PPG INDUSTRIES INC
Form 10-Q
April 19, 2019

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, 2019
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 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	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 March 31, 2019, 236,059,963 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	
	2019	2018
Net sales	$3,624	$3,781
Cost of sales, exclusive of depreciation and amortization	2,073	2,181
Selling, general and administrative	889	906
Depreciation	86	87
Amortization	32	36
Research and development, net	105	112
Interest expense	31	26
Interest income	(6)	(5)
Release of business restructuring reserves	(3)	—
Other charges	14	41
Other income	(16)	(24)
Income before income taxes	$419	$421
Income tax expense	102	87
Income from continuing operations	$317	$334
Income from discontinued operations, net of tax	—	6
Net income attributable to controlling and noncontrolling interests	$317	$340
Less: Net income attributable to noncontrolling interests	(5)	(6)
Net income (attributable to PPG)	$312	$334
Amounts attributable to PPG:		
Income from continuing operations, net of tax	$312	$328
Income from discontinued operations, net of tax	—	6
Net income (attributable to PPG)	$312	$334
Earnings per common share:		
Income from continuing operations, net of tax	$1.32	$1.32
Income from discontinued operations, net of tax	—	0.02
Net income (attributable to PPG)	$1.32	$1.34
Earnings per common share – assuming dilution:		
Income from continuing operations, net of tax	$1.31	$1.31
Income from discontinued operations, net of tax	—	0.02
Net income (attributable to PPG)	$1.31	$1.33

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	
	2019	2018
Net income attributable to the controlling and noncontrolling interests	$317	$340
Other comprehensive (loss) income, net of tax:		
Defined benefit pension and other postretirement benefits	(6)	17
Unrealized foreign currency translation adjustments	81	146
Derivative financial instruments	—	(2)
Other comprehensive income, net of tax	$75	$161
Total comprehensive income	$392	$501
Less: amounts attributable to noncontrolling interests:		
Net income	(5)	(6)
Unrealized foreign currency translation adjustments	1	(2)
Comprehensive income attributable to PPG	$388	$493

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, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$784	$902
Short-term investments	55	61
Receivables (less allowance for doubtful accounts of $26 and $24)	3,197	2,845
Inventories	1,965	1,783
Other	408	370
Total current assets	$6,409	$5,961
Property, plant and equipment (net of accumulated depreciation of $3,897 and $3,828)	2,866	2,805
Goodwill	4,103	4,070
Identifiable intangible assets, net	2,020	1,972
Deferred income taxes	242	229
Investments	261	251
Operating lease right-of-use assets	726	—
Other assets	744	727
Total	$17,371	$16,015
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$3,684	$3,623
Restructuring reserves	83	99
Short-term debt and current portion of long-term debt	653	651
Current portion of operating lease liabilities	168	—
Total current liabilities	$4,588	$4,373
Long-term debt	4,626	4,365
Operating lease liabilities	566	—
Accrued pensions	646	645
Other postretirement benefits	623	629
Deferred income taxes	447	429
Other liabilities	865	842
Total liabilities	$12,361	$11,283
Commitments and contingent liabilities (Note 15)		
Shareholders’ equity:		
Common stock	969	969
Additional paid-in capital	899	788
Retained earnings	18,330	18,131
Treasury stock, at cost	(13,070)	(12,958)
Accumulated other comprehensive loss	(2,224)	(2,300)
Total PPG shareholders’ equity	$4,904	$4,630
Noncontrolling interests	106	102
Total shareholders’ equity	$5,010	$4,732
Total	$17,371	$16,015

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 Shareholders' Equity (Unaudited)
($ in millions)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)/Income	Total PPG	Non-controlling Interests	Total
January 1, 2019	$969	$788	$18,131	($12,958)	($2,300)	$4,630	$102	$4,732
Net income attributable to the controlling and noncontrolling interests	—	—	312	—	—	312	5	317
Other comprehensive income/(loss), net of tax	—	—	—	—	76	76	(1)	75
Cash dividends	—	—	(113)	—	—	(113)	—	(113)
Purchase of treasury stock	—	—	—	(175)	—	(175)	—	(175)
Issuance of treasury stock	—	121	—	63	—	184	—	184
Stock-based compensation activity	—	(10)	—	—	—	(10)	—	(10)
March 31, 2019	$969	$899	$18,330	($13,070)	($2,224)	$4,904	$106	$5,010

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)/Income	Total PPG	Non-controlling Interests	Total
January 1, 2018	$969	$756	$17,140	($11,251)	($2,057)	$5,557	$115	$5,672
Net income attributable to the controlling and noncontrolling interests	—	—	334	—	—	334	6	340
Other comprehensive income, net of tax	—	—	—	—	159	159	2	161
Cash dividends	—	—	(112)	—	—	(112)	—	(112)
Purchase of treasury stock	—	—	—	(600)	—	(600)	—	(600)
Issuance of treasury stock	—	24	—	7	—	31	—	31
Stock-based compensation activity	—	(19)	—	—	—	(19)	—	(19)
Reductions in noncontrolling interests	—	—	—	—	—	—	(2)	(2)
Reclassification from other comprehensive income to retained earnings - Adoption of ASU 2018-02	—	—	107	—	(107)	—	—	—
Adjustment to retained earnings - Adoption of ASU 2016-16	—	—	(4)	—	—	(4)	—	(4)
March 31, 2018	$969	$761	$17,465	($11,844)	($2,005)	$5,346	$121	$5,467

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)

	Three Months Ended March 31	
($ in millions)	2019	2018
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$317	$340
Less: Income from discontinued operations	—	(6)
Income from continuing operations	$317	$334
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	118	123
Pension expense	12	10
Environmental remediation charges	10	34
Release of business restructuring reserves	(3)	—
Stock-based compensation expense	9	9
Equity affiliate earnings, net of dividends	(4)	(4)
Deferred income tax benefit	(32)	(5)
Cash contributions to pension plans	(3)	(30)
Cash used for restructuring actions	(15)	(17)
Change in certain asset and liability accounts:		
Receivables	(299)	(373)
Inventories	(152)	(202)
Other current assets	(56)	(46)
Accounts payable and accrued liabilities	(24)	74
Taxes and interest payable	42	(45)
Noncurrent assets and liabilities, net	(22)	(75)
Other	36	(15)
Cash used for operating activities	($66)	($228)
Investing activities:		
Capital expenditures	(47)	(75)
Business acquisitions, net of cash balances acquired	(57)	(96)
Payments for the settlement of cross currency swap contracts	(6)	(13)
Proceeds from the settlement of cross currency swap	16	—
Other	8	6
Cash used for investing activities	($86)	($178)
Financing activities:		
Net change in borrowing with maturities of three months or less	9	7
Proceeds from commercial paper	300	—
Proceeds from the issuance of debt, net of discounts and fees	—	992
Repayment of long-term debt	(1)	(1)
Purchase of treasury stock	(175)	(600)
Issuance of treasury stock	7	9
Dividends paid	(113)	(112)
Payments related to tax withholding on stock-based compensation awards	(8)	(13)
Other	13	13
Cash from financing activities	$32	$295
Effect of currency exchange rate changes on cash and cash equivalents	2	21
Net decrease in cash and cash equivalents	($118)	($90)

Cash and cash equivalents, beginning of period	902	1,436
Cash and cash equivalents, end of period	$784	$1,346
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$40	$24
Taxes paid, net of refunds	$94	$118
Supplemental disclosure of noncash investing activities:		
Reissuance of common stock for business acquisition	$164	$—

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 Securities and Exchange Commission (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 and shareholders' equity of PPG as of March 31, 2019, and the results of its operations and cash flows for the three months ended March 31, 2019 and 2018. 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 2018 Annual Report on Form 10-K (the "2018 Form 10-K").

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, 2019 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.

2. New Accounting Standards

Accounting Standards Adopted in 2019

Effective January 1, 2019, PPG adopted Accounting Standards Update (“ASU”) No. 2016-02, "Leases." This ASU requires substantially all leases be recorded on the balance sheet as right of use assets and lease obligations. The Company adopted the ASU using a retrospective adoption method at January 1, 2019, as outlined in ASU No. 2018-11, "Leases - Targeted Improvements." Under this method of adoption, there is no impact to the comparative condensed consolidated statement of income and condensed consolidated balance sheet. PPG determined that there was no cumulative-effect adjustment to beginning Retained earnings on the condensed consolidated balance sheet. PPG will continue to report periods prior to January 1, 2019 in its financial statements under prior guidance as outlined in Accounting Standards Codification Topic 840, "Leases". In addition, PPG elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed carry forward of historical lease classifications.

Adoption of this standard did not materially impact PPG’s Income before income taxes and had no impact on the condensed consolidated statement of cash flows. See Note 3, “Leases” for further details.

Accounting Standards to be Adopted in Future Years

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software." This ASU requires capitalization of certain implementation costs incurred in a cloud computing arrangement that is a service contract. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and for interim periods therein with early adoption permitted. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

In June 2016, the 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 did not early adopt this standard. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

3. Leases

PPG leases certain retail paint stores, warehouses, distribution facilities, office space and equipment, including fleet vehicles. PPG determines if a contract is a lease at the inception of the arrangement. PPG reviews all options to extend, terminate, or purchase its right of use assets at the inception of the lease and accounts for these options when they are reasonably certain of being exercised. Certain real estate leases contain lease and non-lease components, which are accounted for separately. For certain equipment leases, lease and non-lease components are accounted for as a single lease component.

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Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

The components of lease expense were as follows:

($ in millions)	Classification in the Condensed Consolidated Statement of Income	Three Months Ended March 31, 2019
Operating lease cost [(a)]	Cost of sales, exclusive of depreciation and amortization	$9
Operating lease cost [(a)]	Selling, general and administrative	48
Total operating lease cost		$57
Finance lease cost:		
Amortization of right-of-use assets	Depreciation	$1
Interest on lease liabilities	Interest Expense	—
Total finance lease cost		$1
Total lease cost		$58

(a) Includes variable lease costs of $4 million. Short-term lease costs were $1 million during the period.

Variable lease expense is based on contractual arrangements with PPG's lessors determined based on external indices or other relevant market factors. In addition, PPG's variable lease expense also includes elements of a contract that do not represent a good or service but for which the lessee is responsible for paying.

($ in millions)	Classification on the Condensed Consolidated Balance Sheet	March 31, 2019	
Assets:			
Operating	Other assets		$726
Finance [(a)]	Property, plant, and equipment	14	
Total leased assets			$740
Liabilities:			
Current			
Operating	Current portion of operating lease liabilities		$168
Finance	Short-term debt and current portion of long-term debt	3	
Noncurrent			
Operating	Operating lease liabilities	566	
Finance	Long-term debt	9	
Total lease liabilities			$746

(a) Net of accumulated depreciation of $15 million.

($ in millions)	Three Months Ended March 31,

	2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$52
Operating cash flows from finance leases	$—
Financing cash flows from finance leases	$1
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$34
Finance leases	$—

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	As of March 31, 2019
Weighted-average remaining lease term (in years)	
Operating leases	7.4
Finance leases	6.2
Weighted-average discount rate	
Operating leases	3.2 %
Finance leases	9.5 %

Nearly all of PPG’s lease contracts do not provide a readily determinable implicit rate. For these contracts, PPG’s estimated incremental borrowing rate is based on information available at the inception of the lease.

As of March 31, 2019, maturities of lease liabilities were as follows:

($ in millions)	Operating Leases	Finance Leases
Remaining nine months of 2019	$142	$3
2020	155	3
2021	116	3
2022	89	2
2023	70	2
Thereafter	255	4
Total lease payments	$827	$17
Less: Interest	93	5
Total lease obligations	$734	$12

Disclosures related to periods prior to adoption of ASU 2016-02

The Company adopted ASU 2016-02 using a retrospective adoption method at January 1, 2019 as noted in Note 2. "New Accounting Standards." As required, the following disclosure is provided for periods prior to adoption.

Minimum lease commitments as of December 31, 2018 that have initial or remaining lease terms in excess of one year are as follows:

($ in millions)	Operating Leases	Capital Leases
2019	$207	$3
2020	157	3
2021	116	1
2022	93	1
2023	76	1
Beyond 2023	$244	$3

4. Acquisitions and Divestitures

Acquisitions

On April 16, 2019, PPG completed the acquisition of Hemmelrath, an automotive coatings manufacturer. Headquartered in Klingenberg, Germany, Hemmelrath is a global manufacturer of coatings for automotive original equipment manufacturers ("OEMs"). The pro-forma impact on PPG's sales and results of operations, including the pro forma effect of events that are directly attributable to the acquisition, are not anticipated to be significant. The results of this business will be reported within the automotive original equipment manufacturer ("OEM") coatings business within the Industrial Coatings reportable segment.

On March 1, 2019, PPG completed the acquisition of Whitford Worldwide Company ("Whitford"), a global manufacturer that specializes in low-friction and nonstick coatings for industrial applications and consumer products. Whitford employs more than 700 people and operates 10 manufacturing facilities globally. The pro-forma impact on PPG's sales and results of operations, including the pro forma effect of events that are directly attributable to the acquisition, was not significant. The results of this business since the date of acquisition have been reported within the industrial coatings business within the Industrial Coatings reportable segment.

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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. The company employs nearly 100 people. The pro-forma impact on PPG's sales and results of operations, including the pro forma effect of events that are directly attributable to the acquisition, was not significant.The results of this business since the date of acquisition have been reported within the architectural coatings - Europe, Middle East and Africa (EMEA) business within the Performance Coatings reportable segment.

Divestitures

Glass Segment

The Net sales and Income from discontinued operations, net of tax related to the former Glass reportable business segment for the three months ended March 31, 2018 were as follows:

($ in millions)	Three Months Ended March 31, 2018
Income from operations	$8
Income tax expense	2
Income from discontinued operations, net of tax	$6

5. Inventories

($ in millions)	March 31, 2019	December 31, 2018
Finished products	$1,234	$1,105
Work in process	211	193
Raw materials	486	452
Supplies	34	33
Total Inventories	$1,965	$1,783

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 34% and 36% of total inventories at March 31, 2019 and December 31, 2018, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $126 million and $113 million higher as of March 31, 2019 and December 31, 2018, respectively.

6. 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, 2019 was as follows:

($ in millions)	Performance Coatings	Industrial Coatings	Total
January 1, 2019	$3,266	$804	$4,070
Acquisitions, including purchase accounting adjustments	2	46	48
Foreign currency impact	(11)	(4)	(15)
March 31, 2019	$3,257	$846	$4,103

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

($ in millions)	March 31, 2019 Gross Carrying Amount	March 31, 2019 Accumulated Amortization	March 31, 2019 Net	December 31, 2018 Gross Carrying Amount	December 31, 2018 Accumulated Amortization	December 31, 2018 Net
Indefinite-Lived Identifiable Intangible Assets						
Trademarks	$1,155	N/A	$1,155	$1,140	N/A	$1,140
Definite-Lived Identifiable Intangible Assets						
Acquired technology	$673	($522)	$151	$648	($515)	$133
Customer-related	1,422	(822)	600	1,396	(798)	598
Trade names	205	(98)	107	190	(96)	94
Other	45	(38)	7	44	(37)	7
Total Definite Lived Intangible Assets	$2,345	($1,480)	$865	$2,278	($1,446)	$832
Total Identifiable Intangible Assets	$3,500	($1,480)	$2,020	$3,418	($1,446)	$1,972

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

As of March 31, 2019, estimated future amortization expense of identifiable intangible assets is as follows:

($ in millions)	Future Amortization Expense
Remaining nine months of 2019	$88
2020	100
2021	95
2022	85
2023	75
2024	65
Thereafter	357

7. 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.

2018 Restructuring Program

In April 2018, the Company approved a business restructuring plan which included actions to reduce its global cost structure. The program was in response to the impacts of customer assortment changes in our U.S. architectural coatings business during the first quarter 2018 and sustained, elevated raw material inflation. The program aims to further right-size employee headcount and production capacity in certain businesses based on current product demand, as well as reductions in various global functional and administrative costs. Substantially all actions from this business restructuring plan are expected to be complete by the end of the first quarter of 2020.

2016 Restructuring Program

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. Substantially all actions from this business restructuring plan are expected to be complete by the end of the third quarter of 2019.

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The following table summarizes the reserve activity for the three months ended March 31, 2019:

($ in millions)	Total Reserve
December 31, 2018	$110
Cash payments	(15)
Release of prior reserves	(3)
Foreign currency impact	(1)
March 31, 2019	$91

During the first quarter, adjustments of approximately $3 million were recorded to reduce the remaining restructuring reserves to reflect the current estimate of the costs to complete these actions.

8. Borrowings

During the first quarter of 2019, PPG issued $300 million of commercial paper. The Company's commercial paper borrowings are supported by the five-year credit agreement (the "Credit Agreement") entered into in 2015. As a result, the commercial paper borrowings as of March 31, 2019 are classified as long-term debt based on PPG's intent and ability to refinance these borrowings on a long-term basis.

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 13, “Financial Instruments, Hedging Activities and Fair Value Measurements.”

9. Earnings Per Common 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, 2019 and 2018 were as follows:

	Three Months Ended March 31	
(number of shares in millions)	2019	2018
Weighted average common shares outstanding	236.7	249.8
Effect of dilutive securities:		
Stock options	0.7	0.9
Other stock compensation plans	0.6	0.7
Potentially dilutive common shares	1.3	1.6
Adjusted weighted average common shares outstanding	238.0	251.4
Dividends per common share	$0.48	$0.45

Excluded from the computation of earnings per diluted share due to their antidilutive effect were 1.6 million and 1.1 million outstanding stock options for the three months ended March 31, 2019 and 2018, respectively.

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10. Income Taxes

	Three Months Ended March 31	
	2019	2018
Effective tax rate on pre-tax income from continuing operations	24.3%	20.7%

Income tax expense for the three months ended March 31, 2019 reflects $2 million for discrete items associated with PPG's U.S. and foreign locations and implementation of updated regulations associated with the 2017 Tax Cuts and Jobs Act for Global Intangible Low Taxed Income. For the three months ended March 31, 2018, discrete items of $15 million reduced Income tax expense. Income tax expense for the first three months of 2019 is based on an estimated annual effective rate, which requires management to make its best estimate of annual pretax income or loss.

During the year, PPG management regularly updates forecasted annual pretax results for the various countries in which we operate based on changes in factors such as prices, shipments, product mix, and raw material inflation and manufacturing operations. To the extent that actual 2019 pretax results for U.S. and foreign income or loss vary from estimates, the actual Income tax expense recognized in 2019 could be different from the forecasted amount used to estimate the Income tax expense for the three months ended March 31, 2019.

11. Pensions and Other Postretirement Benefits

Service cost for net periodic pension and other postretirement benefit costs is included in Cost of sales, exclusive of depreciation and amortization, Selling, general and administrative, and Research and development, net in the accompanying condensed consolidated statements of income. All other components of net periodic benefit cost are now 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, 2019 and 2018 were as follows:

	Pension		Other Postretirement Benefits	
	Three Months Ended March 31		Three Months Ended March 31	
($ in millions)	2019	2018	2019	2018
Service cost	$6	$8	$2	$2