registrant's current report on Form 8-K filed on May 21, 2009.
- 12 Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended June 30, 2009 and for the Five Years Ended December 31, 2008.
- 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.
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

Filed herewith.

- * Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2009 and 2008, (ii) the Condensed Consolidated Balance Sheet at June 30, 2009 and December 31, 2008, (iii) the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2009 and 2008, and (iv) Notes to Condensed Consolidated Financial Statements for the six months ended June 30, 2009. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.