PPG INDUSTRIES INC
Form 10-Q
June 28, 2018

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, 2018
Commission File Number 1-1687

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
	Emerging growth company o

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
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 May 31, 2018, 243,474,044 shares of the Registrant's common stock, par value $1.66 2/3 per share, were outstanding.

EXPLANATORY NOTE

As described in additional detail in the Explanatory Note to its amended Annual Report on Form 10-K/A for the year ended December 31, 2017 (the “2017 Form 10-K/A”) and in Note 2, “Restatement of Previously Reported Condensed Consolidated Quarterly Financial Statements,” to the Company’s condensed consolidated financial statements included herein, PPG Industries, Inc. (together with its subsidiaries, the "Company" or "PPG") has identified misstatements in the financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (the “SEC”) on February 15, 2018 (the “Original 10-K Filing”).

On May 10, 2018, management, in consultation with the Audit Committee of the Board of Directors (the “Audit Committee”) and the Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP (“PwC”), concluded that the Company’s consolidated financial statements for the year ended December 31, 2017 included in the Original 10-K Filing and the related report of PwC, and for the quarterly and year-to-date periods in 2017, should no longer be relied upon because of certain misstatements contained in those financial statements.

As a result, the Company has restated certain unaudited quarterly results related to the quarter ended March 31, 2017. The Company delayed the filing of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (this “Form 10-Q”) pending the completion of the internal investigation described in the Explanatory Note to the 2017 Form 10-K/A and in Note 2, including the completion of the restatement. As a result of that investigation, the condensed consolidated financial statements as of and for the quarter ended March 31, 2017 included in this Form 10-Q have been restated to reflect the adjustments described in the 2017 Form 10-K/A.

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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	
	2018	2017 As Restated
Net sales	$3,781	$3,486
Cost of sales, exclusive of depreciation and amortization	2,181	1,902
Selling, general and administrative	906	875
Depreciation	87	79
Amortization	36	31
Research and development, net	112	109
Interest expense	26	25
Interest income	(5)	(4)
Pension settlement charge	—	22
Other charges	41	25
Other income	(24)	(24)
Income from continuing operations before income taxes	$421	$446
Income tax expense	87	110
Income from continuing operations	$334	$336
Income from discontinued operations, net of tax	6	6
Net income attributable to the controlling and noncontrolling interests	$340	$342
Less: Net income attributable to noncontrolling interests	(6)	(5)
Net income (attributable to PPG)	$334	$337
Amounts attributable to PPG:		
Income from continuing operations, net of tax	$328	$331
Income from discontinued operations, net of tax	6	6
Net income (attributable to PPG)	$334	$337
Earnings per common share:		
Income from continuing operations, net of tax	$1.32	$1.29
Income from discontinued operations, net of tax	0.02	0.02
Net income (attributable to PPG)	$1.34	$1.31
Earnings per common share – assuming dilution:		
Income from continuing operations, net of tax	$1.31	$1.28
Income from discontinued operations, net of tax	0.02	0.02
Net income (attributable to PPG)	$1.33	$1.30
Dividends per common share	$0.45	$0.40

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

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

	Three Months Ended March 31	
	2018	2017 As Restated
Net income attributable to the controlling and noncontrolling interests	$340	$342
Other comprehensive income, net of tax:		
Defined benefit pension and other postretirement benefits	(67)	21
Unrealized foreign currency translation adjustments	123	279
Derivative financial instruments	(2)	(13)
Other comprehensive income, net of tax	$54	$287
Total comprehensive income	$394	$629
Less: amounts attributable to noncontrolling interests:		
Net income	(6)	(5)
Unrealized foreign currency translation adjustments	(2)	(7)
Comprehensive income attributable to PPG	$386	$617

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

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

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$1,346	$1,436
Short-term investments	58	55
Receivables (less allowance for doubtful accounts of $23 and $25)	3,343	2,903
Inventories	1,963	1,730
Other	400	353
Total current assets	$7,110	$6,477
Property, plant and equipment (net of accumulated depreciation of $3,887 and $3,770)	2,862	2,824
Goodwill	4,100	3,942
Identifiable intangible assets, net	2,132	2,045
Deferred income taxes	351	305
Investments	270	268
Other assets	719	677
Total	$17,544	$16,538
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$3,924	$3,781
Restructuring reserves	87	102
Short-term debt and current portion of long-term debt	19	12
Total current liabilities	$4,030	$3,895
Long-term debt	5,199	4,134
Accrued pensions	694	729
Other postretirement benefits	698	699
Deferred income taxes	471	442
Other liabilities	985	967
Total liabilities	$12,077	$10,866
Commitments and contingent liabilities (Note 17)		
Shareholders’ equity:		
Common stock	969	969
Additional paid-in capital	761	756
Retained earnings	17,464	17,140
Treasury stock, at cost	(11,843)	(11,251)
Accumulated other comprehensive loss	(2,005)	(2,057)
Total PPG shareholders’ equity	$5,346	$5,557
Noncontrolling interests	121	115
Total shareholders’ equity	$5,467	$5,672
Total	$17,544	$16,538

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

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

	Three Months Ended March 31	
	2018	2017 As Restated
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$340	$342
Less: Income from discontinued operations	(6)	(6)
Income from continuing operations	$334	$336
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	123	110
Pension expense	10	18
Pension settlement	—	22
Environmental remediation charge	34	—
Stock-based compensation expense	9	9
Equity affiliate earnings, net of distributions received	(4)	(1)
Deferred income tax benefit	(5)	6
Cash contributions to pension plans	(30)	(34)
Cash used for restructuring actions	(17)	(10)
Change in certain asset and liability accounts:		
Receivables	(373)	(296)
Inventories	(202)	(157)
Other current assets	(46)	(47)
Accounts payable and accrued liabilities	74	62
Taxes and interest payable	(45)	(82)
Noncurrent assets and liabilities, net	(75)	39
Other	(15)	24
Cash used for operating activities - continuing operations	($228)	($1)
Cash from operating activities - discontinued operations	—	10
Cash (used for) from operating activities	($228)	$9
Investing activities:		
Capital expenditures	(75)	(63)
Business acquisitions, net of cash balances acquired	(96)	(61)
Payments for the settlement of cross currency swap contracts	(13)	(34)
Proceeds from the settlement of cross currency swap and foreign currency contracts	—	19
Other	6	2
Cash used for investing activities - continuing operations	($178)	($137)
Cash used for investing activities - discontinued operations	—	(1)
Cash used for investing activities	($178)	($138)
Financing activities:		
Net change in borrowing with maturities of three months or less	7	(7)
Net payments on commercial paper and short-term debt	—	(32)
Proceeds from the issuance of debt, net of discounts and fees	992	—
Repayment of long-term debt	(1)	(7)
Purchase of treasury stock	(600)	(163)

Issuance of treasury stock	9	9
Dividends paid	(112)	(103)
Payments related to tax withholding on stock-based compensation awards	(13)	(16)
Other	13	(53)
Cash from (used for) financing activities	$295	($372)
Effect of currency exchange rate changes on cash and cash equivalents	21	30
Net decrease in cash and cash equivalents	($90)	($471)
Cash and cash equivalents, beginning of period	1,436	1,820
Cash and cash equivalents, end of period	$1,346	$1,349
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$24	$23
Taxes paid, net of refunds	$118	$90

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

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

1. Basis of Presentation
The condensed consolidated financial statements included herein are unaudited and have been prepared following the requirements of the SEC 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 as of March 31, 2018, and the results of its operations and cash flows for the three months ended March 31, 2018 and 2017. 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 2017 Form 10-K/A .
Net sales, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three months ended March 31, 2018 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.
Certain prior period amounts have been reclassified to conform to the current period presentation and reflect the adoption of certain accounting standard updates, including the information presented for our reportable segments. These reclassifications had no impact on our previously reported net income, total assets, cash flows or shareholders' equity.
2. Restatement of Previously Reported Condensed Consolidated Quarterly Financial Statements
On April 16, 2018, PPG received a report through the Company's internal reporting system alleging violations of the Company's accounting policies and procedures regarding the failure to accrue certain specified expenses in the first quarter of 2018. Based on the Company's initial review at that time, the Company identified approximately $1.4 million of expenses (including legal fees, property taxes and performance-based compensation) that should have been accrued in the first quarter of 2018 and that were then reflected in PPG's earnings for the quarter ended March 31, 2018, released on April 19, 2018. In addition, the report alleged that there may have been other unspecified expenses, potentially up to $5 million in the aggregate, that were improperly not accrued in the first quarter.
The Audit Committee oversaw an investigation of the matters set forth in the internal report, with the assistance of outside counsel and forensic accountants. The investigation identified the following items with respect to the quarter ended March 31, 2018, in addition to the approximately $1.4 million of expenses described above: (1) failure to record amortization expense in the amount of $1.4 million to correct for amortization of an intangible asset that was inadvertently not recorded over a three-year period and discovered in March 2018; (2) understatement of a health insurance accrued liability in the amount of $0.5 million; and (3) failure to record an adjustment increasing the value of inventory in PPG's Europe, Middle East and Africa region in the amount of $2.2 million due to inflation of raw materials costs which, when corrected, had a positive effect on income in the first quarter of 2018. These three items resulted in a net increase to income from continuing operations before income taxes of approximately $0.3 million.
The investigation also identified certain inadvertent errors with respect to the quarter ended March 31, 2018. Correction of such inadvertent errors, together with the matters discussed in the immediately preceding paragraph, resulted in a net decrease in income from continuing operations before income taxes of $5.7 million for the quarter ended March 31, 2018.
The investigation identified an improper reduction in the payout assumption for certain performance-based restricted stock units that had the impact of recognizing a $6.8 million reduction in stock based compensation expense in the fourth quarter of 2016. In the first quarter of 2017, the payout assumption for these same performance-based restricted stock units was increased, resulting in $6.8 million of stock-based compensation expense in the first quarter of 2017 that would not have been recorded if the payout assumption had not been reduced in the fourth quarter of 2016.
On May 10, 2018, management, in consultation with the Audit Committee and the Company's independent registered public accounting firm, PwC, concluded that the Company's consolidated financial statements for the year ended December 31, 2017 included in the Original Filing and the related report of PwC, and for the quarterly and

year-to-date periods in 2017, should no longer be relied upon because of certain misstatements contained in those financial statements.

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On June 27, 2018, the Audit Committee determined that its investigation was complete, and authorized the filing of our restated audited consolidated financial statements for the years ended December 31, 2017 and 2016 and certain quarterly periods within those fiscal years in order to correct our previously issued financial statements.

Impact of the Restatement

As a result of the restatement, reported net income from continuing operations and earnings per diluted share from continuing operations was adjusted for the quarter ended March 31, 2017 as follows:

- For the three months ended March 31, 2017, net income from continuing operations increased $3 million, or $0.01 per diluted share, and there was no impact to income from discontinued operations, net of tax

The categories of misstatements and their impact on previously reported consolidated financial statements are described below:

(a) Customer Rebates

The Company did not properly recognize expense associated with certain customer rebates, resulting in a misstatement of Net sales in the first quarter of 2017. The misstatements overstated previously reported Income before income taxes by $0.4 million.

(b) Stock-Based Compensation

In the fourth quarter of 2016, the Company improperly reduced the payout assumption for the 2015 grant of performance-based restricted stock units from 150% to 100%, which had the effect of reducing stock-based compensation expense in that period by $6.8 million. In the first quarter of 2017, the Company increased the payout assumption for these same restricted stock units from 100% back to 150%. These improper changes to the payout assumption for these restricted stock units resulted in a misstatement of stock-based compensation expense in the first quarter of 2017. The misstatements understated previously reported Income before income taxes by $6.8 million for the quarter ended March 31, 2017.

(c) Environmental Reserve

In the first quarter of 2017, the Company failed to appropriately update the discount rate used to calculate a long-term environmental remediation reserve, which had the effect of understating Other expense by $0.5 million in the quarter. The misstatement overstated previously reported Income before taxes by $0.5 million for the quarter ended March 31, 2017.

(d) Income Taxes

Adjustments related to the income tax effects of other restatement adjustments noted above.

The financial statements included in this Form 10-Q have been restated to reflect the adjustments described above. The table below summarizes the effects of the restatement on the Consolidated Statements of Income for the three months ended March 31, 2017.

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Consolidated Statement of Income (unaudited) - Summary of Restatement

($ in millions)	Three Months Ended March 31, 2017 As Previously Reported (1)	Restatement Adjustment	Reference	As Restated
Net sales	$3,486	$—	(a)	$3,486
Selling, general and administrative	881	(6)	(b)	875
Other charges	25	—	(c)	25
Income from continuing operations before income taxes	$440	$6		$446
Income tax expense	107	3	(d)	110
Income from continuing operations	$333	$3		$336
Income from discontinued operations, net of tax	6	—		6
Net income attributable to the controlling and noncontrolling interests	$339	$3		$342
Less: Net income attributable to noncontrolling interests	(5)	—		(5)
Net income (attributable to PPG)	$334	$3		$337
Amounts attributable to PPG:				
Income from continuing operations, net of tax	$328	$3		$331
Income from discontinued operations, net of tax	6	—		6
Net income (attributable to PPG)	$334	$3		$337
Earnings per common share:				
Income from continuing operations, net of tax	$1.28	$0.01		$1.29
Income from discontinued operations, net of tax	0.02	—		0.02
Net income (attributable to PPG)	$1.30	$0.01		$1.31
Earnings per common share – assuming dilution:				
Income from continuing operations, net of tax	$1.27	$0.01		$1.28
Income from discontinued operations, net of tax	0.02	—		0.02
Net income (attributable to PPG)	$1.29	$0.01		$1.30
Dividends per common share	$0.40	$—		$0.40

(1) Certain "As Previously Reported" amounts have been reclassified to reflect the adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" as of January 1, 2018.

Quarterly Condensed Consolidated Statement of Comprehensive Income (unaudited) - Summary of Restatement

In the Statement of Comprehensive Income for the interim period ended March 31, 2018, Net income attributable to the controlling and noncontrolling interests reflects the impact of the restatement adjustments. The restatement adjustments had no impact to the previously disclosed components of Other comprehensive income, net of tax.

Quarterly Condensed Consolidated Statement of Cash Flows (unaudited) - Summary of Restatement

There was no net impact of the restatement adjustments on net cash provided by operating activities, net cash provided by investing activities or net cash used in financing activities in the Consolidated Statement of Cash Flows. The adjustments only had an impact on certain captions within cash from operating activities.

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3. New Accounting Standards

Accounting Standards Adopted in 2018

PPG’s adoption of the following Accounting Standard Updates (“ASU”) in 2018 did not have a significant impact on PPG's consolidated financial position, results of operations or cash flows:

Accounting Standard Update	
2018-02	Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
2017-12	Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities
2017-09	Stock Compensation - Scope of Modification Accounting
2017-07	Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
2016-16	Intra-Entity Transfers of Assets Other Than Inventory
2016-05	Classification of Certain Cash Receipts and Cash Payments
2016-01	Recognition and Measurement of Financial Assets and Liabilities
2014-09	Revenue from Contracts with Customers: Topic 606

Accounting Standards to be Adopted in Future Years

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, “Financial Instruments - Credit Losses.” This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and for interim periods therein. Entities may choose to adopt the new ASU as of its fiscal year beginning after December 15, 2018. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operations or 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. At a minimum, total assets and total liabilities will increase in the period the ASU is adopted. Early adoption of this ASU is permitted. At December 31, 2017, PPG’s undiscounted future minimum payments outstanding for lease obligations were approximately $840 million.

4. Revenue Recognition

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 may require significant judgment. The new guidance requires PPG to evaluate the transfer of promised goods or services to customers and recognize revenue in an amount that reflects the consideration which the Company expects to be entitled to receive in exchange for those goods and services.

The Company recognizes revenue when control of the promised goods or services is transferred to the customer and in amounts that the Company expects to collect. The timing of revenue recognition takes into consideration the various shipping terms applicable to the Company’s sales. For most transactions, control passes in accordance with agreed upon delivery terms. This approach is consistent with the Company’s historical revenue recognition methodology.

The Company delivers products to company-owned stores, home centers and other regional or national consumer retail outlets, paint dealers, concessionaires and independent distributors, company-owned distribution networks, and directly to manufacturing companies and retail customers. Each product delivered to a third party customer is considered to satisfy a performance obligation. Performance obligations generally occur at a point in time and are satisfied when control of the goods passes to the customer. The Company is entitled to collection of the sales price under normal credit terms in the regions in which it operates.

The Company also provides services by applying coatings to customers' manufactured parts and assembled products and by providing technical support to certain customers. Performance obligations are satisfied over time as critical milestones are met and as services are provided. PPG is entitled to payment as the services are rendered. As of March

31, 2018 and 2017, service revenue constituted approximately 5% of total revenue, while the balance constituted standard ship and bill, retail or consignment arrangements. Accounts receivable are recognized when there is an

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unconditional right to consideration. Payment terms vary from customer to customer, depending on creditworthiness, prior payment history and other considerations.

Net sales by segment and region for the three months ended March 31, 2018 and 2017 were as follows:

($ in millions)	Performance Coatings		Industrial Coatings		Total Net Sales	
	Three Months Ended March 31		Three Months Ended March 31		Three Months Ended March 31	
	2018	2017 As Restated	2018	2017	2018	2017 As Restated
United States and Canada	$974	$962	$611	$581	$1,585	$1,543
EMEA	707	629	473	394	1,180	$1,023
Asia-Pacific	242	220	388	363	630	$583
Latin America	237	206	149	131	386	$337
Total	$2,160	$2,017	$1,621	$1,469	$3,781	$3,486

The Company adopted the ASU using the modified retrospective approach which required the financial statements to reflect the new standard as of January 1, 2018, and as a result, contracts that ended prior to January 1, 2018 were not included within the Company’s assessment. Accordingly, the comparative statements of income and statement of financial position have not been recast according to the new accounting standard. There was no adjustment to opening retained earnings for PPG. The ASU also provided additional clarity that resulted in reclassifications to or from Net Revenue, Cost of sales, Selling, General and Administrative and Other income. Certain costs historically reported in Selling, general and administrative costs will now be recorded in Cost of sales, exclusive of depreciation and amortization on the Consolidated Statement of Income, as they represent costs incurred in satisfaction of performance obligations. In addition, the cost of certain customer incentives are now recorded as a reduction of Net sales rather than Cost of sales, exclusive of depreciation and amortization or Selling, general and administrative costs.

The following table summarizes the March 31, 2018 consolidated statement of operations as if the ASU had not been adopted and the adjustment required upon the adoption of the ASU.

($ in millions)	Three Months Ended March 31, 2018		
	As Reported	Adjustments	Without adoption
Net sales	$3,781	$4	$3,785
Cost of sales, exclusive of depreciation and amortization	2,181	(25)	2,156
Selling, general and administrative	906	27	933
Other income	(24)	2	(22)
Income before income taxes from continuing operations	421	—	421

5. Acquisitions and Divestitures

Acquisitions

In January 2018, PPG acquired ProCoatings, a leading architectural paint and coatings wholesaler located in The Netherlands. ProCoatings, established in 2001, distributes a large portfolio of well-known professional paint brands through its network of 23 multi-brand stores.

In January 2017, PPG completed the acquisition of DEUTEK S.A., a leading Romanian paint and architectural coatings manufacturer, from the Emerging Europe Accession Fund. DEUTEK, established in 1993, manufactures and markets a large portfolio of well-known professional and consumer paint brands, including OSKAR® and DANKE!®. The company’s products are sold in more than 120 do-it-yourself stores and 3,500 independent retail outlets in Romania.

In January 2017, PPG also acquired certain assets of automotive refinish coatings company Futian Xinshi ("Futian"), an automotive refinish coatings company based in the Guangdong province of China. Futian distributes its products in

China through a network of more than 200 distributors.

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Divestitures

Glass Segment

The net sales and income from discontinued operations related to the former Glass reportable business segment for the three months ended March 31, 2017 were as follows:

($ in millions)	Three Months Ended March 31, 2017
Net sales	$83
Income from operations	$8
Income tax expense	2
Income from discontinued operations, net of tax	$6

6. Inventories

($ in millions)	March 31, 2018	December 31, 2017
Finished products	$1,235	$1,083
Work in process	200	177
Raw materials	493	437
Supplies	35	33
Total Inventories	$1,963	$1,730

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 32% and 34% of total inventories at March 31, 2018 and December 31, 2017, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $110 million and $103 million higher as of March 31, 2018 and December 31, 2017, respectively.

7. 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, 2018 was as follows:

($ in millions)	Performance Coatings	Industrial Coatings	Total
January 1, 2018	$3,104	$838	$3,942
Acquisitions	53	1	54
Foreign currency	93	11	104
March 31, 2018	$3,250	$850	$4,100

A summary of the carrying value of the Company's identifiable intangible assets is as follows:

	March 31, 2018			December 31, 2017		
($ in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks - indefinite lives	$1,218	N/A	$1,218	$1,158	N/A	$1,158
Customer-related intangibles	$1,484	($798)	$686	$1,437	($762)	$675
Acquired technology	638	(500)	138	613	(489)	124
Trade names	173	(94)	79	166	(87)	79
Other	47	(36)	11	44	(35)	9
Total	$3,560	($1,428)	$2,132	$3,418	($1,373)	$2,045

The Company’s identifiable intangible assets with finite lives are being amortized over their estimated useful lives.

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($ in millions)	Three Months Ended March 31 2018	2017
Amortization expense related to identifiable intangible assets	$36	$31

As of March 31, 2018, estimated future amortization expense of identifiable intangible assets is as follows:

($ in millions)	Future Amortization Expense
Remaining nine months of 2018	$89
2019	115
2020	105
2021	100
2022	100
2023	90
Thereafter	315

8. 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.

In December 2016, PPG’s Board of Directors approved a business restructuring program which includes actions necessary to reduce the Company's global cost structure. The program is focused on certain regions and end-use markets where business conditions are the weakest, as well as reductions in production capacity and various global functional and administrative costs. The restructuring actions will result in the net reduction of approximately 2,000 positions, with substantially all actions to be completed in 2018.

In the first quarter of 2018, adjustments of approximately $17 million were recorded to reduce the remaining restructuring reserves established in 2016 to reflect the current estimate of the costs to complete these actions. Also in the first quarter of 2018, some additional restructuring actions were approved and charges of approximately $17 million were recorded.

The following table summarizes the reserve activity for the three months ended March 31, 2018:

($ in millions, except for employees impacted)	Severance and Other Costs	Employees Impacted
December 31, 2017	$102	949
2018 Activity	(17)	(151)
Foreign currency	2	
March 31, 2018	$87	798

9. Borrowings

In February 2018, PPG completed a public offering of $300 million aggregate principal amount of 3.2% notes due 2023 and $700 million aggregate principal amount of 3.75% notes due 2028. These notes were issued pursuant to PPG’s existing shelf registration statement and pursuant to an indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented. The Indenture governing these notes contains covenants that limit the Company’s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company’s assets. The terms of these notes also require the Company to make an offer to repurchase Notes upon a Change of Control Triggering Event (as defined in the Indenture) at a price equal to 101% of their principal amount plus accrued and unpaid interest. The Company may issue additional debt from time to time pursuant to the Indenture.

The aggregate cash proceeds from the notes, net of discounts and fees, was $992 million. A portion of the notes were converted from a fixed interest rate to a floating interest rate using interest rate swap contracts. For more information, refer to Note 15, “Financial Instruments, Hedging Activities and Fair Value Measurements.”

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10. Earnings Per Share

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, 2018 and 2017 were as follows:

	Three Months Ended March 31	
(number of shares in millions)	2018	2017
Weighted average common shares outstanding	249.8	257.6
Effect of dilutive securities:		
Stock options	0.9	1.1
Other stock compensation awards	0.7	0.8
Potentially dilutive common shares	1.6	1.9
Adjusted weighted average common shares outstanding	251.4	259.5

Excluded from the computation of earnings per diluted share due to their antidilutive effect were 1.1 million and 1.2 million outstanding stock options for the three months ended March 31, 2018 and 2017, respectively.

11. Income Taxes

	Three Months Ended March 31	
	2018	2017 As Restated
Effective tax rate on pre-tax income from continuing operations	20.7%	24.7%

In the Company’s first quarter earnings release on April 19, 2018, income tax expense was initially recorded at an effective rate of 23.5%. Since that time, further consideration of information relating to the Company’s unrecognized tax benefits, primarily settlements of U.S. and Canadian returns for open tax years, led to the conclusion that a portion of the Company’s reserve for unrecognized tax benefits should be released in the first quarter 2018, rather than be included in the effective tax rate to be applied over the course of 2018. The impact of these discrete items was to reduce income tax expense for the three months ended March 31, 2018 by $15 million. This reduced the first quarter 2018 effective tax rate to 20.7%.

The effective tax rate for 2017 of 24.7% 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 and the impact of certain U.S. tax incentives. The effective tax rate for the three months ending March 31, 2017 includes a benefit of $8 million from the settlement of U.S. non-qualified pension plan obligations, as described in Note 12, "Pensions and Other Postretirement Benefits".

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (“the Act”) which, among other things, lowered the U.S. corporate statutory income tax rate from 35% to 21%, eliminated certain deductible items and added other deductible items for corporations, imposed a tax on unrepatriated foreign earnings and eliminated U.S. taxes on most future foreign earnings. PPG recorded a provisional amount as of December 31, 2017, which represented the Company’s best estimate using information available as of February 1, 2018. The Company anticipates U.S. regulatory agencies will issue further regulations during 2018, which may alter this estimate. The Company is still evaluating among other things, its position with respect to permanent reinvestment of foreign earnings overseas and other related outside basis difference considerations and the amount of tax owed on unrepatriated earnings by subsidiaries. The Company believes its remeasurement of its U.S deferred tax assets and liabilities is complete, except for changes in estimates that can result from finalizing the filing of our 2017 U.S. income tax return, which are not anticipated to be material, and changes that may be a direct impact of other provisional amounts recorded due to the enactment of the Act. The Company will refine its estimates to incorporate new or better information as it comes available through the filing date of its 2017 U.S. income tax returns in the fourth quarter of 2018.

The tax owed by PPG on its unrepatriated foreign earnings is payable over eight years and is subject to a prescriptive calculation to determine the portion payable in 2018 and beyond. PPG’s current estimate, using this prescriptive method, indicates its tax payable will be increased by approximately $1 million to $3 million per year through 2025. As such, the portion of the tax on unrepatriated foreign earnings not payable within the next 12 months is presented within “Other liabilities” on the consolidated balance sheet.

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

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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 has completed its examination of the Company's U.S. federal income tax returns filed for years through 2013.

12. Pensions and Other Postretirement Benefits

Service cost for net periodic pension and other postretirement 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 statements of income. All other components of net periodic benefit cost are recorded in Other charges, except for pension settlement charges, in the accompanying condensed consolidated statements of income.

The net periodic pension and other postretirement benefit costs for the three months ended March 31, 2018 and