

PPG INDUSTRIES INC
Form 10-Q
October 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended September 30, 2014
Commission File Number 1-1687

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

Pennsylvania 25-0730780
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One PPG Place, Pittsburgh, Pennsylvania 15272
(Address of principal executive offices) (Zip Code)
(412) 434-3131
(Registrant's telephone number, including area code)

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

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

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

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

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

As of September 30, 2014, 137,235,051 shares of the Registrant's common stock, par value \$1.66-2/3 per share, were outstanding.

PPG INDUSTRIES, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Income (Unaudited)

(\$ in millions, except per share amounts)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Net sales	\$3,935	\$3,774	\$11,653	\$10,765
Cost of sales, exclusive of depreciation and amortization	2,229	2,161	6,626	6,286
Selling, general and administrative	941	910	2,826	2,581
Depreciation	87	85	260	245
Amortization	32	28	93	88
Research and development, net	120	117	366	344
Interest expense	47	48	142	148
Interest income	(13)	) (11	) (38	) (30
Business restructuring	—	98	—	98
Asbestos settlement – net	3	3	9	9
Other charges	150	119	190	168
Other income	(160)	) (31	) (216	) (82
Income from continuing operations before income taxes	499	247	1,395	910
Income tax expense	116	40	330	182
Income from continuing operations	383	207	1,065	728
(Loss)/income from discontinued operations, net of tax	(6	) 48	1,005	2,343
Net income attributable to the controlling and noncontrolling interests	377	255	2,070	3,071
Less: Net income attributable to noncontrolling interests	(6	) (29	) (51	) (94
Net income (attributable to PPG)	\$371	\$226	\$2,019	\$2,977
Amounts attributable to PPG:				
Income from continuing operations, net of tax	\$377	\$204	\$1,047	\$713
(Loss)/income from discontinued operations, net of tax	(6	) 22	972	2,264
Net income (attributable to PPG)	\$371	\$226	\$2,019	\$2,977
Earnings per common share:				
Income from continuing operations, net of tax	\$2.73	\$1.43	\$7.55	\$4.93
(Loss)/income from discontinued operations, net of tax	(0.04	) 0.15	7.01	15.68
Net income (attributable to PPG)	\$2.69	\$1.58	\$14.56	\$20.61
Earnings per common share – assuming dilution:				
Income from continuing operations, net of tax	\$2.70	\$1.41	\$7.47	\$4.88
(Loss)/income from discontinued operations, net of tax	(0.04	) 0.15	6.94	15.51
Net income (attributable to PPG)	\$2.66	\$1.56	\$14.41	\$20.39
Dividends per common share	\$0.67	\$0.61	\$1.95	\$1.81

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

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

(\$ in millions)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2014	2013	2014	2013
Net income attributable to the controlling and noncontrolling interests	\$377	\$255	\$2,070	\$3,071
Other comprehensive (loss) income, net of tax:				
Defined benefit pension and other postretirement benefits	16	—	41	198
Unrealized foreign currency translation adjustments	(294	) 172	(236	) (18
Unrealized losses on marketable securities	—	(1) —	—
Derivative financial instruments	6	2	6	9
Other comprehensive (loss) income, net of tax	\$(272	) \$173	\$(189	) \$189
Total comprehensive income	105	428	1,881	3,260
Less: amounts attributable to noncontrolling interests:				
Net income	(6	) (29	) (51	) (94
Unrealized foreign currency translation adjustments	6	(3	) 2	8
Comprehensive income attributable to PPG	\$105	\$396	\$1,832	\$3,174

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

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

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$2,468	\$1,116
Short-term investments	570	629
Receivables (less allowance for doubtful accounts of \$65 and \$74)	2,968	2,736
Inventories	1,905	1,824
Deferred Income Taxes	421	425
Other	566	484
Total current assets	8,898	7,214
Property, plant and equipment (net of accumulated depreciation of \$4,463 and \$4,805)	2,720	2,876
Goodwill	2,898	3,008
Identifiable intangible assets, net	1,274	1,339
Deferred income taxes	252	491
Investments	449	393
Other assets	596	542
Total	\$17,087	\$15,863
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$3,687	\$3,265
Asbestos settlement	773	763
Restructuring reserves	42	73
Short-term debt and current portion of long-term debt	394	34
Total current liabilities	4,896	4,135
Long-term debt	2,954	3,372
Accrued pensions	721	728
Other postretirement benefits	1,004	1,007
Asbestos settlement	255	245
Deferred income taxes	241	249
Other liabilities	811	929
Total liabilities	10,882	10,665
Commitments and contingent liabilities (Note 15)		
Shareholders' equity:		
Common stock	484	484
Additional paid-in capital	1,001	953
Retained earnings	14,506	12,757
Treasury stock, at cost	(8,423)	(8,002)
Accumulated other comprehensive loss	(1,447)	(1,260)
Total PPG shareholders' equity	6,121	4,932
Noncontrolling interests	84	266
Total shareholders' equity	6,205	5,198
Total	\$17,087	\$15,863

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

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

(\$ in millions)

	Nine Months Ended September 30	
	2014	2013
Operating activities:		
Net income attributable to controlling and noncontrolling interests	\$2,070	\$3,071
Less: Income from discontinued operations	(1,005	) (2,343
Income from continuing operations	1,065	728
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	353	333
Pension expense	49	90
Stock-based compensation expense	53	59
Business restructuring	—	98
Environmental remediation charge	138	101
Equity affiliate earnings, net of distributions received	(55	) 9
Deferred income taxes	(59	) (49
Cash contributions to pension plans	(12	) (47
Restructuring cash spending	(41	) (55
Change in certain asset and liability accounts:		
Receivables	(416	) (306
Inventories	(205	) (6
Other current assets	(86	) (28
Accounts payable and accrued liabilities	433	191
Noncurrent assets	(23	) 10
Noncurrent liabilities	(121	) (62
Taxes and interest payable	106	5
Other	65	73
Cash from operating activities - continuing operations	1,244	1,144
Cash (used for) from operating activities - discontinued operations	(207	) 138
Cash from operating activities	1,037	1,282
Investing activities:		
Capital expenditures	(358	) (250
Business acquisitions, net of cash balances acquired	(114	) (978
Deposit of cash into escrow	(11) —
Proceeds from separation and merger of commodity chemicals business, net	—	940
Proceeds from the disposition of PPG's interest in the Transitions Optical joint venture and sunlens business (proceeds of \$1,735, net of \$110 cash divested)	1,625	—
Proceeds from the sale of assets	56	—
Purchase of short-term investments	(936	) (1,063
Proceeds from maturity of short-term investments	960	1,532
Payments on cross currency swap contracts	(45	) (24
Proceeds from cross currency swap contracts	37	19
Other	7	(1
Cash from investing activities - continuing operations	1,221	175
Cash used for investing activities - discontinued operations	(1	) (7
Cash from investing activities	1,220	168
Financing activities:		
Net change in borrowing with maturities of three months or less	(14) (13

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Repayment of debt	(2)	(607)
Repayment of acquired debt	(37)	—	
Purchase of treasury stock	(450)	(320)
Issuance of treasury stock	52		59	
Dividends paid on PPG common stock	(269	)	(259)
Acquisition of noncontrolling interest	(39)	—	
Other	(17	)	7	
Cash used for financing activities - continuing operations	(776	)	(1,133)
Cash used for financing activities - discontinued operations	(40	)	(54)
Cash used for financing activities	(816	)	(1,187)
Effect of currency exchange rate changes on cash and cash equivalents	(89	)	(7)
Net increase in cash and cash equivalents	1,352		256	
Cash and cash equivalents, beginning of period	1,116		1,306	
Cash and cash equivalents, end of period	\$2,468		\$1,562	

Supplemental disclosures of cash flow information:

Interest paid, net of amount capitalized	160	166
Taxes paid, net of refunds	504	231

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

PPG INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared following the requirements of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Under these rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. These statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and its subsidiaries (the "Company" or "PPG") as of September 30, 2014, and the results of their operations for the three and nine months ended September 30, 2014 and 2013 and their cash flows for the nine months then ended. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG's Annual Report on Form 10-K for the year ended December 31, 2013.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three and nine months ended September 30, 2014