PPG INDUSTRIES INC
Form 10-Q
April 21, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended March 31, 2016
Commission File Number 1-1687

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

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

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

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

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

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

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

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

As of March 31, 2016, 266,063,408 shares of the Registrant's common stock, par value $1.66-2/3 per share, were outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Income (Unaudited)
($ in millions, except per share amounts)

	Three Months Ended March 31	
	2016	2015
Net sales	$3,672	$3,662
Cost of sales, exclusive of depreciation and amortization	2,013	2,065
Selling, general and administrative	919	914
Depreciation	91	87
Amortization	30	33
Research and development, net	118	119
Interest expense	31	29
Interest income	(7)	(11)
Asbestos settlement, net	3	3
Other charges	21	24
Other income	(18)	(31)
Income from continuing operations before income taxes	471	430
Income tax expense	117	104
Income from continuing operations	354	326
Income from discontinued operations, net of tax	—	1
Net income attributable to the controlling and noncontrolling interests	354	327
Less: Net income attributable to noncontrolling interests	(7)	(5)
Net income (attributable to PPG)	$347	$322
Amounts attributable to PPG:		
Income from continuing operations, net of tax	$347	$321
Income from discontinued operations, net of tax	—	1
Net income (attributable to PPG)	$347	$322
Earnings per common share:		
Income from continuing operations, net of tax	$1.30	$1.17
Income from discontinued operations, net of tax	—	0.01
Net income (attributable to PPG)	$1.30	$1.18
Earnings per common share – assuming dilution:		
Income from continuing operations, net of tax	$1.29	$1.16
Income from discontinued operations, net of tax	—	0.01
Net income (attributable to PPG)	$1.29	$1.17
Dividends per common share	$0.36	$0.33

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

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

	Three Months Ended March 31	
	2016	2015
Net income attributable to the controlling and noncontrolling interests	$354	$327
Other comprehensive income, net of tax:		
Defined benefit pension and other postretirement benefits	19	68
Unrealized foreign currency translation adjustments	45	(272)
Derivative financial instruments, net	(8)	6
Other comprehensive income (loss), net of tax	56	(198)
Total comprehensive income	$410	$129
Less: amounts attributable to noncontrolling interests:		
Net income	(7)	(5)
Unrealized foreign currency translation adjustments	3	5
Comprehensive income attributable to PPG	$406	$129

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

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$909	$1,311
Short-term investments	121	144
Receivables (less allowance for doubtful accounts of $53 and $51)	3,106	2,788
Inventories	1,863	1,705
Other	719	606
Total current assets	6,718	6,554
Property, plant and equipment (net of accumulated depreciation of $4,557 and $4,434)	3,038	3,017
Goodwill	3,743	3,669
Identifiable intangible assets, net	2,170	2,178
Deferred income taxes	648	672
Investments	370	367
Other assets	628	619
Total	$17,315	$17,076
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$3,616	$3,490
Asbestos settlement	831	796
Restructuring reserves	71	87
Short-term debt and current portion of long-term debt	38	283
Total current liabilities	4,556	4,656
Long-term debt	4,226	4,042
Accrued pensions	682	712
Other postretirement benefits	1,017	1,021
Asbestos settlement	255	252
Deferred income taxes	479	460
Other liabilities	852	864
Total liabilities	12,067	12,007
Commitments and contingent liabilities (Note 15)		
Shareholders' equity:		
Common stock	969	969
Additional paid-in capital	648	635
Retained earnings	15,770	15,521
Treasury stock, at cost	(9,583)	(9,440)
Accumulated other comprehensive loss	(2,643)	(2,702)
Total PPG shareholders' equity	5,161	4,983
Noncontrolling interests	87	86
Total shareholders' equity	5,248	5,069
Total	$17,315	$17,076

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

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

	Three Months Ended March 31	
	2016	2015
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$354	$327
Less: Income from discontinued operations	—	(1)
Income from continuing operations	354	326
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	121	120
Pension expense	19	24
Stock-based compensation expense	10	15
Equity affiliate earnings, net of distributions received	(3)	(6)
Deferred income tax (benefit) expense	(4)	12
Gain on derivative instruments	—	(55)
Cash contributions to pension plans	(6)	(276)
Restructuring cash spend	(18)	(13)
Change in certain asset and liability accounts:		
Receivables	(269)	(327)
Inventories	(120)	(136)
Other current assets	(83)	(66)
Accounts payable and accrued liabilities	90	(63)
Taxes and interest payable	(57)	67
Noncurrent assets and liabilities, net	(4)	(33)
Other	29	(18)
Cash from / (used for) operating activities	59	(429)
Investing activities:		
Capital expenditures	(77)	(72)
Business acquisitions, net of cash balances acquired	(6)	(9)
Proceeds from the disposition of PPG's interest in the Transitions Optical joint venture and sunlens business	—	47
Proceeds from maturity of short-term investments	31	51
Payments for the settlement of cross currency swap contracts	(36)	(34)
Proceeds from the settlement of cross currency swap	19	19
Proceeds from the settlement of net investment hedges	—	19
Other	6	14
Cash (used for) / from investing activities	(63)	35
Financing activities:		
Net change in borrowing with maturities of three months or less	2	(20)
Net proceeds (payments) on commercial paper and short-term debt	86	(497)
Proceeds from the issuance of debt	—	1,242
Repayment of long-term debt	(251)	(1)
Purchase of treasury stock	(150)	(200)
Issuance of treasury stock	14	44
Dividends paid	(96)	(91)

Other	(14)	(19)
Cash (used for) / from financing activities	(409)	458
Effect of currency exchange rate changes on cash and cash equivalents	11	(15)
Net (decrease) / increase in cash and cash equivalents	(402)	49
Cash and cash equivalents, beginning of period	1,311	686
Cash and cash equivalents, end of period	$909	$735
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$33	$17
Taxes paid, net of refunds	$108	$83

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

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared following the requirements of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Under these rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. These statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and its subsidiaries (the "Company" or "PPG") as of March 31, 2016, and the results of their operations for the three months ended March 31, 2016 and 2015 and their cash flows for the three months then ended. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG’s Annual Report on Form 10-K for the year ended December 31, 2015.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three months ended March 31, 2016 and the trends in these unaudited condensed consolidated financial statements may not necessarily be indicative of the results to be expected for the full year.

On April 16, 2015, the PPG Board of Directors approved a 2-for-1 split of the company's common stock. PPG common stock began trading on a split-adjusted basis on June 15, 2015. Historical per share and share data in this Form 10-Q give retroactive effect to the stock split. These adjustments had no impact on our previously reported net income, total assets, cash flows or shareholders' equity.

2. New Accounting Standards

In April 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-10, "Identifying Performance Obligations and Licensing." This ASU addresses certain implementation issues that have surfaced since the issuance of ASU No. 2014-09 in May 2014. The ASU provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies certain aspects of the accounting for share-based payment transactions, including income tax requirements, forfeitures, and presentation on the balance sheet and the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016 and for the interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." This ASU clarifies the revenue recognition implementation guidance for preparers on certain aspects of principal versus agent consideration. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This ASU requires all lessees to recognize on the balance sheet right to use assets and lease liabilities for the rights and obligations created by lease arrangements with terms greater than 12 months. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers: Topic 606.” This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

3. Dispositions

On April 21, 2016, PPG sold its ownership interest in Pittsburgh Glass Works LLC ("PGW") to LKQ Corporation, concurrent with the majority partner's sale of its ownership interest. At March 31, 2016, the carrying value of PPG's investment in PGW approximated $20 million. In conjunction with the sale, PPG received approximately $41 million in cash proceeds and will record a pre-tax gain between $18 million to $23 million in the second quarter 2016. PPG accounted for its interest in PGW under the equity method of accounting. PPG's share of net earnings from PGW are reported in Other income in the Condensed, Consolidated Statement of Income for all periods presented and have not been reclassified as discontinued operations, as the divestiture of PGW does not represent a strategic shift in PPG's operations and PGW did not have a major impact on PPG's ongoing results of operations.

4. Inventories

($ in millions)	March 31, 2016	December 31, 2015
Finished products	$1,187	$ 1,082
Work in process	179	160
Raw materials	446	413
Supplies	51	50
Total Inventories	$1,863	$ 1,705

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 38% and 39% of total inventories at March 31, 2016 and December 31, 2015, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $145 million and $163 million higher as of March 31, 2016 and December 31, 2015, respectively.

5. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the three months ended March 31, 2016 was as follows:

($ in millions)	Performance Coatings	Industrial Coatings	Glass	Total
Balance, December 31, 2015	$ 3,073	$ 552	$ 44	$3,669
Acquisitions	4	1	—	5
Currency	52	16	1	69
Balance, March 31, 2016	$ 3,129	$ 569	$ 45	$3,743

The carrying amount of acquired trademarks with indefinite lives totaled $1.3 billion as of March 31, 2016 and December 31, 2015.

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

	March 31, 2016				December 31, 2015			
($ in millions)	Gross Carrying Amount	Accumulated Amortization		Net	Gross Carrying Amount	Accumulated Amortization		Net
Acquired technology	$576	$ (432	)	$144	$572	$ (421	)	$151
Customer-related intangibles	1,300	(611	)	689	1,267	(574	)	693
Trade names	137	(67	)	70	132	(61	)	71
Other	40	(28	)	12	39	(26	)	13
Balance	$2,053	$ (1,138	)	$915	$2,010	$ (1,082	)	$928

Aggregate amortization expense related to these identifiable intangible assets for the three months ended March 31, 2016 and 2015 was $30 million and $33 million, respectively.

As of March 31, 2016, estimated future amortization expense of identifiable intangible assets is as follows:

($ in millions)	Future Amortization Expense
Remaining nine months of 2016	$ 95
2017	125
2018	120
2019	110
2020	95
2021	95
Thereafter	275

6. Business Restructuring

The Company records restructuring liabilities that represent charges incurred in connection with consolidations of certain operations, including operations from acquisitions, as well as headcount reduction programs. These charges consist primarily of severance costs and asset write-downs.

On April 15, 2015, the Company approved a business restructuring plan which includes actions necessary to achieve cost synergies related to recent acquisitions. In addition, the program aims to further align employee levels and production capacity in certain businesses and regions with current product demand, as well as reductions in various global administrative functions. A pre-tax restructuring charge of $140 million was recorded in PPG's second quarter 2015 financial results, of which about 85% represents employee severance and other cash costs. The restructuring actions are expected to be substantially completed during 2016.

The 2015 restructuring charge and the reserve activity for 2015 and the quarter ended March 31, 2016 was as follows:

($ in millions, except for employees impacted)	Severance and Other Costs	Asset Write-offs	Total Reserve	Employees Impacted
Performance Coatings	$ 71	$ 6	$ 77	1,259
Industrial Coatings	42	13	55	534
Glass	4	—	4	33
Corporate	4	—	4	27
Total second quarter 2015 restructuring charge	$ 121	$ 19	$ 140	1,853
2015 Activity	(32)	(19)	(51)	(1,047)
Foreign currency impact	(2)	—	(2)	—
Balance as of December 31, 2015	$ 87	$ —	$ 87	806
2016 Activity	(18)	—	(18)	(123)
Foreign currency impact	2	—	2	—
Balance as of March 31, 2016	$ 71	$ —	$ 71	683

7. Borrowings

In January 2016, PPG’s $250 million 1.9% notes matured, and PPG repaid these notes with cash on hand.

In March 2015, PPG completed a public offering of €600 million 0.875% Notes due 2022 and €600 million 1.400% Notes due 2027 (together, the “Notes”), or €1.2 billion ($1.26 billion) in aggregate principal amount. The aggregate cash proceeds from the Notes, net of discounts and fees, was $1.24 billion. The Notes are denominated in Euro and have been designated as hedges of net investments in the Company’s European operations.

8. Earnings Per Share

Historical per share and share data (except for shares on the balance sheet) give retroactive effect to the 2-for-1 stock split discussed in Note 1, "Basis of Presentation."

The effect of dilutive securities on the weighted average common shares outstanding included in the calculation of earnings per diluted common share for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31	
(number of shares in millions)	2016	2015
Weighted average common shares outstanding	267.6	273.2
Effect of dilutive securities:		
Stock options	0.9	1.2
Other stock compensation plans	0.9	1.2
Potentially dilutive common shares	1.8	2.4
Adjusted weighted average common shares outstanding	269.4	275.6

Excluded from the computation of earnings per diluted share due to their antidilutive effect were 0.6 million outstanding stock options for the three months ended March 31, 2016. There were no antidilutive outstanding stock options for the three months ended March 31, 2015.

9. Income Taxes

	Three Months Ended March 31	
	2016	2015
Effective tax rate on pre-tax income from continuing operations	24.8%	24.2%

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

The Company files federal, state and local income tax returns in numerous domestic and foreign jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is no longer subject to examinations by tax authorities in any major tax jurisdiction for years before 2006. In addition, the Internal Revenue Service (“IRS”) has completed its examination of the Company’s U.S. federal income tax returns filed for years through 2011. The IRS is currently conducting its examination of the Company's U.S. federal income tax return for 2012 and 2013.

10. Pensions and Other Postretirement Benefits

Net periodic pension and other post-retirement benefit costs are included in "Cost of sales, exclusive of depreciation and amortization," "Selling, general and administrative" and "Research and development" in the accompanying condensed consolidated statement of income.

The net periodic pension and other post-retirement benefit costs for the three months ended March 31, 2016 and 2015 were as follows:

	Pensions		Other Postretirement	
	Three Months Ended March 31		Three Months Ended March 31	
($ in millions)	2016	2015	2016	2015
Service cost	$14	$15	$ 4	$ 5
Interest cost	43	50	10	12
Expected return on plan assets	(69)	(70)	—	—
Amortization of actuarial losses	31	30	4	8
Amortization of prior service credit	—	(1)	(2)	(3)
Net periodic benefit cost	$19	$24	$ 16	$ 22

PPG expects its net periodic pension and other post-retirement benefit cost, excluding settlement losses, for 2016 will be approximately $140 million, with pension representing approximately $75 million and other post-retirement benefit cost representing approximately $65 million.

In 2016, PPG changed the method it uses to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefit costs for substantially all of its U.S. and foreign plans. Historically, the service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. PPG has elected to use a full yield curve approach (“Split-rate”) to estimate these components of benefit cost by applying specific spot rates along the yield curve used to determine the benefit obligation to the relevant projected cash flows. PPG made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change does not affect the measurement of the Company’s total benefit obligations. PPG accounted for this change as a change in estimate and, accordingly, is recognizing its effect prospectively beginning in fiscal year 2016.

Contributions to Defined Benefit Pension Plans

	Three Months Ended March 31	
($ in millions)	2016	2015
U.S. defined benefit pension voluntary contributions	$—	$250
Non-U.S. defined benefit pension plan contributions	$6	$26

PPG is not required to make any mandatory contributions to its U.S. defined benefit pension plans in 2016. PPG expects to make mandatory contributions to its non-U.S. pension plans in the range of $30 million to $35 million over the remaining nine months of 2016. We may make voluntary contributions to our defined benefit pension plans in 2016 and beyond.

Retained Liabilities and Legacy Settlement Charges

PPG has retained certain liabilities for pension and post-retirement benefits earned for service up to the date of sale of its former automotive glass and service business for employees who were active as of the divestiture date and for individuals who were retirees of the business as of the divestiture date. There have been multiple PPG facilities closures in Canada related to the former automotive glass and services business as well as other PPG businesses. These various plant closures have resulted in partial and full windups, and related settlement charges, of pension plans for various hourly and salary employees employed by these locations. The charges are recorded for the individual plans when a particular windup is approved by the Canadian pension authorities and the Company has made all contributions to the individual plan. There were no charges recorded in the three months ended March 31, 2016 or 2015; however, additional windup charges of $40 million to $50 million are expected during the remaining nine months of 2016 related to these plant closures. Cash contributions related to these future windups are expected to be in the range of $5 million to $10 million.

11. Shareholders' Equity

Changes to shareholders’ equity for the three months ended March 31, 2016 and 2015 were as follows:

($ in millions)	Total PPG Shareholders’ Equity	Non-controlling Interests	Total
Balance, January 1, 2016	$ 4,983	$ 86	$5,069
Net income	347	7	354
Other comprehensive income, net of tax	59	(3)	56
Cash dividends	(96)	—	(96)
Issuance of treasury stock	34	—	34
Stock repurchase program	(150)	—	(150)
Stock-based compensation activity	(16)	—	(16)
Other	—	(3)	(3)
Balance, March 31, 2016	$ 5,161	$ 87	$5,248

($ in millions)	Total PPG Shareholders’ Equity	Non-controlling Interests	Total
Balance, January 1, 2015	$ 5,180	$ 85	$5,265
Net income	322	5	327
Other comprehensive income, net of tax	(193)	(5)	(198)
Cash dividends	(91)	—	(91)
Issuance of treasury stock	58	—	58
Stock repurchase program	(200)	—	(200)
Stock-based compensation activity	2	—	2
Other	—	(5)	(5)
Balance, March 31, 2015	$ 5,078	$ 80	$5,158

12. Accumulated Other Comprehensive Loss

($ in millions)	Unrealized Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefit Adjustments, net of tax	Unrealized Gain (Loss) on Derivatives, net of tax	Accumulated Other Comprehensive (Loss) Income
Balance, January 1, 2016	$(1,332)	$(1,379)	$9	$(2,702)
Current year deferrals to AOCI	49 [(a)]	—	—	49
Current year deferrals to AOCI, tax effected	(1) [(b)]	6 [(c)]	2 [(d)]	7
Reclassifications from AOCI to net income	—	13	(10)	3
Net change	$48	$19	$(8)	$59
Balance, March 31, 2016	$(1,284)	$(1,360)	$1	$(2,643)
Balance, January 1, 2015	$(628)	$(1,492)	$4	$(2,116)
Current year deferrals to AOCI	(429) [(a)]	—	—	(429)
Current year deferrals to AOCI, tax effected	162 [(b)]	45 [(c)]	(33) [(d)]	174
Reclassifications from AOCI to net income	—	23	39	62
Net change	$(267)	$68	$6	$(193)
Balance, March 31, 2015	$(895)	$(1,424)	$10	$(2,309)

(a) - Unrealized foreign currency translation adjustments related to the translation of foreign denominated balance sheet account balances are not presented net of tax given that no deferred U.S. income taxes have been provided on the undistributed earnings of non-U.S. subsidiaries because they are deemed to be reinvested for an indefinite period of time.

(b) - The tax (benefit) cost related to unrealized foreign currency translation adjustments on tax inter-branch transactions and net investment hedges for the three months ended March 31, 2016 and 2015 was $(17) million and $51 million, respectively. The balance also includes a remeasurement of the tax cost on certain foreign proceeds which have not been permanently reinvested.

(c) - The tax cost related to the adjustment for pension and other postretirement benefits for the three months ended March 31, 2016 and 2015 was $20 million and $24 million, respectively. Reclassifications from AOCI are included in the computation of net periodic pension and other post-retirement benefit costs (See Note 10, "Pensions and Other Postretirement Benefits").

(d) - The tax (benefit) cost related to the changes in the unrealized gain on derivatives for the three months ended March 31, 2016 and 2015 was $(4) million and $2 million, respectively. Reclassifications from AOCI are included in the gain recognized on cash flow hedges (See Note 13, "Financial Instruments, Hedging Activities and Fair Value Measurements").

13. Financial Instruments, Hedging Activities and Fair Value Measurements

Financial instruments include cash and cash equivalents, short-term investments, cash held in escrow, marketable equity securities, accounts receivable, company-owned life insurance, accounts payable, short-term and long-term debt instruments, and derivatives. The fair values of these financial instruments approximated their carrying values at March 31, 2016 and December 31, 2015, in the aggregate, except for long-term debt instruments.

Hedging Activities

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

PPG’s policies do not permit speculative use of derivative financial instruments. PPG enters into derivative financial instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company did not realize a credit loss on derivatives during the three months ended March 31, 2016 and 2015.

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

There were no derivative instruments de-designated or discontinued as hedging instruments during the three months ended March 31, 2016 and 2015.

Fair Value Hedges

PPG designates certain foreign currency forward contracts as hedges against the Company’s exposure to future changes in fair value of certain firm sales commitments denominated in foreign currencies. As of March 31, 2016 and 2015, the fair value of these contracts were insignificant.

PPG has entered into renewable equity forward arrangements to hedge the impact to PPG's income from continuing operations for changes in the fair value of 2,777,778 shares of PPG stock (after giving effect to the 2-for-1 stock split as discussed in Note 1, "Basis of Presentation") that are to be contributed to the asbestos settlement trust as discussed in Note 15, “Commitments and Contingent Liabilities.” These financial instruments are recorded at fair value as assets or liabilities and changes in the fair value of these financial instruments are reflected in the “Asbestos settlement – net” caption of the accompanying condensed consolidated statement of income. The total principal amount payable for these shares is $62 million. During the terms of these equity forward arrangements, PPG will pay to the counterparty interest based on the principal amount and the counterparty will pay to PPG an amount equal to the dividends paid on these shares. The difference between the principal amount and any amounts related to unpaid interest or dividends and the current market price for these shares, adjusted for credit risk, represents the fair value of these financial instruments as well as the amount that PPG would pay or receive if the counterparty chose to net settle these financial instruments. Alternatively, the counterparty may, at its option, require PPG to purchase the shares covered by the arrangement at the principal amount adjusted for unpaid interest and dividends as of the date of settlement. As of March 31, 2016 and December 31, 2015, the fair value of these arrangements was an asset of $259 million and $223 million, respectively.

Interest rate swaps have been used from time to time to manage the Company's exposure to changing interest rates. When outstanding, the interest rate swaps were designated as fair value hedges of certain outstanding debt obligations of the Company and were recorded at fair value. There were no interest rate swaps outstanding as of March 31, 2016 and December 31, 2015. However, in prior years, PPG settled interest rate swaps and received cash. The fair value adjustment of the debt at the time the interest rate swaps were settled is still being amortized as a reduction to interest expense over the remaining term of the related debt which matures in 2021.

Cash Flow Hedges

PPG designates certain foreign currency forward contracts as cash flow hedges of the Company’s exposure to variability in exchange rates on intercompany and third party transactions denominated in foreign currencies. As of March 31, 2016 and December 31, 2015, the fair value of all foreign currency forward contracts designated as cash flow hedges was a net asset of $29 million and $44 million, respectively.

Net Investment Hedges

PPG uses cross currency swaps, foreign currency forward contracts and Euro-denominated debt to hedge a portion of its net investment in its European operations. As of March 31, 2016, U.S. dollar to Euro cross currency swap contracts with a total notional amount of $560 million were outstanding and are scheduled to expire in March 2018. On settlement of the outstanding contracts, PPG will receive $560 million U.S. dollars and pay Euros to the counterparties. During the term of these contracts, PPG will receive semiannual payments in March and September of each year based on a U.S. dollar, long-term interest rate fixed as of the contract inception date, and PPG will make annual payments in March of each year to the counterparties based on a Euro, long-term interest rate fixed as of the contract inception date. As of March 31, 2016 and December 31, 2015, the fair value of these contracts was a net asset of $36 million and $41 million, respectively.

As of March 31, 2016 and December 31, 2015, PPG had designated €1.9 billion Euro-denominated borrowings as hedges of a portion of its net investment in the Company's European operations. The carrying value of these instruments as of March 31, 2016 and December 31, 2015 was $2.1 billion and $2.0 billion, respectively.

Gains/Losses Deferred in AOCI

As of March 31, 2016 and December 31, 2015, the Company had accumulated pre-tax unrealized translation gains in AOCI related to the Euro-denominated borrowings, foreign currency forward contracts and the cross currency swaps of $232 million and $349 million, respectively.

The following tables summarize the location within the financial statements and amount of gains (losses) related to derivative financial instruments for the three months ended March 31, 2016 and 2015. All dollar amounts are shown on a pre-tax basis.

($ in millions)	March 31, 2016		
	Loss Deferred in OCI	Gain (Loss) Recognized	
Hedge Type		Amount	Caption
Fair Value			
Equity forward arrangements	Not applicable	36	Asbestos settlement - net
Total Fair Value		$36	
Cash Flow			
Foreign currency forward contracts [(a)]	$(15)	$(3)	Other charges
Total Cash Flow	$(15)	$(3)	
Net Investment			
Cross currency swaps	$(22)		
Foreign denominated debt	(95)		
Total Net Investment	$(117)		

(a) The ineffective portion related to this item was $3 million of income.

($ in millions)	March 31, 2015		
	Gain Deferred in OCI	Gain (Loss) Recognized	
Hedge Type		Amount	Caption
Fair Value			
Equity forward arrangements	Not applicable	(7)	Asbestos settlement - net
Total Fair Value		$(7)	
Cash Flow			
Foreign currency forward contracts [(a)]	57	49	Other charges
Total Cash Flow	$57	$49	
Net Investment			
Cross currency swaps	$82		
Foreign currency forward contracts	18		
Foreign denominated debt	113		
Total Net Investment	$213		

(a) The ineffective portion related to this item was $2 million of expense.

Fair Value Measurements

The Company follows a fair value measurement hierarchy to measure its assets and liabilities. As of March 31, 2016 and December 31, 2015, the assets and liabilities measured at fair value on a recurring basis were cash equivalents, equity securities and derivatives. In addition, the Company measures its pension plan assets at fair value (see Item 8. Financial Statements and Supplementary Data - Note 12, "Employee Benefit Plans" in the Company's 2015 Annual Report on Form 10-K for further details). The Company's financial assets and liabilities are measured using inputs from the following three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Level 1 inputs are considered to be the most reliable evidence of fair value as they are based on unadjusted quoted market prices from various financial information service providers and securities exchanges.

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

Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities. The Company does not have any recurring financial assets or liabilities that are recorded in its consolidated balance sheets as of March 31, 2016 and December 31, 2015 that are classified as Level 3 inputs.

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

	March 31, 2016		
($ in millions)	Level 1	Level 2	Level 3
Assets:			
Other current assets:			
Marketable equity securities	$ 4	$ —	$ —
Foreign currency forward contracts	—	38	—
Equity forward arrangement	—	259	—
Investments:			
Marketable equity securities	77	—	—
Other Assets:			
Cross currency swaps	—	36	—
Liabilities:			
Accounts payable and accrued liabilities:			
Foreign currency forward contracts	—	9	—

	December 31, 2015		
($ in millions)	Level 1	Level 2	Level 3
Assets:			
Other current assets:			
Marketable equity securities	$ 4	$ —	$ —
Foreign currency forward contracts	—	47	—
Equity forward arrangement	—	223	—
Investments:			
Marketable equity securities	77	—	—
Other assets:			
Cross currency swaps	—	41	—
Liabilities:			
Accounts payable and accrued liabilities:			
Foreign currency forward contracts	—	4	—

Long-Term Debt

($ in millions)	March 31, 2016 (a)	December 31, 2015 (b)
Long-term debt - carrying value	$4,200	$ 4,265
Long-term debt - fair value	$4,423	$ 4,367

(a) Excluding capital lease obligations of $30 million and short term borrowings of $34 million as of March 31, 2016.

(b) Excluding capital lease obligations of $30 million and short term borrowings of $29 million as of December 31, 2015.

The fair values of the debt instruments were based on discounted cash flows and interest rates then currently available to the Company for instruments of the same remaining maturities and were measured using level 2 inputs.

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

There were no significant adjustments to the fair value of nonmonetary assets or liabilities for the three months ended March 31, 2016, or for the year ended December 31, 2015.

14. 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. Amended and Restated Omnibus Incentive Plan (the “PPG Amended Omnibus Plan”), which was amended and restated effective April 21, 2011. Shares available for future grants under the PPG Amended Omnibus Plan were 8.9 million as of March 31, 2016.

Stock-based compensation and the income tax benefit recognized during the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31	
($ in millions)	2016	2015
Stock-based compensation	$10	$ 15
Income tax benefit recognized	$4	