

PPG INDUSTRIES INC  
Form 10-Q  
July 28, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For Quarter Ended June 30, 2008**

**Commission File Number 1-1687**

**PPG INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**25-0730780**  
(I.R.S. Employer  
Identification No.)

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

**15272**  
(Zip Code)

**(412) 434-3131**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant 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 June 30, 2008, 164,122,832 shares of the Registrant's common stock, par value \$1.66-2/3 per share, were outstanding.

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**PPG INDUSTRIES, INC. AND SUBSIDIARIES**

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

(Millions, except per share amounts)

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 4,474	\$ 3,155	\$ 8,436	\$ 6,043
Cost of sales, exclusive of depreciation and amortization (Note 4)	2,829	2,001	5,425	3,864
Selling, general and administrative (Note 5)	936	564	1,805	1,101
Depreciation (Note 5)	128	88	235	174
Research and development	118	87	230	170
Interest expense	65	23	131	45
Amortization (Note 7)	37	15	71	29
Asbestos settlement net (Note 16)	4	8	4	17
In-process research and development (Note 4)			23	
Other charges	10	11	16	35
Other earnings	(47)	(40)	(81)	(66)
Income before income taxes and minority interest	394	398	577	674
Income tax expense	116	125	173	191
Minority interest	28	23	54	41
Income from continuing operations, net of tax	250	250	350	442
(Loss) income from discontinued operations, net of tax (Note 1)		(1)		1
Net income	\$ 250	\$ 249	\$ 350	\$ 443
Earnings per common share (Note 9):				
Income from continuing operations	\$ 1.52	\$ 1.51	\$ 2.13	\$ 2.68
(Loss) income from discontinued operations (Note 1)	\$	\$	\$	\$ 0.01
Net income	\$ 1.52	\$ 1.51	\$ 2.13	\$ 2.69
Earnings per common share assuming dilution (Note 9):				
Income from continuing operations	\$ 1.51	\$ 1.50	\$ 2.12	\$ 2.66
(Loss) income from discontinued operations (Note 1)	\$	\$	\$	\$ 0.01
Net income	\$ 1.51	\$ 1.50	\$ 2.12	\$ 2.67
Dividends per common share	\$ 0.52	\$ 0.50	\$ 1.04	\$ 1.00

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



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

	June 30, 2008	Dec. 31, 2007
	(Millions)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 266	\$ 526
Cash held in escrow (Note 4)	12	1,706
Receivables (less allowance for doubtful accounts of \$106 million and \$51 million)	3,907	2,522
Inventories (Note 6)	2,124	1,532
Other	782	655
<b>Total current assets</b>	7,091	6,941
Property (less accumulated depreciation of \$6,373 million and \$6,116 million)	3,363	2,578
Investments	395	370
Goodwill (Note 7)	2,874	1,507
Identifiable intangible assets (Note 7)	1,725	614
Other assets	759	619
<b>Total</b>	\$ 16,207	\$ 12,629
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 8)	\$ 816	\$ 1,819
Asbestos settlement (Note 16)	613	593
Accounts payable and accrued liabilities	3,316	2,220
<b>Total current liabilities</b>	4,745	4,632
Long-term debt (Note 8)	3,440	1,201
Asbestos settlement (Note 16)	296	324
Deferred income taxes	618	164
Accrued pensions	615	396
Other postretirement benefits	931	997
Other liabilities	744	603
<b>Total liabilities</b>	11,389	8,317
Commitments and contingent liabilities (Note 16)		
Minority interest	194	161
Shareholders' equity:		
Common stock	484	484
Additional paid-in capital	561	553
Retained earnings (Note 2)	8,141	7,963
Treasury stock	(4,262)	(4,267)
Accumulated other comprehensive loss (Note 12)	(300)	(582)
<b>Total shareholders' equity</b>	4,624	4,151

<b>Total</b>	\$ 16,207	\$ 12,629
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*The accompanying notes to the condensed consolidated financial statements are an integral part of this consolidated statement.*

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

	<b>Six Months Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Millions)</b>	
Cash from operating activities continuing operations	\$ 359	\$ 226
Cash used in operating activities discontinued operations		(1)
<b>Cash from operating activities</b>	<b>359</b>	<b>225</b>
<b>Investing activities:</b>		
Capital spending		
Additions to property and long-term investments	(146)	(181)
Business acquisitions, net of cash balances acquired (2008 - \$136; 2007 - \$5) (Note 4)	(1,584)	(172)
Reductions of other property and investments	29	26
Deposits of cash into escrow	(3)	(44)
Release of cash held in escrow (Note 4)	1,700	
Cash used for investing activities continuing operations	(4)	(371)
Cash used for investing activities discontinued operations		(3)
<b>Cash used for investing activities</b>	<b>(4)</b>	<b>(374)</b>
<b>Financing activities:</b>		
Borrowings to refinance acquired SigmaKalon debt (Note 8)	1,143	
Repayment of acquired SigmaKalon debt (Note 8)	(1,259)	
Proceeds from issuance of notes (net of discount and issuance costs) (Note 8)	1,538	
Repayment of bridge loan (Note 8)	(1,557)	
Net change in borrowings with maturities of three months or less	(386)	122
Proceeds from other short-term debt	287	39
Repayment of other short-term debt	(279)	(73)
Proceeds from (repayment of) other long-term debt	7	(21)
Proceeds from termination of interest rate swaps (Note 14)	40	
Repayment of loans by employee stock ownership plan		19
Purchase of treasury stock	(6)	(177)
Issuance of treasury stock	8	139
Dividends paid	(171)	(165)
Cash used for financing activities continuing operations	(635)	(117)
Cash used for financing activities discontinued operations		
<b>Cash used for financing activities</b>	<b>(635)</b>	<b>(117)</b>
Effect of currency exchange rate changes on cash and cash equivalents	20	4
Net decrease in cash and cash equivalents	(260)	(262)
Cash and cash equivalents, beginning of period	526	443



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<b>Cash and cash equivalents, end of period</b>	<b>\$ 266</b>	<b>\$ 181</b>
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*The accompanying notes to the condensed consolidated financial statements are an integral part of this consolidated statement.*

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**PPG INDUSTRIES, INC. AND SUBSIDIARIES**

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

**1. Basis of Presentation**

The condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and subsidiaries (the Company or PPG) as of June 30, 2008, and the results of their operations for the three and six months ended June 30, 2008 and 2007, and their cash flows for the six months then ended. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG's Annual Report on Form 10-K for the year ended December 31, 2007.

On July 8, 2008, the Company announced that it had entered into an agreement to divest its automotive OEM glass and automotive replacement glass and services businesses (automotive glass and services business). PPG will receive cash and a minority ownership interest of approximately 40% in the new company formed by the buyer. In accordance with the requirements of Statement of Financial Accounting Standards, (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of the automotive glass and services business were reported as discontinued operations beginning in September 2007 and, now, because of the continuing involvement arising from the 40% equity interest, the business has been reclassified into continuing operations in the company's current and historical financial statements and is reported as part of the Glass reportable segment. See Note 5, Divestiture of Automotive Glass and Services Business for additional information.

In the third quarter of 2007, PPG entered into an agreement to sell its fine chemicals business to ZaCh System S.p.A., a subsidiary of Zambon Company S.p.A., for approximately \$65 million. The sale of this business was completed in November 2007. The results of operations and cash flows of this business, which had previously been included in the Optical and Specialty Materials reportable segment, have been classified as discontinued operations in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2007 and the accompanying condensed consolidated statement of cash flows for the six months then ended. Sales of the fine chemicals business were \$18 million and \$47 million for the three and six months ended June 30, 2007, respectively.

On January 2, 2008 the Company completed the acquisition of the SigmaKalon Group (SigmaKalon) which resulted in the release of \$1,673 million cash held in escrow and paid to the seller. The assets acquired included cash of \$136 million. See Note 4, Acquisitions for additional information.

The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

**2. Newly Adopted Accounting Standards**

In March 2007, the Emerging Issues Task Force (EITF) issued EITF No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, or

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Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 is effective as of January 1, 2008. PPG has collateral assignment split-dollar life insurance arrangements within the scope of EITF 06-10. The Company adopted the provisions of EITF 06-10 as of January 1, 2008. As a result of the adoption, the Company recognized a liability of \$2 million, representing the present value of the future premium payments to be made under the existing policies. In accordance with the transition provisions of EITF 06-10, this amount was recorded as a direct decrease to retained earnings. No adjustment to the recorded asset value was required upon adoption.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not increase the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except as it relates to nonrecurring fair value measurements of nonfinancial assets and liabilities for which the standard is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 with respect to financial assets and liabilities in the first quarter of 2008 did not have a significant effect on PPG's consolidated results of operations or financial position. In addition, the Company is evaluating the impact of SFAS No. 157 for measuring nonfinancial assets and liabilities on future results of operations and financial position.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. 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 Company's financial assets and liabilities that are reported at fair value in the accompanying condensed consolidated balance sheet, as of June 30, 2008, were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
<b>Other current assets:</b>				
Foreign currency contracts	\$	\$ 7	\$	\$ 7
Equity forward arrangement		7		7
Natural gas swap contracts		83		83
Marketable equity securities	4			4
<b>Investments:</b>				
Marketable equity securities	74	3		77
<b>Other assets:</b>				
Natural gas swap contracts		43		43
Interest rate swaps		1		1
<b>Accounts payable and accrued liabilities:</b>				
Foreign currency contracts		4		4
<b>Other liabilities:</b>				
Foreign currency contracts		6		6
Cross currency swaps		26		26
Interest rate swaps		1		1

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items, for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in the first quarter of 2008 did not have an impact on PPG's consolidated results of operations or financial position.

### **3. Other New Accounting Standards**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)), which replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting (formerly known as the purchase method of accounting), but SFAS No. 141(R) changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with an exception related to the accounting for valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions completed before the effective date. SFAS No. 141(R) amends SFAS No. 109 to require adjustments, made after the effective date of this statement, to valuation allowances for acquired deferred tax assets and income tax positions to be recognized as income tax expense. Beginning January 1, 2009, PPG will apply the provisions of SFAS No. 141(R) to its accounting for applicable business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). This statement requires changes in the parent's ownership interest in consolidated subsidiaries to be accounted for as equity transactions. This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We are currently evaluating the effects that SFAS No. 160 may have on our consolidated financial statements.

In November 2007, EITF Issue No. 07-1, Accounting for Collaborative Arrangements, which defines collaborative arrangements and establishes reporting and disclosure requirements for such arrangements, was issued. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. The Company is continuing to evaluate the impact of adopting the provisions of EITF 07-1; however, it does not anticipate that adoption will have a material effect on PPG's consolidated results of operations or financial position.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, 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. This statement's disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the effects that SFAS No. 161 may have on our consolidated financial statement disclosures.

### **4. Acquisitions**

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. The funds held in escrow were reported as Cash held in escrow in the accompanying condensed consolidated balance sheet as of December 31, 2007.

The preliminary purchase price allocation for the SigmaKalon acquisition was recorded in the first quarter of 2008. Adjustments to the purchase price allocation were recorded in the second quarter of 2008 and further adjustments are expected as the Company finalizes estimates related to acquired assets and liabilities. The Company expects to obtain final valuations of identifiable intangible assets in the third quarter of 2008; however, no significant adjustment is expected. Additionally, the Company expects to obtain final valuations of fixed assets in the third quarter of 2008. The Company expects to finalize plans for achieving cost synergies associated with the acquisition later in 2008.

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The purchase price allocation is expected to be finalized by December 31, 2008. The following table summarizes the preliminary estimated fair value of assets acquired and liabilities assumed as a result of the acquisition:

<b>(Millions)</b>	
Current assets (including cash of \$136)	\$ 1,443
Property, plant, and equipment	784
Customer-related intangibles	677
Trade names	278
Acquired technology	122
Goodwill (non-deductible)	1,226
Other	100
 Total assets	 4,630
Short-term debt	(1,507)
Current liabilities	(757)
Long-term debt	(10)
Deferred taxes	(452)
Other long-term liabilities	(254)
 Net assets	 1,650
In-process research and development	23
 Total purchase price	 \$ 1,673

Identifiable intangible assets with finite lives are subject to amortization over their estimated useful lives. The identifiable intangible assets acquired in the SigmaKalon transaction will be amortized over an estimated weighted-average amortization period of 11 years. Customer-related intangibles will be amortized over an estimated weighted-average amortization period of 12 years, acquired technology will be amortized over an estimated weighted-average amortization period of 7 years and trade names will be amortized over an estimated weighted-average amortization period of 15 years. Estimated future amortization expense related to these identifiable intangible assets is approximately \$80 million in each of the next five years.

Goodwill has preliminarily been allocated to PPG's reportable segments as follows: \$1,073 million to Architectural Coatings EMEA, \$93 million to Performance Coatings (protective and marine operating segment) and \$60 million to Industrial Coatings (industrial operating segment).

The step up to fair value of acquired inventory as part of the preliminary 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.

The following information reflects the results of PPG's operations for the three and six months ended June 30, 2007 on a pro forma basis as if the acquisition of SigmaKalon had been completed on January 1, 2007. The unaudited pro forma financial information was prepared to give pro forma effect to events that are 1) directly attributable to the acquisition, 2) factually supportable and 3) expected to have a continuing impact on the combined results. Pro forma adjustments have been made to illustrate the incremental impact on earnings of interest costs on the borrowings to acquire SigmaKalon, amortization expense related to acquired intangible assets of SigmaKalon, and the tax benefit associated with the incremental interest costs and amortization expense. The following unaudited pro forma information does not include certain cost savings or operating synergies (or costs associated with realizing such savings or synergies) that may result from the acquisition. Amounts preliminarily allocated to goodwill may change and amounts allocated to intangible assets with finite lives may change, which could result in a change to amortization expense related to acquired intangible assets from that which is estimated in the following unaudited pro forma information.

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<b>Condensed Consolidated Pro Forma Information (unaudited)</b> <b>(Millions, except per share amounts)</b>	<b>Three Months Ended</b> <b>June 30, 2007</b>	<b>Six Months Ended</b> <b>June 30, 2007</b>
Net sales	\$ 4,184	\$ 7,459
Net income	\$ 276	\$ 445
Earnings per common share	\$ 1.67	\$ 2.70
Earnings per common share assuming dilution	\$ 1.67	\$ 2.69

The unaudited pro forma information is provided for illustrative purposes only and does not purport to represent what PPG's consolidated results of operations would have been had the transaction actually occurred as of January 1, 2007, and does not purport to project PPG's future consolidated results of operations.

During the six months ended June 30, 2007, the Company spent \$172 million on acquisitions (net of cash acquired of \$5 million), including purchase price adjustments related to 2006 acquisitions. In January, the Company acquired the architectural and industrial coatings businesses of Renner Sayerlack, S.A., Gravatai, Brazil, to expand its coatings businesses in Latin America. The acquired business operates manufacturing plants in Brazil, Chile, and Uruguay and each plant also serves as a distribution center. The purchase price allocation resulted in an excess of purchase price over the fair value of net assets acquired, which has been reflected as an addition to goodwill.

## **5. 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. Accordingly, the assets and liabilities of this business were classified as held for sale and the results of operations and cash flows of this business were classified as discontinued operations. 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. While the transaction with Platinum was terminated, PPG management remained committed to a sale of the automotive glass and services business and continued to classify its assets and liabilities as held for sale and its operations and cash flows as discontinued operations through the first quarter of 2008.

In July 2008, PPG entered into an agreement with affiliates of Kohlberg & Company, LLC, under which PPG will divest the automotive glass and services business to a new company formed by affiliates of Kohlberg. PPG will receive \$330 million in gross cash proceeds and a minority interest of approximately 40 percent in the new company. PPG expects to record a slight gain upon the closing of the transaction, which is expected in the third quarter of 2008. As PPG will hold an ownership interest in the newly-formed company, the accounting requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for classifying the business as assets held for sale and reporting its results of operations and cash flows as discontinued operations have no longer been met. As such, the assets and liabilities

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of the business are now classified as held for use in the accompanying condensed consolidated balance sheet as of June 30, 2008 and December 31, 2007, and the results of operations and cash flows of the business have been classified as continuing operations in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2008 and 2007, and cash flows for the six month periods then ended. After completing the divestiture, PPG will account for its remaining interest in the new company under the equity method of accounting. PPG will retain certain liabilities for pension and post-employment benefits earned for service up to the date of divestiture.

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 pending 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.

**6. Inventories**

Inventories as of June 30, 2008 and December 31, 2007 are detailed below.

	<b>June 30, 2008</b>	<b>Dec. 31, 2007</b>
	<b>(Millions)</b>	
Finished products	\$ 1,313	\$ 937
Work in process	170	131
Raw materials	493	323
Supplies	148	141
<b>Total</b>	<b>\$ 2,124</b>	<b>\$ 1,532</b>

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 \$249 million and \$234 million higher as of June 30, 2008 and December 31, 2007, respectively.



**Table of Contents****7. 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, 2008 was as follows:

	Performance Coatings	Industrial Coatings	Architectural Coatings - EMEA (Millions)	Optical and Specialty Materials	Glass	Total
Balance, December 31, 2007	\$ 1,051	\$ 310	\$	\$ 57	\$ 89	\$ 1,507
Goodwill from acquisitions (Note 4)	94	61	1,073	2		1,230
Currency translation	43	12	75	4	3	137
Balance, June 30, 2008	\$ 1,188	\$ 383	\$ 1,148	\$ 63	\$ 92	\$ 2,874

The carrying amount of acquired trademarks with indefinite lives as of June 30, 2008 and December 31, 2007 totaled \$364 million and \$144 million, respectively. The amount at June 30, 2008 includes \$220 million related to the SigmaKalon acquisition.

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

	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net (Millions)	Gross Carrying Amount	Accumulated Amortization	Net
Acquired technology	\$ 532	\$ (185)	\$ 347	\$ 392	\$ (164)	\$ 228
Customer-related intangibles	1,080	(180)	900	334	(131)	203
Trade names	127	(22)	105	55	(24)	31
Other	29	(20)	9	25	(17)	8
Balance	\$ 1,768	\$ (407)	\$ 1,361	\$ 806	\$ (336)	\$ 470

Most of the increase in the gross carrying amount of identifiable intangible assets from December 31, 2007 to June 30, 2008 is the result of the SigmaKalon acquisition and the impact of foreign currency changes.

Aggregate amortization expense related to these identifiable intangible assets for the three and six months ended June 30, 2008 was \$37 million and \$71 million, respectively, and for the three and six months ended June 30, 2007 was \$15 million and \$29 million, respectively. As of June 30, 2008, estimated future amortization expense of identifiable intangible assets, which is subject to change pending the final purchase price allocation for the acquisition of SigmaKalon, is as follows: \$68 million for the remaining two quarters of 2008 and \$135 million, \$134 million, \$125 million, \$121 million and \$120 million in 2009, 2010, 2011, 2012 and 2013, respectively.

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**8. Debt**

In order to provide financing for the SigmaKalon acquisition, in December 2007, PPG and certain of its subsidiaries entered into a three year 650 million revolving credit facility with several banks and financial institutions and Societe Generale, as facility agent for the lenders. The facility has an annual fee of 7 basis points. In addition, PPG and a subsidiary entered into two bridge loan agreements, one in the amount of 1 billion with multiple lenders and Credit Suisse as administrative agent for those lenders and the other in the amount of \$500 million with Credit Suisse as the lender.

In December 2007, PPG issued \$617 million of commercial paper and borrowed \$1,056 million ( 717 million) under the 1 billion bridge loan agreement. The proceeds from these borrowings were deposited into escrow in December 2007. Upon closing of the 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 the 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. No amounts were borrowed under the \$500 million bridge loan agreement, and, due to the passage of time and the specific purpose of this agreement, PPG can no longer make borrowings under this agreement.

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 over the respective lives of the Notes.

**Table of Contents****9. Earnings Per Common Share**

The following table presents the earnings per common share calculations for the three and six months ended June 30, 2008 and 2007.

(Millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>Earnings per common share</b>				
Income from continuing operations	\$ 250	\$ 250	\$ 350	\$ 442
(Loss) income from discontinued operations		(1)		1
Net Income	\$ 250	\$ 249	\$ 350	\$ 443
Weighted average common shares outstanding	164.6	164.8	164.5	164.7
<b>Earnings per common share:</b>				
Income from continuing operations	\$ 1.52	\$ 1.51	\$ 2.13	\$ 2.68
(Loss) income from discontinued operations				0.01
Net Income	\$ 1.52	\$ 1.51	\$ 2.13	\$ 2.69
<b>Earnings per common share - assuming dilution</b>				
Income from continuing operations	\$ 250	\$ 250	\$ 350	\$ 442
(Loss) income from discontinued operations		(1)		1
Net Income	\$ 250	\$ 249	\$ 350	\$ 443
Weighted average common shares outstanding	164.6	164.8	164.5	164.7
<b>Effect of dilutive securities:</b>				
Stock options	0.5	1.1	0.6	0.9
Other stock compensation plans	0.5	0.5	0.6	0.5
Potentially dilutive common shares	1.0	1.6	1.2	1.4
Adjusted weighted average common shares outstanding	165.6	166.4	165.7	166.1
<b>Earnings per common share - assuming dilution:</b>				
Income from continuing operations	\$ 1.51	\$ 1.50	\$ 2.12	\$ 2.66
(Loss) income from discontinued operations				0.01
Net Income	\$ 1.51	\$ 1.50	\$ 2.12	\$ 2.67

Excluded from the computation of diluted earnings per share due to their antidilutive effect were 3.2 million and 3.0 million outstanding stock options for the three and six months ended June 30, 2008, and 0.2 million and 0.9 million outstanding stock options for the three and six months ended June 30, 2007.

**Table of Contents****10. Income Taxes**

The Company files federal, state and local income tax returns in numerous domestic and foreign jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is no longer subject to examinations by tax authorities in any major tax jurisdiction for years before 2001. Additionally, the Internal Revenue Service ( IRS ) has completed its examination of the Company's U.S. federal income tax returns filed for years through 2005. During the first quarter of 2008, the Company recorded a tax benefit of \$6 million related to the settlement with the IRS of our U.S. tax returns for the years 2004 and 2005.

**11. Pensions and Other Postretirement Benefits**

The net periodic benefit costs for the three and six months ended June 30, 2008 and 2007 were as follows:

	Pensions			
	Three Months		Six Months	
	Ended June 30 2008	2007	Ended June 30 2008	2007
	(Millions)			
Service cost	\$ 19	\$ 17	\$ 40	\$ 36
Interest cost	66	53	131	105
Expected return on plan assets	(74)	(67)	(148)	(132)
Amortization of prior service cost	2	4	5	7
Amortization of actuarial losses	18	21	33	41
Special termination benefits and curtailment (Note 5)	18		18	
Net periodic pension cost	\$ 49	\$ 28	\$ 79	\$ 57

On August 17, 2006, the Pension Protection Act of 2006 ( PPA ) was signed into law, changing the funding requirements for our U.S. defined benefit pension plans beginning in 2008. Under the requirements of PPA, we will not have a mandatory contribution to these plans in 2008. However, we expect to make voluntary contributions of \$50 million to \$100 million to our U.S. defined benefit pension plans in 2008.

We expect to make mandatory contributions to our non-U.S. plans in 2008 of approximately \$85 million, of which approximately \$50 million was contributed as of June 30, 2008.

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The net periodic other postretirement benefit costs for the three and six months ended June 30, 2008 and 2007 were as follows:

	Other Postretirement Benefits			
	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	(Millions)			
Service cost	\$ 5	\$ 5	\$ 12	\$ 12
Interest cost	16	16	33	32
Amortization of prior service cost	(4)	(2)	(9)	(5)
Amortization of actuarial losses	8	9	15	17
Special termination benefits (Note 5)	1		1	
Net periodic other postretirement benefit cost	\$ 26	\$ 28	\$ 52	\$ 56

The net periodic costs for other postretirement benefits in the table above include the benefit of the subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( Medicare Act of 2003 ) for all periods presented. In August 2007, the Company's U.S. other postretirement benefit plan was amended to consolidate the number of retiree health care options available for certain retirees and their dependents. The plan amendment was effective January 1, 2008 and provides a fully-insured Medicare Part D prescription drug plan for certain retirees and their dependents. As such, beginning in 2008 PPG will no longer be eligible to receive the subsidy provided under the Medicare Act of 2003 for these retirees and their dependents.

The underfunded status at June 30, 2008 of the defined benefit pension and other postretirement benefit plans covering employees of the automotive glass and services business totaled \$38 million and \$232 million, respectively, and is recognized in the condensed consolidated balance sheet. These obligations are being retained by PPG under the terms of the agreement to divest this business. The projected benefit obligation and accumulated plan benefit obligation at June 30, 2008 related to these plans included \$207 million and \$73 million, respectively, of accumulated net actuarial losses that have been recognized with a charge to accumulated other comprehensive loss and have not yet been reflected in net periodic benefit cost.

We estimate that the net periodic benefit costs related to the retained liabilities will total approximately \$27 million in 2009, which is a reduction of approximately \$8 million from the current level of annual benefit cost.

**12. Comprehensive Income**

Total comprehensive income for the three and six months ended June 30, 2008 and 2007 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	(Millions)			
Net income	\$ 250	\$ 249	\$ 350	\$ 443
Other comprehensive income, net of tax:				
Pension and other postretirement benefits	(19)	(14)	(1)	(14)
Currency translation adjustment	48	72	202	115
Unrealized losses on marketable securities	(1)	(2)	(2)	(2)
Net change derivatives (Note 13)	50	(11)	83	8
	78	45	282	107
Total comprehensive income	\$ 328	\$ 294	\$ 632	\$ 550

**13. Derivative Financial Instruments and Hedge Activities**

PPG's policies do not permit speculative use of derivative financial instruments. PPG uses derivative instruments to manage its exposure to fluctuating natural gas prices through the use of natural gas swap contracts. PPG also uses forward currency and option contracts as hedges against its exposure to variability in exchange rates on short-term intercompany borrowings and cash flows denominated in foreign currencies and to translation risk. PPG uses

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foreign denominated debt to hedge investments in foreign operations. Interest rate swaps are used to manage the Company's exposure to changing interest rates. PPG held interest rate swaps that effectively converted \$125 million and \$275 million of fixed rate notes to variable debt at June 30, 2008 and December 31, 2007, respectively. PPG also uses an equity forward arrangement to hedge a portion of our exposure to changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 16, Commitments and Contingent Liabilities.

Concurrent with the public offering of the Company's Notes, on March 18, 2008, PPG 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. PPG paid the counterparties to the contracts a total of \$1.3 billion and received euros, which were used to repay most of the \$1 billion bridge loan, which the Company employed to finance the acquisition of SigmaKalon. On settlement of the contracts, PPG will receive \$1.3 billion U.S. dollars and pay euros to the counterparties to the contracts. 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 other comprehensive income. As of June 30, 2008, the aggregate fair value of these swaps was a liability of \$26 million.

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.

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

In November 2002, PPG entered into a one-year renewable equity forward arrangement with a bank in order to partially mitigate the impact of changes in the fair value of PPG stock that is to be contributed to the asbestos settlement trust as discussed in Note 16. This instrument, which has been renewed, is recorded at fair value as an asset or liability and changes in the fair value of this instrument are reflected in Asbestos settlement net in the condensed consolidated statement of income. The fair value of this instrument as of June 30, 2008 and December 31, 2007 was a current asset of \$6 million and \$18 million, respectively. PPG recorded a loss of \$3 million and \$12 million for the three and six months ended June 30, 2008 and a gain of \$5 million and \$10 million for the three and six months ended June 30, 2007, respectively, for the change in fair value of this instrument.

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**14. Cash Flow Information**

Cash payments for interest were \$110 million and \$57 million for the six months ended June 30, 2008 and 2007, respectively. Net cash payments for income taxes for the six months ended June 30, 2008 and 2007 were \$137 million and \$185 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.

**15. 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 7.4 million as of June 30, 2008.

Total stock-based compensation cost was \$6 million and \$15 million for the three and six months ended June 30, 2008, respectively, and \$9 million and \$18 million for the three and six months ended June 30, 2007, respectively. The total income tax benefit recognized in the income statement related to the stock-based compensation was \$3 million for the three months ended June 30, 2008 and 2007 and \$6 million for the six months ended June 30, 2008 and 2007.

***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.

On July 1, 1998, under the PPG Challenge 2000 Stock Plan, the Company granted to substantially all active employees of the Company and its majority owned subsidiaries the option to purchase 100 shares of common stock at its then fair market value of \$70 per share. The options became exercisable on July 1, 2003 and expired on June 30, 2008. A total of 1.2 million options expired on this date.

On February 20, 2008, PPG granted 714,220 stock options from the PPG Omnibus Plan, at a weighted average exercise price of \$63.64 per share. The weighted average fair value of options granted was \$13.29 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



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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. The fair value of the February 20, 2008 grant was calculated with the following weighted average assumptions:

Risk free interest rate	3.5%
Expected life of option in years	6.5
Expected dividend yield	3.1%
Expected volatility	24.3%

***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 2006 and 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, 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. The performance-based RSUs granted in 2005 vested at the 150% level. For the purposes of expense recognition we have assumed that performance-based RSUs granted in 2006, 2007 and 2008 will vest at the 100% level. The performance targets for 2006 and 2007 were achieved.

On February 20, 2008, PPG granted 241,632 RSUs at a weighted average fair value of \$57.73 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 2006 and 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, performance is measured by determining the percentile rank of the total shareholder return of PPG common stock in relation

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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 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.

### **16. Commitments and Contingent Liabilities**

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

The 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.

### ***Legacy Antitrust Matters***

The Company has been named as a defendant, along with various other co-defendants, in a number of antitrust lawsuits filed in federal and state courts. These suits allege that PPG acted with competitors to fix prices and allocate markets in the flat glass and automotive refinish industries. The plaintiffs in these cases are seeking economic and, in certain cases, treble damages and injunctive relief. As described below, we have either settled or agreed to settle the most significant of these legacy cases.

Twenty-nine glass antitrust cases were filed in federal courts, all of which were consolidated as a class action in the U.S. District Court for the Western District of Pennsylvania located in Pittsburgh, Pa. By 2003, all of the other defendants in the glass class action antitrust case settled with the plaintiffs and were dismissed from the case. On May 29, 2003, the Court granted PPG's motion for summary judgment dismissing the claims against PPG in the glass class action antitrust case. The plaintiffs in that case appealed that order to the U.S. Third Circuit Court of Appeals. On September 30, 2004, the U.S. Third Circuit Court of Appeals affirmed in part and reversed in part the dismissal of PPG and remanded the case for further proceedings. PPG petitioned the U.S. Supreme Court for permission to appeal the decision of the U.S. Third Circuit Court of Appeals, however, the U.S. Supreme Court rejected PPG's petition for review.

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On October 19, 2005, PPG entered into a settlement agreement to settle the federal glass class action antitrust case in order to avoid the ongoing expense of this protracted case, as well as the risks and uncertainties associated with complex litigation involving jury trials. Pursuant to the settlement agreement, PPG agreed to pay \$60 million and to bear up to \$500,000 in settlement administration costs. These amounts were held in escrow until the U.S. District Court entered an order on February 7, 2006, approving the settlement. This order is no longer appealable. As a result of the settlement, PPG also paid \$900,000 pursuant to a pre-existing contractual obligation to a plaintiff that did not participate in the federal glass class action antitrust case. Separately, on November 8, 2006, PPG entered into a class-wide settlement agreement to resolve all claims of indirect purchasers of flat glass in California. PPG agreed to make a payment of \$2.5 million, inclusive of attorneys' fees and costs. On January 30, 2007, the Court granted preliminary approval of the settlement. The Court has also approved the form of notice to the settlement class. A hearing on final approval of the settlement was cancelled and has not been rescheduled. Independent state court cases remain pending in Tennessee involving claims that are not included in the settlement of the federal and California glass class action antitrust cases. Notwithstanding that PPG has agreed to settle the federal and California glass class action antitrust cases, and is considering settlement of the Tennessee cases, PPG continues to believe that there was no wrongdoing on the part of the Company and also believes that PPG has meritorious defenses to the independent state court cases.

Approximately 60 cases alleging antitrust violations in the automotive refinish industry were filed in various state and federal jurisdictions. The approximately 55 federal cases were consolidated as a class action in the U.S. District Court for the Eastern District of Pennsylvania located in Philadelphia, Pa. Certain of the defendants in the federal automotive refinish case settled prior to PPG. Neither PPG's investigation conducted through its counsel of the allegations in these cases nor the discovery conducted in the case has identified a basis for the plaintiffs' allegations that PPG participated in a price-fixing conspiracy in the U.S. automotive refinish industry. PPG's management continues to believe that there was no wrongdoing on the part of the Company and that it has meritorious defenses in the federal automotive refinish case. Nonetheless, it remained uncertain whether the federal court ultimately would dismiss PPG, or whether the case would go to trial. On September 14, 2006, PPG agreed to settle the federal class action for \$23 million to avoid the ongoing expense of this protracted case, as well as the risks and uncertainties associated with complex litigation involving jury trials. PPG recorded a charge for \$23 million in the third quarter of 2006. This amount was held in escrow and, on December 28, 2007, the federal court approved the class action settlement agreement. In January 2008, the \$23 million was released from escrow.

Class action lawsuits that mimic the federal class action were filed in five states (California, Maine, Massachusetts, Tennessee and Vermont) pursuant to state statutes on behalf of indirect purchasers of automotive refinish products. A similar suit brought in a federal court in New York City was dismissed on May 8, 2007. In the fourth quarter of 2007, the case in Tennessee was dismissed. PPG believes that there was no wrongdoing on its part, and believes it has meritorious defenses to the independent state court cases. Notwithstanding the foregoing, to avoid the ongoing expense of protracted litigation, as well as the risks and uncertainties associated with complex litigation, PPG has agreed to settle the cases in California, Maine, Massachusetts and Vermont.

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***New Antitrust Matters***

Several complaints have been filed in different Federal Courts naming PPG and other flat glass producers as defendants in purported antitrust class actions. A handful of complaints where PPG is not named have been filed in additional Federal Courts. 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 recently concluded proceedings in Europe in which fines were levied against other flat glass producers arising out of alleged antitrust violations. PPG was not involved in any of the proceedings in Europe. PPG divested its European flat glass business in 1998. PPG is aware of no wrongdoing or conduct on its part 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 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 June 30, 2008, PPG was one of many defendants in numerous asbestos-related lawsuits involving approximately 114,000 open claims served on PPG.

**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 asbestos claims against PPG and PC (the PPG Settlement Arrangement).

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

The terms of the PPG Settlement Arrangement and the 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,

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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 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 plan 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 plan. 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 prepared to rule on the PC plan of reorganization in the near future, provided certain amendments were made to the plan. Those amendments were filed, as directed, on March 17, 2006. After further conferences and supplemental briefings, the Court heard oral arguments on July 21, 2006 during an omnibus hearing.

On December 21, 2006, the Bankruptcy Court issued a ruling denying confirmation of the second amended PC plan of reorganization, which incorporated the terms of the PPG Settlement Arrangement. Several parties in interest, including PPG, filed motions for reconsideration and/or to alter or amend the December 21, 2006 ruling. Oral argument on the motions was held on March 5, 2007, but no decision has been rendered by the Bankruptcy Court to date. The Bankruptcy Court may adhere to its December 21, 2006 decision, may alter that decision and confirm the plan or may amend the decision in a manner that may provide further guidance on how the plan could be modified and become confirmable in the Bankruptcy Court's view. The PPG Settlement Arrangement will not become effective until 30 days after the PC plan of reorganization is finally approved by an appropriate court order that is no longer subject to appellate review (the Effective Date).

### **Terms of PPG Settlement Arrangement**

PPG has no obligation to pay any amounts under the PPG Settlement Arrangement entered into in 2002 until the Effective Date. If the second amended PC plan of reorganization is approved, PPG and certain of its insurers (along with PC) would then make payments on the Effective Date to the Trust, which would provide the sole source of payment for all present and future asbestos bodily injury claims against PPG, its subsidiaries or PC alleged to be caused by the manufacture, distribution or sale of asbestos products by these companies. PPG would convey the following assets to the Trust: (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 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 pay \$30 million in legal fees and expenses on behalf of the Trust to recover proceeds from certain historical insurance assets, including policies issued by certain insurance carriers that are not participating in the settlement, the rights to which would be assigned to the Trust by PPG.

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PPG's participating historical insurance carriers would make cash payments to the Trust of approximately \$1.7 billion between the Effective Date and 2023. These payments could also be prepaid to the Trust at any time at a discount rate of 5.5% per annum as of the prepayment date. In addition, as referenced above, PPG would assign to the Trust its rights, insofar as they relate to the asbestos claims to be resolved by the Trust, to the proceeds of policies issued by certain insurance carriers that are not participating in the PPG Settlement Arrangement and from the estates of insolvent insurers and state insurance guaranty funds.

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

If the second amended PC plan of reorganization incorporating the terms of the PPG Settlement Arrangement and the Corning Settlement Arrangement is approved by the Bankruptcy Court, the Court would enter a channeling injunction under §524(g) and other provisions of the Bankruptcy Code, prohibiting present and future claimants from asserting bodily injury claims after the Effective Date against PPG or its subsidiaries or PC relating to the manufacture, distribution or sale of asbestos-containing products by PC or PPG or its subsidiaries. The injunction would also prohibit codefendants in those cases from asserting claims against PPG for contribution, indemnification or other recovery. All such claims would be filed with the Trust and only paid from the assets of the Trust.

The channeling injunction would not extend to premises claims (i.e., claims alleging injury caused by asbestos on premises owned, leased or occupied by PPG or its subsidiaries) against PPG. Historically, a small proportion of the claims against PPG and its subsidiaries have been premises claims. As a result of the settlements described below, and based upon recent review and analysis, PPG believes that the number of premises claims currently comprises less than 2% of the total asbestos-related claims against PPG. PPG believes that 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.

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 450 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 has 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 600 additional claims that are being considered for potential settlement. Other asbestos-related 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.

### **Accounting Impact of PPG Settlement Arrangement**

In the second quarter of 2002, an initial charge of \$772 million was recorded for the estimated cost of the PPG Settlement Arrangement which included the net present value, using a discount rate of 5.5%, of the aggregate cash payments of approximately \$998 million to be made by PPG to the Trust. That amount also included the carrying value of PPG's stock in Pittsburgh Corning Europe, the fair value as of June 30, 2002 of 1,388,889 shares of PPG common stock and \$30 million in legal fees of the Trust to be paid by PPG, which together with the proposed

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first payment of \$75 million originally scheduled to be made to the Trust on June 30, 2003, were reflected in the current liability for PPG's asbestos settlement in the condensed consolidated balance sheet as of June 30, 2002. The net present value at that date of the remaining payments of \$566 million was recorded in the noncurrent liability for asbestos settlement. Since that date, the liability has been adjusted to reflect the accretion of interest on the portion initially recorded based on net present value and the changes in the fair value of the portion related to PPG common stock. The liability recorded at June 30, 2008 was \$613 million current and \$296 million non-current.

The following table summarizes the impact on our financial statements for the three and six months ended June 30, 2008 and 2007 resulting from the 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 13, Derivative Financial Instruments and Hedge Activities) and the increase in the net present value of the future payments to be made to the Trust.

Increase (decrease) in expense:	Three Months		Six Months	
	Ended June 30 2008	2007	Ended June 30 2008	2007
	(Millions)			
Change in fair value:				
PPG stock	\$ (4)	\$ 8	\$ (18)	\$ 16
Equity forward instrument	3	(5)	12	(10)
Accretion of asbestos liability	5	5	10	11
Asbestos settlement net expense	\$ 4	\$ 8	\$ 4	\$ 17

The fair value of the equity forward instrument is included as an other current asset as of June 30, 2008 and December 31, 2007 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, 2008, consists of all such payments required through June 2009, the fair value of PPG's common stock and legal fees and expenses. The amount due June 30, 2010, of \$25 million and the net present value of the remaining payments is included in the long-term asbestos settlement liability in the accompanying condensed consolidated balance sheet. For 2008, accretion expense associated with the asbestos liability will be approximately \$5 million per quarter.

The Company has evaluated the current status of the PPG Settlement Arrangement and concluded that as of June 30, 2008, it was probable that a liability had been incurred in an amount that was reasonably estimable. However, it is reasonably possible that the circumstances which existed at June 30, 2008, and on which the liability for that settlement of asbestos claims is based, will change in the near term if the modifications of the terms of the PPG Settlement Arrangement currently under negotiation and to be included in a third amended PC plan of reorganization (as discussed below) are approved by the interested parties and the Bankruptcy Court. Such change is not expected to result in an adjustment of the recorded liability that would be material to PPG's consolidated financial position or liquidity; however, such change may result in an adjustment that would be material to the results of operations of any particular period in which it would be recognized.

**Recent Developments**

At a January 10, 2008 hearing before the Bankruptcy Court, certain parties in interest, including PPG, reported progress toward a third amended plan of reorganization that would, if finally approved by the parties, address the issues raised in the Court's December 21, 2006 ruling.

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The interested parties have continued to engage in extensive negotiations regarding the terms of a third amended plan of reorganization. The Bankruptcy Court has ordered the parties to file a third amended plan of reorganization, which the parties expect to file in early August 2008. The third amended plan of reorganization is still being negotiated among the parties and would include modifications to the terms of the PPG Settlement Arrangement to be incorporated in such plan. PPG is not able to predict the scope and terms of a third amended PC plan of reorganization, including the modifications to the PPG Settlement Arrangement, prior to the filing of any such plan and related documents with the Bankruptcy Court.

### **Enjoined Claims**

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

### **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, 2008 and December 31, 2007, PPG had reserves for environmental contingencies totaling \$284 million and \$276 million, respectively, of which \$53 million and \$57 million, respectively, were classified as current liabilities. Pretax charges against income for environmental remediation costs totaled \$5 million and \$7 million, respectively, for the three and six months ended June 30, 2008, and \$2 million and \$5 million, respectively, for the three and six months ended June 30, 2007, and are included in "Other charges" in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental remediation aggregated \$6 million and \$8 million, respectively, for the three and six months ended June 30, 2008 and \$5 million and \$10 million, respectively, for the three and six months ended June 30, 2007. As part of the preliminary allocation of the SigmaKalon purchase price to the assets acquired and liabilities assumed, the PPG reserve for environmental contingencies was increased by \$9 million in 2008.



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Charges for estimated environmental remediation costs in 2006 were significantly higher than our historical range. Our continuing efforts to analyze and assess the environmental issues associated with a former chromium manufacturing plant site located in Jersey City, NJ and at the Calcasieu River Estuary located near our Lake Charles, LA chlor-alkali plant resulted in a pre-tax charge of \$173 million in the third quarter of 2006 for the estimated costs of remediating these sites. Excluding 2006, pretax charges against income have ranged between \$10 million and \$49 million per year for the past 15 years. We anticipate that charges against income in 2008 for environmental remediation costs will be within this historical range.

We expect cash outlays for environmental remediation costs to be approximately \$40 million in 2008 and to range from \$35 million to \$60 million annually through 2012. It is possible that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter our 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. As of June 30, 2008 and December 31, 2007 PPG had reserves of \$194 million and \$195 million, respectively, for environmental contingencies associated with all New Jersey sites. The Company submitted a feasibility study work plan to the NJDEP in October 2006 that includes review of the available remediation technology alternatives for the former chromium manufacturing location. Under the feasibility study work plan, remedial alternatives which will be assessed include, but are not limited to, soil excavation and offsite disposal in a licensed disposal facility, in situ chemical stabilization of soil and groundwater, and in situ solidification of soils. A feasibility study is expected to be completed in 2009. In addition, PPG is planning to conduct Interim Remedial Measures ( IRMs ) at the site during 2008. Implementation of these IRMs will assist in the evaluation of remedial technologies required in the feasibility study. 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 2008. Investigation activities have not yet begun for the remaining six sites covered by the ACO, but we believe the results of the study at the former chromium manufacturing location will also provide us with relevant information concerning remediation alternatives at these 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, 2008 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

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approximately 50% and 30% of the reserve, respectively, as of June 30, 2008. 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 during 2009 for the former chromium plant and six adjacent sites, while remedy design and approval could occur during 2009 to 2010, and remedy implementation could occur during 2010 to 2014, 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 2008 to 2009. 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, we expect cash outlays related to remediation efforts in New Jersey to range from \$10 million to \$15 million in 2008 and \$30 million to \$45 million annually from 2009 through 2012.

In May 2005, the NJDEP filed a complaint against PPG and two other former chromium producers seeking to hold the parties responsible for a further 53 sites where the source of chromium contamination is not known and to recover costs incurred by the agency in connection with its response activities at certain of those sites. This case is in discovery with ongoing mediation to resolve the allocation of these additional sites among the three companies.

In Lake Charles, the U.S. Environmental Protection Agency ( USEPA ) has completed investigation of contamination levels in the Calcasieu River Estuary and issued a Final Remedial Investigation Report in September 2003, which incorporates the Human Health and Ecological Risk Assessments, indicating that elevated levels of risk exist in the estuary. PPG and other potentially responsible parties are performing a feasibility study under the authority of the Louisiana Department of Environmental Quality ( LDEQ ). PPG's exposure with respect to the Calcasieu Estuary is focused on the lower few miles of Bayou d'Inde, a small tributary to the Calcasieu Estuary near PPG's Lake Charles facility, and about 150 to 200 acres of adjacent marshes. The Company and three other potentially responsible parties submitted a draft remediation feasibility study report to the LDEQ in October 2006. 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 will be submitting an updated feasibility report to the agencies in the third quarter of 2008.

Multiple future events, such as feasibility study approval, remedy selection, remedy design and remedy implementation involving agency action or approvals will be required and considerable uncertainty exists regarding the timing of these future events. Final resolution of these events is expected to occur over an extended period of time. However, based on currently available

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information it is expected that feasibility study approval and remedy selection could occur in 2008, remedy design and approval could occur during 2008 or 2009, and remedy implementation could occur during 2009 to 2012 with some period of long-term monitoring for remedy effectiveness to follow.

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, 2007. 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, NJ, and about 30% relates to three operating PPG plant sites in our chemicals businesses. The loss contingencies related to these sites include significant unresolved issues such as the nature and extent of contamination at these sites and the methods that may have to be employed to remediate them.

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 our chemicals businesses. These three operating plant sites include our Barberton, OH, Lake Charles, LA and Natrium, WV locations. At Barberton, we have completed a Facility Investigation and Corrective Measure Study ( CMS ) under USEPA's Resource Conservation and Recycling Act ( RCRA ) Corrective Action Program. Currently, we are implementing the remediation alternatives recommended in the CMS using a performance-based approach with USEPA Region V oversight. Similarly, we have completed a Facility Investigation and CMS for our Lake Charles facility under the oversight of the LDEQ. The LDEQ has accepted our proposed remedial alternatives which are expected to be incorporated into the facility's RCRA operating permit during 2008. Planning for or implementation of these proposed alternatives is in progress. At our Natrium facility, a Facility Investigation has been completed, initial interim remedial measures have been implemented to mitigate soil impacts but additional investigation is required to more fully define the nature and extent of groundwater contamination and to identify appropriate, additional remedial actions.

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

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

### ***Other Matters***

The Company, with the assistance of outside counsel, is conducting an investigation into potential violations of the U.S. export control laws, related to the export of small quantities

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(approximately 1,000 gallons) of protective coatings for potential use in Pakistan in 2006. The Company has made a preliminary voluntary self disclosure of potential U.S. export control law violations to the U.S. Department of Commerce and has committed to submit a final voluntary self disclosure once its ongoing investigation is completed. 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 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.

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

The Company accrues for product warranties at the time the products are sold based on historical claims experience. As of June 30, 2008 and December 31, 2007, the reserve for product warranties was \$10 million and \$9 million, respectively. Pretax charges against income for product warranties and the related cash outlays were not material for the three and six months ended June 30, 2008 and 2007.

The Company had outstanding letters of credit of \$86 million and guarantees of \$62 million as of June 30, 2008. The Company does not believe any loss related to such guarantees is likely.

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**17. Reportable Segment Information**

PPG is a multinational manufacturer with 14 operating segments that are organized based on our major products lines. These operating segments are also our reporting units for purposes of testing goodwill for impairment. The operating segments were expanded during the first quarter of 2008 to include the protective and marine coatings operating segment, which is included in the Performance Coatings reportable segment, and the Architectural Coatings EMEA (Europe, Middle East and Africa) operating segment, which is also a reportable business segment. These changes were a result of the SigmaKalon acquisition. 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 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, transparent armor, transparencies, stains and related chemicals that are used by customers in addition to our coatings, sealants and finishes.

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

The Architectural Coatings EMEA reportable segment is comprised of the architectural coatings EMEA operating segment. This reportable segment primarily supplies a variety of decorative coatings under a number of brands 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 silica 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, chlorinated benzenes, calcium hypochlorite, ethylene dichloride and phosgene derivatives.

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

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Reportable segment net sales and segment income for the three and six months ended June 30, 2008 and 2007 were as follows:

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Millions)</b>			
<b>Net sales:</b>				
Performance Coatings	\$ 1,269	\$ 974	\$ 2,383	\$ 1,829
Industrial Coatings	1,152	943	2,210	1,812
Architectural Coatings - EMEA	667		1,203	
Optical and Specialty Materials	310	278	605	529
Commodity Chemicals	495	380	918	751
Glass (a)	581	580	1,117	1,122
<b>Total (b)</b>	<b>\$ 4,474</b>	<b>\$ 3,155</b>	<b>\$ 8,436</b>	<b>\$ 6,043</b>
<b>Segment income:</b>				
Performance Coatings	\$ 171	\$ 159	\$ 291	\$ 280
Industrial Coatings	109	109	204	204
Architectural Coatings - EMEA	71		80	
Optical and Specialty Materials	76	71	150	134
Commodity Chemicals	68	57	136	101
Glass (a)	30	50	60	70
<b>Total</b>	<b>525</b>	<b>446</b>	<b>921</b>	<b>789</b>
Legacy costs (c)	(3)	(6)	(7)	(10)
Acquisition related costs (d)			(117)	
Depreciation catch-up charge (e)	(17)		(17)	
Divestiture related benefit costs (f)	(19)		(19)	
Asbestos settlement net	(4)	(8)	(4)	(17)
Interest expense, net of interest income	(60)	(20)	(119)	(39)
Unallocated stock based compensation (Note 15)	(6)	(9)	(15)	(18)
Other unallocated corporate expense net	(22)	(5)	(46)	(31)
<b>Income before income taxes and minority interest</b>	<b>\$ 394</b>	<b>\$ 398</b>	<b>\$ 577</b>	<b>\$ 674</b>

- (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 and 2007, respectively.
- (b) Intersegment net sales for the three and six months ended June 30, 2008 and 2007 were not material.
- (c) Legacy costs include current costs related to former operations of the Company, including certain environmental remediation, pension and other postretirement benefit costs, and certain charges which are considered to be unusual or non-recurring, and, therefore, not a part of the earnings 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) 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.
- (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. 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.



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

***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. Accordingly, the assets and liabilities of this business were classified as held for sale and the results of operations and cash flows of this business were classified as discontinued operations. 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 is 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. While the transaction with Platinum was terminated, PPG management remained committed to a sale of the automotive glass and services business and continued to classify its assets and liabilities as held for sale and report its results of operations and cash flows as discontinued operations through the first quarter of 2008.

In July 2008, PPG entered into an agreement with affiliates of Kohlberg & Company, LLC, under which PPG will divest the automotive glass and services business to a new company formed by affiliates of Kohlberg. PPG will receive \$330 million in gross cash proceeds and a minority interest of approximately 40 percent in the new company as a result of the transaction. As PPG will hold an ownership interest in the newly-formed company, the accounting requirements of Statement of Financial Accounting Standards, ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for classifying the business as assets held for sale and report its results of operations and cash flows as discontinued operations have no longer been met. As such, the assets and liabilities of the business have been classified as held for use in the accompanying condensed consolidated balance sheet as of June 30, 2008 and December 31, 2007, respectively, and the results of operations and cash flows of the business have been classified as continuing operations in the Glass reportable segment in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2008 and 2007, and their cash flows for the six months then ended.

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.

***Presentation of Discontinued Operations***

In the third quarter of 2007, PPG entered into an agreement to sell its fine chemicals business to ZaCh System S.p.A., a subsidiary of Zambon Company S.p.A., for approximately \$65 million. The sale of this business was completed in November 2007. Accordingly, the results of operations and cash flows of this business, which had previously been included in the Optical and Specialty Materials reportable segment, have been classified as discontinued operations in the condensed consolidated statements of income for the three and six months ended June 30, 2007 and the condensed consolidated statement of cash flows for the six months then ended under Item 1 of this Form 10-Q. PPG recorded a pretax loss related to the divestiture of the fine chemicals business of \$25 million (\$19 million aftertax) in the third quarter of 2007.



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### ***Performance in Second Quarter of 2008 Compared to Second Quarter of 2007***

#### ***Performance Overview***

Sales increased 42% in the second quarter of 2008 to \$4,474 million compared to \$3,155 million for the second quarter of 2007. Sales related to acquisitions accounted for an increase of 32% and the positive effect of foreign currency translation accounted for an increase of 5%. Higher selling prices increased sales by 3%, while higher volumes increased sales by 2%.

Cost of sales, exclusive of depreciation and amortization, increased by \$828 million for the second quarter of 2008 to \$2,829 million compared to \$2,001 million for the second quarter of 2007. This increase is consistent with the increase in sales. Cost of sales as a percentage of sales was 63.2% for the second quarter of 2008 compared to 63.4% for the second quarter of 2007.

Selling, general and administrative expenses increased by \$372 million in the second quarter of 2008 compared to the second quarter of 2007 due to increased sales volumes, the impact of the acquisition of SigmaKalon, higher levels of cost to support growth in our coatings and optical businesses and the charge of \$19 million 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 of the automotive glass and services business. Selling, general and administrative expenses as a percentage of sales were 20.9% for the second quarter of 2008 compared to 17.9% for the second quarter of 2007. The increase in selling, general and administrative expenses as a percentage of sales was due almost entirely to the addition of SigmaKalon and reflects the distribution nature of these businesses, which requires higher selling, distribution, advertising and regional management costs to serve their broad customer profile. Selling, general and administrative expenses as a percentage of sales in the Architectural Coatings EMEA reportable segment are in line with PPG's other architectural coatings businesses.

In the second quarter of 2008, depreciation expense increased by \$40 million due primarily to the acquisition of SigmaKalon and the charge of \$17 million to reflect a catch-up of depreciation expense for the automotive glass and services business, which was suspended when the business was classified as a discontinued operation. Research and development costs increased by \$31 million and amortization increased by \$22 million compared to the second quarter of 2007. These increases were primarily due to the acquisition of SigmaKalon. Interest expense increased by \$42 million in the quarter due to debt incurred to finance the acquisition of SigmaKalon.

The effective tax rate on pre-tax earnings was 29.4% for the second quarter of 2008 compared to 31.4% for the second quarter of 2007. The second quarter 2008 rate of 29.4% includes 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 PPG Settlement Arrangement. Income tax expense of 39% was recognized on earnings from the automotive glass and services business. The effective tax rate on remaining pretax income was 30%. The second quarter 2007 rate of 31.4% includes a tax benefit of 39% on the adjustment to increase the current value of the Company's obligation relating to asbestos claims under the PPG Settlement Arrangement and income tax expense of 31.5% was recognized on the remaining pretax earnings. The decline in the tax rate on the remaining pretax earnings from 31.5% to 30% is due to a change in the mix of PPG's pretax earnings, as a larger proportion of PPG's pretax earnings are in low-tax regions such as Europe and Asia in 2008.

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Net income and earnings per share assuming dilution are summarized below:

(Millions, except per share amounts)  
Three Months ended June 30, 2008

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

Three Months ended June 30, 2007

	Net Income	
	\$	EPS
Net income	\$ 249	\$ 1.50
Net income includes:		
Charge related to asbestos settlement <sup>(3)</sup>	6	0.03

- (1) Represents the catch-up of depreciation expense, which was suspended when the automotive glass and services business was classified previously as a discontinued operation.
- (2) Represents special termination benefits and a 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.
- (3) Net increase in the current value of the Company's obligation relating to asbestos claims under the PPG Settlement Arrangement.

**Performance of Reportable Business Segments**

Performance Coatings sales increased 30% to \$1,269 million for the second quarter of 2008 compared to \$974 million for the second quarter of 2007. Sales increased 24% due to acquisitions, 6% due to the positive impact of foreign currency translation, and 2% due to higher selling prices. Sales decreased 2% due to lower sales volumes in our architectural coatings Americas and Asia-Pacific business, which were only partially offset by higher sales volumes in all other businesses. Volume growth in the aerospace businesses occurred throughout the world, while the majority of volume growth in protective and marine coatings and refinish coatings occurred in Asia. Segment income was \$171 million for the second quarter of 2008 compared to \$159 million for the same quarter in 2007. The positive impacts of acquisitions and of foreign currency translation more than offset lower sales volumes. The negative impact of inflation, including higher raw material and freight costs, was offset by higher selling prices and lower overhead costs.

Industrial Coatings sales increased 22% to \$1,152 million for the second quarter of 2008 compared to \$943 million for the second quarter of 2007. Sales increased 12% due to acquisitions, 8% due to the positive impact of foreign currency translation, and 2% from improved sales volumes. In the automotive business, volume declines in the U.S. and Canada were more than offset by volume gains in the other regions of the world, while the industrial coatings business volumes in other regions of the world only partially offset the volume declines in the U.S. and Canada. In the packaging coatings business, volume gains in Asia more than offset volume declines in Europe. Segment income was \$109 million in both the second quarter

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of 2008 and the second quarter of 2007. The positive impacts of acquisitions, stronger foreign currencies and lower manufacturing costs increased segment income. Factors reducing segment income were inflation, including higher raw material and freight costs, and higher overhead costs to support growth in emerging regions.

Architectural Coatings EMEA (Europe, Middle East and Africa) is a newly formed segment in 2008 comprised of about 70% of the acquired SigmaKalon sales. The segment sales for the quarter were \$667 million. Segment earnings were \$71 million, which included amortization expense of \$18 million related to acquired intangible assets and \$17 million of depreciation expense.

Optical and Specialty Materials sales increased 12% to \$310 million for the second quarter of 2008 compared to \$278 million for the second quarter of 2007. Sales increased 6% due to the positive impact of foreign currency translation, 5% due to higher volumes primarily in our optical products business resulting from the launch of Transitions Optical's next generation lens product in the U.S., Latin America and Asia and 1% due to increased selling prices. Segment income was \$76 million for the second quarter of 2008 compared to \$71 million for the same quarter in 2007. The increase in segment income was primarily the result of the increased sales volumes and the positive impact of stronger foreign currencies partially offset by increased costs in optical products related to the Transitions Optical product launch described above and higher raw material costs in the silicas business.

Commodity Chemicals sales increased 30% to \$495 million for the second quarter of 2008 compared to \$380 million for the second quarter of 2007. Sales increased 15% due to improved sales volumes, 14% due to higher selling prices and 1% due to stronger foreign currencies. Segment income was \$68 million for the second quarter of 2008 compared to \$57 million for the same quarter in 2007. Segment income increased in large part due to lower manufacturing costs and higher sales volumes. The benefit from higher selling prices offset the negative impact of inflation, primarily higher raw material and energy costs.

Glass sales increased less than 1% to \$581 million for the second quarter of 2008 compared to \$580 million for the second quarter of 2007. Sales increased 3% due to the positive impact of foreign currency translation while lower sales volumes reduced sales 3%. Segment income was \$30 million for the second quarter of 2008 compared to \$50 million for the same quarter in 2007. Segment income decreased due to lower volumes and other income and the negative impact of inflation, which more than offset lower manufacturing costs and favorable currency.

### ***Performance in the First Six Months of 2008 Compared to First Six Months of 2007***

#### ***Performance Overview***

Sales increased 40% for the first six months of 2008 to \$8,436 million compared to \$6,043 million for the first six months of 2007. Sales related to acquisitions accounted for an increase of 30%, the positive effects of foreign currency translation accounted for an increase of 5%, an increase in selling prices accounted for an increase of 3% and improved sales volume accounted for an increase of 2%.

Cost of sales, exclusive of depreciation and amortization, increased by \$1,561 million for the first six months of 2008 to \$5,425 million compared to \$3,864 million for the first six months of 2007. This increase corresponds with the increase in sales. Cost of sales as a percentage of sales was 64.3% for the first six months of 2008 compared to 63.9% for the first six months of 2007. 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, which more than accounts for the noted increase in cost of sales as a percentage of sales.

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Selling, general and administrative expenses increased by \$704 million in the first six months of 2008 compared to the first six months of 2007 due to increased sales volumes, the impact of the acquisition of SigmaKalon, higher levels of cost to support growth in our coatings and optical businesses and the charge of \$19 million for special termination benefits and a 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. Selling, general and administrative expenses as a percentage of sales were 21.4% for the first six months of 2008 compared to 18.2% for the first six months of 2007. The increase in selling, general and administrative expenses as a percentage of sales was due almost entirely to the addition of SigmaKalon and reflects the distribution nature of these businesses, which requires higher selling, distribution, advertising and regional management costs to serve their broad customer profile. Selling, general and administrative expenses in the Architectural Coatings EMEA reportable segment are in line with PPG's other architectural coatings businesses.

In the first six months of 2008, depreciation expense increased by \$61 million due primarily to the acquisition of SigmaKalon and the charge of \$17 million to reflect a catch-up of depreciation expense for the automotive glass and services business, which was suspended when the business was classified as a discontinued operation. Research and development costs increased by \$60 million and amortization increased by \$42 million compared to the first six months of 2007. These increases were primarily due to the acquisition of SigmaKalon. Interest expense increased by \$86 million in the first six months of 2008 due to debt incurred to finance the acquisition of SigmaKalon.

Other charges decreased to \$16 million for the first six months of 2008 as compared to \$35 million for the six months of 2007, in part due to the absence in 2008 of a \$10 million charge incurred in 2007 to write off PPG's investment in a Venezuelan fiber glass joint venture. Other earnings increased to \$81 million for the first six months of 2008 as compared to \$66 million in the first six months of 2007. The increase in other earnings was due primarily to higher interest income, higher royalty income and an insurance recovery in 2008.

The effective tax rate on pre-tax earnings was 30% for the first six months of 2008 compared to 28.3% for the first six months of 2007. The 2008 rate of 30% includes a tax benefit of \$6 million related to the settlement with the Internal Revenue Service of our U.S. tax returns for tax years 2004 and 2005. The 2008 rate also includes 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 PPG Settlement Arrangement. Income tax expense of 39% was recognized on earnings from the automotive glass and services business. The effective tax rate on remaining pretax income was 30%. The 2007 rate of 28.3% includes the benefit of reversing a \$19 million valuation allowance previously recorded against the benefit of tax net operating loss carryforwards and a tax benefit of 39% on the adjustment to increase the current value of the Company's obligation relating to asbestos claims under the PPG Settlement Arrangement. Income tax expense of 31.5% was recognized on the remaining pretax earnings. The decline in the tax rate on the remaining pretax earnings from 31.5% to 30% is due to a change in the mix of PPG's pretax earnings in 2008, as a larger proportion of PPG's pretax earnings are in low-tax regions such as Europe and Asia.

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Net income and earnings per share assuming dilution are summarized below:

(Millions, except per share amounts)  
Six Months ended June 30, 2008

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

Six Months ended June 30, 2007

	Net Income	
	\$	EPS
Net income	\$ 443	\$ 2.67
Net income includes:		
Charge related to asbestos settlement <sup>(4)</sup>	11	0.06

- (1) 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.
- (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 pending sale of the automotive glass and services business.
- (4) Net increase in the current value of the Company's obligation relating to asbestos claims under the PPG Settlement Arrangement.

**Performance of Reportable Segments**

Performance Coatings sales increased 30% to \$2,383 million for the first six months of 2008 compared to \$1,829 million for the first six months of 2007. Sales increased 23% due to acquisitions, 6% due to the positive impact of foreign currency translation and 2% due to higher selling prices. Sales decreased 1% due to lower sales volumes as reduced volumes in architectural coatings Americas and Asia-Pacific more than offset improved volumes in all other businesses. Volume growth in the aerospace businesses occurred throughout the world, while the volume growth in protective and marine coatings occurred primarily in Asia. In the refinish business, volume growth in Asia and Latin America more than offset declines in Europe. Refinish volumes in the U.S. and Canada were essentially flat. Segment income was \$291 million for the first six months of 2008 compared to \$280 million for the first six months of 2007. The positive impact of foreign currency translation and the positive impact of acquisitions increased segment income. The negative impact of inflation, including higher raw material and freight costs, more than offset the benefit of higher selling prices. Segment income also decreased due to unfavorable margin mix in automotive refinish and lower volumes in architectural coatings.

Industrial Coatings sales increased 22% to \$2,210 million for the first six months of 2008 compared to \$1,812 million for the first six months of 2007. Sales increased 11% due to acquisitions, 8% due to the positive impact of foreign currency translation, and 3% from

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improved sales volumes. In the automotive and industrial coatings businesses, volume declines in the U.S. and Canada were more than offset by volume gains in the other regions of the world. In the packaging coatings business, volume gains in Asia and North America more than offset volume declines in Europe. Segment income was \$204 million in both the first six months of 2008 and the first six months of 2007. The positive impact of acquisitions, stronger foreign currencies, lower manufacturing costs and higher sales volumes increased segment income. Factors reducing segment income were inflation, including higher raw material and freight costs, and higher overhead costs to support growth.

Architectural Coatings EMEA (Europe, Middle East and Africa) sales for the first six months were \$1,203 million. Segment earnings were \$80 million, which included amortization expense of \$35 million related to acquired intangible assets and depreciation expense of \$33 million.

Optical and Specialty Materials sales increased 14% to \$605 million for the first six months of 2008 compared to \$529 million for the first six months of 2007. Sales increased 7% due to higher volumes primarily in our optical products business resulting from the launch of Transitions Optical's next generation lens product in the U.S., Latin America and Asia, 6% due to the positive impact of foreign currency translation and 1% due to increased selling prices. Segment income was \$150 million for the first six months of 2008 compared to \$134 million for the same period in 2007. The increase in segment income was the result of increased sales volumes and the favorable impact of currency partially offset by increased selling costs in optical products related to the Transitions Optical product launch described above. Increased selling prices only partially offset higher raw material costs in our silicas business.

Commodity Chemicals sales increased 22% to \$918 million for the first six months of 2008 compared to \$751 million for the first six months of 2007. Sales increased 13% due to higher selling prices, 8% due to improved sales volumes and 1% due to stronger foreign currencies. Segment income was \$136 million for the first six months of 2008 compared to \$101 million for the same period in 2007. Segment income increased in large part due to higher selling prices, which more than offset the negative impact of inflation, primarily higher raw material and energy costs. Segment income also increased due to lower manufacturing costs, which impact was offset somewhat by higher other expenses.

Glass sales decreased to \$1,117 million for the first six months of 2008 compared to \$1,122 million for the first six months of 2007. Sales decreased 3% due to lower sales volumes. Sales increased 3% due to the positive impact of foreign currency translation. Segment income was \$60 million for the first six months of 2008 compared to \$70 million for the same period in 2007. Segment income decreased due to lower volume and the negative impact of inflation. Factors increasing segment income were lower manufacturing costs and the absence of the \$10 million charge incurred in 2007 to write off PPG's investment in a Venezuelan fiber glass joint venture.

### ***Liquidity and Capital Resources***

Cash from operating activities for the six months ended June 30, 2008 was \$359 million versus \$225 million for the comparable period of 2007. This increase in cash from operations of \$134 million was due in large part to an increase in earnings after considering adjustments for amortization, depreciation and non-cash charges related to SigmaKalon to reconcile net income to cash from operations. 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 PPG Settlement Arrangement relating to asbestos claims and share repurchases.

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Total current assets less total current liabilities (net working capital) was \$2,346 million at June 30, 2008 as compared to \$2,309 million at December 31, 2007. Receivables increased by \$1,385 million, inventories increased by \$592 million and accounts payable and accrued liabilities increased by \$1,096 million. These increases were largely due to the SigmaKalon acquisition and the impact of currency. Receivables as a percent of annualized net sales for 2008 increased to 23.2 percent from 20.6 percent in 2007. Days sales outstanding increased to 84 days in 2008 from 75 days in 2007. The increases in receivables as a percent of annualized net sales and days sales outstanding are due to the acquisition of SigmaKalon and the seasonality of certain of PPG's businesses, where receivable balances are typically higher at June 30 as compared to December 31. Inventories as a percent of annual net sales for 2008 increased to 12.6 percent from 12.5 percent in 2007. Inventory turnover was 5.1 times in both 2008 and 2007.

On January 2, 2008, PPG completed the 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. 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.

In order to provide financing for the SigmaKalon acquisition, in December 2007, PPG and certain of its subsidiaries entered into a three year \$650 million revolving credit facility with several banks and financial institutions and Societe Generale, as facility agent for the lenders. The facility has an annual fee of 7 basis points. In addition, PPG and a subsidiary entered into two bridge loan agreements, one in the amount of \$1 billion with multiple lenders and Credit Suisse as administrative agent for those lenders and the other in the amount of \$500 million with Credit Suisse as the lender.

In December 2007, PPG issued \$617 million of commercial paper and borrowed \$1,056 million (\$717 million) under the \$1 billion bridge loan agreement. The proceeds from these borrowings were deposited into escrow in December 2007. Upon closing of the 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 the \$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. No amounts were borrowed under the \$500 million bridge loan agreement, and, due to the passage of time and the specific purpose of this agreement, PPG can no longer make borrowings under this agreement.

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 over the respective lives of the Notes.

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The ratio of total debt, including capital leases, to total debt and equity was 48% at June 30, 2008 and 42% at December 31, 2007. The increase at June 30, 2008 is primarily due to additional debt related to the acquisition of SigmaKalon. The ratio was slightly greater than 50% immediately following the acquisition on January 2, 2008.

On August 17, 2006, the Pension Protection Act of 2006 ( PPA ) was signed into law, changing the funding requirements for our U.S. defined benefit pension plans beginning in 2008. Under the requirements of PPA, we will not have a mandatory contribution to these plans in 2008. However, we expect to make voluntary contributions of \$50 million to \$100 million to our U.S. defined benefit pension plans in 2008.

### ***Currency***

During the first six months of 2008, the U.S. dollar weakened against certain of the currencies of the countries in which PPG operates, most notably against the euro, the Brazilian real and the Australian dollar. The effects of translating the net assets of PPG's operations denominated in non-U.S. currencies to the U.S. dollar increased consolidated net assets at June 30, 2008 by \$202 million compared to December 31, 2007. Additionally, the weaker U.S. dollar as compared to the first six months of 2007 resulted in an increase in 2008 pretax earnings of \$45 million due to translation.

### ***Restructuring***

In connection with our continuing efforts to integrate the acquired SigmaKalon business and to address our cost structure in light of the geographic shifts of our customer base into emerging regions and rising energy and raw material costs in several key markets in the U.S. and Western Europe, we are evaluating our manufacturing footprint and considering potential actions to reduce our workforce and consolidate facilities. We are working to finalize these plans by year end and expect that restructuring reserves of \$150 million to \$300 million will be established.

### ***New Accounting Standards***

Note 2, Newly Adopted Accounting Standards, to the accompanying condensed consolidated financial statements describes the Company's adoption of EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, SFAS No. 157, Fair Value Measurements and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 as of January 1, 2008.

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. 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 and SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities.

### ***Commitments and Contingent Liabilities, including Environmental Matters***

PPG is involved in a number of lawsuits and claims, both actual and potential, including some that it has asserted against others, in which substantial monetary damages are sought. See Part II, Item 1, Legal Proceedings of this Form 10-Q and Note 16, Commitments and Contingent Liabilities, to the accompanying condensed consolidated financial statements for a description of certain of these lawsuits, including a description of the proposed PPG Settlement Arrangement for asbestos claims announced on May 14, 2002. As discussed in Part II, Item 1



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and Note 16, although the result of any future litigation of such lawsuits and claims is inherently unpredictable, management believes that, in the aggregate, the outcome of all lawsuits and claims involving PPG, including asbestos-related claims in the event the PPG Settlement Arrangement described in Note 16 does not become effective, will not have a material effect on PPG's consolidated financial position or liquidity; however, any such outcome may be material to the results of operations of any particular period in which costs, if any, are recognized.

It is PPG's policy to accrue expenses for environmental contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Reserves for environmental contingencies are exclusive of claims against third parties and are generally not discounted. In management's opinion, the Company operates in an environmentally sound manner and the outcome of the Company's environmental contingencies will not have a material effect on PPG's financial position or liquidity; however, any such outcome may be material to the results of operation of any particular period in which costs, if any, are recognized. Management anticipates that the resolution of the Company's environmental contingencies will occur over an extended period of time.

As of June 30, 2008 and December 31, 2007, PPG had reserves for environmental contingencies totaling \$284 million and \$276 million, respectively, of which \$53 million and \$57 million, respectively, were classified as current liabilities. Pretax charges against income for environmental remediation costs totaled \$7 million and \$5 million for the six months ended June 30, 2008 and 2007, respectively, and are included in "Other charges" in the accompanying condensed consolidated statement of income. Cash outlays related to such environmental remediation aggregated \$8 million and \$10 million for the six months ended June 30, 2008 and 2007, respectively. As part of the preliminary allocation of the SigmaKalon purchase price to the assets acquired and liabilities assumed, the PPG reserve for environmental contingencies was increased by \$9 million in 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, 2007. 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, NJ, and about 30% relates to three operating PPG plant sites in our chemicals businesses. The loss contingencies related to these sites include significant unresolved issues such as the nature and extent of contamination at these sites and the methods that may have to be employed to remediate them.

We expect cash outlays for environmental remediation costs to be approximately \$40 million in 2008 and to range from \$35 million to \$60 million annually through 2012. It is possible that technological, regulatory and enforcement developments, the results of environmental studies and other factors could alter our 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.

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**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.

Many factors could cause actual results to differ materially from the Company's forward-looking statements. Such factors include 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 Agreement 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, 2007 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, 2007 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**

Concurrent with the March 18, 2008 completion of the \$1.55 billion public debt offering, PPG 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 March 18, 2008, PPG paid the counterparties to the contracts a total of \$1.3 billion and received euros, which were used to repay most of the \$1 billion bridge loan, which the Company employed to finance the acquisition of SigmaKalon. On settlement of the contracts, PPG will receive \$1.3 billion U.S. dollars and pay euros to the counterparties to the contracts. 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 other comprehensive income. As of June 30, 2008, the aggregate fair value of these swaps was a liability of \$26 million. A 10% increase in the value of the euro to the U.S. dollar would have the effect of increasing the fair value liability amount to \$150 million.

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The \$1.55 billion borrowings have fixed coupon rates, which increase PPG's portfolio of fixed rate borrowings to \$2.8 billion as of June 30, 2008. A 10% reduction in interest rates would have the effect of increasing the present value of the fixed rate debt obligations by \$120 million; however, such changes would not have had an effect on PPG's earnings or cash flows.

PPG's natural gas swap contracts in place as of June 30, 2008 had a total fair value of \$126 million. A 10% reduction in the price of natural gas would result in a loss in the fair value of the contracts of \$41 million.

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

As described in Note 16, "Commitments and Contingent Liabilities" under Part I, Item 1 of this Form 10-Q, 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.

**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, 2007.

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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 2008, the directors, as a group, were credited with 2,649 common stock equivalents under this plan. The value of each common stock equivalent, when credited, ranged from \$59.76 to \$64.75.

The following table summarizes the Company's stock repurchase activity for the three months ended June 30, 2008:

**Issuer Purchases of Equity Securities**

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs <sup>(1)</sup>
April 2008				
Repurchase program				3,868,609
Other transactions <sup>(2)</sup>				
May 2008				
Repurchase program				3,868,609
Other transactions <sup>(2)</sup>	541	\$ 64.95		
June 2008				
Repurchase program				3,868,609
Other transactions <sup>(2)</sup>				
Total quarter ended June 30, 2008				
Repurchase program				3,868,609
Other transactions <sup>(2)</sup>	541	\$ 64.95		

(1) These shares are available to be purchased under a 10 million share repurchase program approved by PPG's Board of Directors in October 2005. This program does not have an expiration date.

(2) Includes shares withheld or certified to in satisfaction of the exercise price and/or tax withholding obligation by holders of employee stock options who exercised options granted under the Company's equity compensation plans.

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

The information set forth under Item 4. Submission of Matters to a Vote of Security Holders of the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2008, is incorporated herein by reference in its entirety.

**Item 6. Exhibits**

(a) See the Index to Exhibits on Page 49.

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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.

Date: July 28, 2008

By

**PPG INDUSTRIES, INC.**  
(Registrant)

/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 Kevin F. Sullivan, filed as Exhibit 10 to the registrant's current report on Form 8-K filed on April 28, 2008.
- 12 Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended June 30, 2008 and for the Five Years Ended December 31, 2007.
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.