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CORNING INC /NY
Form 10-Q/A
May 09, 2006

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-3247

CORNING INCORPORATED

(Registrant)

New York

(State of incorporation)

16-0393470

(I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York

(Address of principal executive offices)

14831

(Zip Code)

Registrant's telephone number, including area code: 607-974-9000

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

1,557,553,059 shares of Corning's Common Stock, \$0.50 Par Value, were

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outstanding as of May 3, 2006.

Explanatory Note

On April 25, 2006, Corning Incorporated (Corning) filed a Current Report on Form 8-K with the Securities and Exchange Commission in which it announced that it was restating its previously issued consolidated financial statements to correct errors in its accounting for Corning's asbestos settlement liability and the accounting for its investment in Pittsburgh Corning Europe from March 31, 2003, through December 31, 2005. Corning also changed the classification of accretion on a portion of the asbestos settlement liability from interest expense to asbestos settlement expense in its statement of operations for the same time period. Corning is filing this Amendment No. 1 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the Original Filing), which was originally filed on April 26, 2005.

As more fully described in Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-Q/A, the cumulative effect of these adjustments to Corning's March 31, 2005 balance sheet was to increase its investments in affiliate companies by \$26 million, increase other accrued liabilities by \$143 million, increase accumulated deficit by \$122 million, and increase accumulated other comprehensive income by \$5 million. The cumulative effect of these adjustments to Corning's December 31, 2004 balance sheet was to increase investments in affiliate companies by \$26 million, increase other accrued liabilities by \$141 million, increase accumulated deficit by \$123 million, and increase accumulated other comprehensive income by \$8 million.

The restatement adjustments had the following impact on Corning's reported net income and earnings per share as follows (in millions, except per share amounts):

	Three months ended March 31,	
	2005	2004
	----	----
As reported:		
Net income	\$ 249	\$ 55
Basic earnings per share	\$ 0.18	\$ 0.04
Diluted earnings per share	\$ 0.17	\$ 0.04
As restated:		
Net income	\$ 250	\$ 56
Basic earnings per share	\$ 0.18	\$ 0.04
Diluted earnings per share	\$ 0.17	\$ 0.04
Increase in net income	\$ 1	\$ 1

As a result of the restatement, the Company's previously issued consolidated financial statements for the period from March 31, 2003, through December 31, 2005, including those contained in the following filings, should no longer be relied upon: Annual Report on Form 10-K for the fiscal year ended December 31, 2005; Quarterly Reports on Form 10-Q for the quarters ended September 30, 2005, June 30, 2005 and March 31, 2005.

Refer to Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-Q/A for additional

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information.

In connection with the restatement, Corning concluded that certain material weaknesses existed in its internal control over financial reporting. See Part I - Item 4 "Controls and Procedures."

This Form 10-Q/A amends and restates only certain information in Items 1, 2, and 4 of Part I and Items 1 and 6 of Part II of the Original Filing. In addition, Item 6 of Part II of the Original Filing has been amended to include updated certifications executed as of the date of this Form 10-Q/A from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 and an updated Computation of Ratio of Earnings to Fixed Charges. The certifications of the Chief Executive Officer and Chief Financial Officer and our Computation of Ratio of Earnings to Fixed Charges are attached to this Form 10-Q/A as exhibits 12, 31.1, 31.2, and 32.

Except for the amended and restated information, this Form 10-Q/A includes all of the information contained in the Original Filing, and no attempt has been made in this Form 10-Q/A to modify or update the disclosures presented in the Original Filing, except as required to reflect the effects of the restatement. This Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results, or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that have become known to us after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in millions, except per share amounts)

		For t

		2005
		(Restat

Net sales	\$ 1,0	
Cost of sales	6	

Gross margin		4
Operating expenses:		
Selling, general and administrative expenses		1
Research, development and engineering expenses		
Amortization of purchased intangibles		
Restructuring, impairment and other charges and (credits) (Note 3)		
Asbestos settlement (Note 4)		(

Operating income (loss)		1
Interest income		
Interest expense		(
Loss on repurchases and retirement of debt, net		
Other expense, net (Note 1)		

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Income (loss) before income taxes	1
(Provision) benefit for income taxes (Note 5)	(
<hr/>	
Income (loss) before minority interests and equity earnings	
Minority interests	
Equity in earnings of associated companies	1
<hr/>	
Net income	\$ 2
<hr/>	
Basic earnings per common share (Note 6)	\$ 0.
<hr/>	
Diluted earnings per common share (Note 6)	\$ 0.
<hr/>	
Shares used in computing per share amounts for (Note 6):	
Basic earnings per common share	1,4
<hr/>	
Diluted earnings per common share	1,5
<hr/>	

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except share and per share amounts)

	March
	2005
	(Restat
	<hr/>
Assets	
Current assets:	
Cash and cash equivalents	\$ 8
Short-term investments, at fair value	7
<hr/>	
Total cash, cash equivalents and short-term investments	1,5
Trade accounts receivable, net of doubtful accounts and allowances - \$28 and \$30	6
Inventories (Note 7)	5
Deferred income taxes (Note 5)	
Other current assets	2
<hr/>	
Total current assets	3,0
Investments (Note 8)	1,5
Property, net of accumulated depreciation - \$3,559 and \$3,532	4,0
Goodwill and other intangible assets, net (Note 9)	3
Deferred income taxes (Note 5)	4

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Other assets	1

Total Assets	\$ 9,6
	=====
Liabilities and Shareholders' Equity	
Current liabilities:	
Short-term borrowings, including current portion of long-term debt (Note 10)	\$ 2
Accounts payable	6
Other accrued liabilities	1,1

Total current liabilities	2,0
Long-term debt (Note 10)	2,1
Postretirement benefits other than pensions	5
Other liabilities	7

Total liabilities	5,5

Commitments and contingencies (Note 4)	
Minority interests	
Shareholders' equity:	
Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million	
Series C mandatory convertible preferred stock - Shares issued: 5.75 million;	
Shares outstanding: 633 thousand and 637 thousand	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;	
Shares issued: 1,437 million and 1,424 million	7
Additional paid-in capital	10,4
Accumulated deficit	(7,1
Treasury stock, at cost; Shares held: 15 million and 16 million	(1
Accumulated other comprehensive income	1

Total shareholders' equity	4,0

Total Liabilities and Shareholders' Equity	\$ 9,6
	=====

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

For t

2005
(Restat

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Cash Flows from Operating Activities:	
Income from continuing operations	\$ 2
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:	
Depreciation	1
Amortization of purchased intangibles	
Asbestos settlement	(
Restructuring, impairment and other charges and (credits)	
Loss on repurchases and retirement of debt	
Undistributed earnings of associated companies	(
Deferred taxes	
Restructuring payments	
Customer deposits	
Changes in certain working capital items:	
Trade accounts receivable	(
Inventories	(
Other current assets	(
Accounts payable and other current liabilities, net of restructuring payments	(1
Other, net	
Net cash provided by operating activities	----- 1 -----
Cash Flows from Investing Activities:	
Capital expenditures	(3
Short-term investments - acquisitions	(3
Short-term investments - liquidations	4
Other, net	
Net cash used in investing activities	----- (1 -----
Cash Flows from Financing Activities:	
Repayments of short-term borrowings and current portion of long-term debt	(1
Proceeds from issuance of long-term debt, net	
Retirements of long-term debt	
Proceeds from issuance of common stock, net	
Proceeds from the exercise of stock options	
Other, net	
Net cash (used in) provided by financing activities	----- (1 -----
Effect of exchange rates on cash	(
Net (decrease) increase in cash and cash equivalents	(1
Cash and cash equivalents at beginning of period	1,0
Cash and cash equivalents at end of period	----- \$ 8 =====

The accompanying notes are an integral part of these statements.

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1. Basis of Presentation

General

In these notes, the terms "Corning," "Company," "we," "us," or "our" mean Corning Incorporated and subsidiary companies.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with Corning's consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K). Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the 2004 Form 10-K.

The unaudited consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

Certain amounts for 2004 were reclassified to conform with 2005 classifications. Additionally, we have reclassified the 2004 interim results to conform to the 2004 year-end classification of auction rate securities as short-term investments instead of cash equivalents. These reclassifications had no impact on results of operations or shareholders' equity.

Foreign Currency Translation and Transactions

Effective January 1, 2005, our Taiwan subsidiary changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen due to the increased significance of Japanese yen based transactions of that subsidiary. As a result of this change in functional currency, exchange rate gains and losses are recognized on transactions in currencies other than the Japanese yen and included in income for the period in which the exchange rates changed.

Stock-Based Compensation

We apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), for our stock-based compensation plans. The following table illustrates the effect on income and earnings per share if we had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), to stock-based employee compensation.

(In millions, except per share amounts):

For the

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	-----	20
		(Rest

Net income - as reported		\$
Add: Stock-based employee compensation expense determined under APB 25, included in reported net income, net of tax		
Less: Stock-based employee compensation expense determined under fair value based method, net of tax		

Net income - pro forma		\$
Earnings per common share:		
Basic - as reported		\$
Basic - pro forma		\$
Diluted - as reported		\$
Diluted - pro forma		\$

For purposes of SFAS 123 fair value disclosures, each option grant's fair value is estimated on the grant date using the Black-Scholes option-pricing model. The following are weighted-average assumptions used for grants under our stock option plans:

	-----	For the t
		200

Expected life in years		
Risk free interest rate		3.
Expected volatility		50.

Changes in the status of outstanding options follow:

	-----	Number of
		(in thous

Options outstanding December 31, 2004		139,0
Options granted under plans		3,4
Options exercised		(1,4
Options terminated		(9

Options outstanding March 31, 2005		140,0
Options exercisable March 31, 2005		=====
		112,4

New Accounting Standards

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In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS 123 and supercedes APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value. On April 14, 2005, the SEC issued a new rule that amends the required effective dates for SFAS 123R. As a result of the SEC amendment, Corning intends to adopt SFAS 123R in the first quarter of 2006. The SEC amendment does not change the accounting required under SFAS 123R.

Under SFAS 123R, Corning must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. As we will implement the provisions of SFAS 123R on January 1, 2006, we must select one of the following transition method adoption alternatives permitted by the standard:

- .. "Prospective adoption" would require Corning to begin expensing share-based payments no later than January 1, 2006. Prior periods would not be restated.
- .. "Modified retrospective adoption" would require Corning to begin expensing share-based payments no later than January 1, 2006. Prior periods would be restated.

We are currently evaluating the impact that SFAS 123R will have on our consolidated results of operations and financial condition, which in part will be dependent on the amortization methods used to adopt the new rules in 2006. Our current estimate is that our incremental share-based compensation pretax expense would be approximately \$60 million in 2006 and beyond.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," (FIN 47) which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Corning is required to adopt FIN 47 no later than December 31, 2005. Corning does not expect the adoption of FIN 47 to have a material impact on its consolidated results of operations and financial condition.

2. Restatement of Previously Issued Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that we would restate previously issued consolidated financial statements for each of the three years ended December 31, 2005, to correct for errors in the accounting for the asbestos settlement liability and for our investment in Pittsburgh Corning Europe N.V. (PCE) from March 31, 2003, through December 31, 2005. We also changed the classification of accretion on a portion of the liability from interest expense to asbestos settlement expense in our consolidated statements of operations for the same time period.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against Corning and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish our equity interest in PCC, contribute our equity interest in PCE, and contribute 25 million shares of Corning common stock. We also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from

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the effective date of the settlement and to assign insurance policy proceeds from our primary insurance and a portion of our excess insurance at the time of the settlement.

Between March 31, 2003, and December 31, 2005, the following accounting errors occurred:

- .. Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by \$13 million, \$24 million, and \$117 million, respectively.
- .. Corning incorrectly suspended recording equity earnings of PCE between March 31, 2003, and December 31, 2005. As a result, equity in earnings of associated companies for the years 2005, 2004, and 2003 was understated by \$13 million, \$11 million, and \$7 million, respectively.
- .. Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by \$8 million, \$8 million, and \$5 million, respectively.

In the restated financial statements, the higher asbestos settlement charges have been tax-effected in 2003 and the first half of 2004. As Corning provided a valuation allowance on most of its deferred tax assets in the third quarter of 2004, that quarter reflects an increase in the valuation allowance of \$55 million for the deferred tax assets related to the higher asbestos settlement charges.

The cumulative effect of these adjustments to Corning's balance sheet as of March 31, 2005, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other accrued liabilities of \$143 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$5 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other accrued liabilities of \$141 million, an increase to accumulated deficit of \$123 million, and an increase to accumulated other comprehensive income of \$8 million.

The impacts of the restatement adjustments on Corning's financial statements are as follows:

Consolidated Statements of Operations
Summary of Restatement Impacts
(Unaudited; in millions, except per share amounts)

For t

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	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ (16)
Operating income (loss)	139
Interest expense	37
Income (loss) from before income taxes	103
Provision for income taxes	(19)

Income (loss) before minority interests and equity earnings	84
Equity in earnings of associated companies, net of impairments	166
Net income	\$ 249
Basic earnings per common share	\$ 0.18
Diluted earnings per common share	\$ 0.17

	----- Previously Reported -----	For t
Operating expenses:		
Asbestos settlement	\$ 19	
Operating loss	(7)	
Interest expense	36	
Loss before income taxes	(64)	
Benefit for income taxes	12	

Loss before minority interests and equity earnings	(52)	
Equity in earnings of associated companies, net of impairments	107	
Net income	\$ 55	
Basic earnings per common share	\$ 0.04	
Diluted earnings per common share	\$ 0.04	

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Consolidated Balance Sheets
Summary of Restatement Impacts
(Unaudited; in millions)

	As of
	Previously Reported
Investments	\$ 1,485
Total Assets	\$ 9,633
Other accrued liabilities	\$ 1,001
Total current liabilities	\$ 1,956
Total liabilities	\$ 5,416
Accumulated deficit	\$ (7,060)
Accumulated other comprehensive income	\$ 137
Total shareholders' equity	\$ 4,188
Total Liabilities and Shareholders' Equity	\$ 9,633

	As of
	Previously Reported
Investments	\$ 1,484
Total Assets	\$ 9,744
Other accrued liabilities	\$ 1,178
Total current liabilities	\$ 2,338
Total liabilities	\$ 5,899
Accumulated deficit	\$ (7,309)
Accumulated other comprehensive income	\$ 148
Total shareholders' equity	\$ 3,816
Total Liabilities and Shareholders' Equity	\$ 9,744

Consolidated Statements of Cash Flows
Summary of Restatement Impacts
(Unaudited; in millions)

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	For t
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net income	\$ 249
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:	
Asbestos settlement charge	(16)
Undistributed earnings of associated companies	(23)
Other, net	34
Net cash provided by operating activities	\$ 142

	For t
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net income	\$ 55
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:	
Asbestos settlement charge	19
Undistributed earnings of associated companies	(29)
Deferred taxes	(40)
Other, net	(1)
Net cash provided by operating activities	\$ 45

3. Restructuring, Impairment and Other Charges and (Credits)

2005 Actions

In the first quarter of 2005, we recorded a \$19 million impairment charge for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At March 31, 2005, shares of Avanex stock were trading at \$1.30 per share compared to our average cost basis of \$2.40 per share. We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the impairment in the first quarter was required.

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The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the three months ended March 31, 2005 (in millions):

	January 1, 2005	Quarter ended Mar 31, 2005 charge

Restructuring charges:		
Employee related costs	\$ 18	
Other charges	77	

Total restructuring charges	\$ 95	

Other:		
Impairment of available-for-sale securities		\$ 19

Total restructuring, impairment and other charges and (credits)		\$ 19

Cash payments for employee related costs will be substantially complete by the end of 2005, while payments for exit activities will be substantially completed by the end of 2008.

2004 Actions

In the first quarter of 2004, we recorded net charges of \$34 million included in restructuring, impairment and other charges and (credits). A summary of these charges and credits follow:

- .. We recorded \$39 million of accelerated depreciation and \$1 million of exit costs relating to the final shutdown of our semiconductor materials manufacturing facility in Charleston, South Carolina, which we announced in the fourth quarter of 2003.
- .. We recorded credits of \$6 million, primarily related to proceeds in excess of assumed salvage values for assets that were previously impaired.

The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the three months ended March 31, 2004 (in millions):

	January 1, 2004	Quarter ended March 31, 2004 charge	Revisions to existing plans	N char (reve

Restructuring charges:				
Employee related costs	\$ 78			
Other charges	108	\$ 1		\$

Total restructuring charges	\$ 186	\$ 1		\$

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Impairment of long-lived assets:

Assets to be disposed of by sale
or abandonment

\$ (6) \$

Other:

Accelerated depreciation

\$ 39 \$

Total restructuring, impairment and
other charges and (credits)

\$ 40 \$ (6) \$

4. Commitments and Contingencies

Asbestos Settlement

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from the effective date of the settlement and to assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance at the time of the settlement.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the PCC Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

As discussed in Note 2 (Restatement of Prior Period Financial Statements) we have restated prior period financial statements to correct the accounting related to the asbestos settlement.

In the first quarter of 2005, we recorded a credit to the asbestos settlement of \$12 million, including \$16 million reflecting the decrease in the value of Corning's common stock from December 31, 2004 to March 31, 2005, and \$4 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

In the first quarter of 2004, we recorded asbestos settlement expense of \$22 million, including \$19 million for the increase in the value of Corning's common

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stock from December 31, 2003 to March 31, 2004, and a \$3 million charge to adjust the estimated fair value of the other components of the proposed asbestos settlement.

Since March 28, 2003, we have recorded total net charges of \$588 million to reflect the initial settlement liability and subsequent adjustments for the change in the fair value of the components of the liability.

The fair value of the liability expected to be settled by contribution of our investment in PCE, the fair value of 25 million shares of our common stock and assigned insurance proceeds (in aggregate totaling \$442 million at March 31, 2005) is recorded in other accrued liabilities in our consolidated balance sheets. As the timing of this obligation's settlement will depend on future judicial rulings (i.e., controlled by a third party and not Corning), this portion of the PCC liability is considered a "due on demand" obligation. Accordingly, this portion of the obligation has been classified as a current liability, even though it is possible that the contribution could be made beyond one year. The remaining portion of the settlement liability (totaling \$146 million at March 31, 2005), representing the net present value of the cash payments, is recorded in the other liabilities component in our consolidated balance sheets.

Other Commitments and Contingencies

We provide financial guarantees and incur contingent liabilities in the form of purchase price adjustments related to attainment of milestones, stand-by letters of credit and performance bonds. These guarantees have various terms, and none of these guarantees are individually significant. We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning) as discussed in Note 8 to the consolidated financial statements in our 2004 Form 10-K. The funding of the Dow Corning \$150 million credit facility is subject to events connected to the Bankruptcy Plan. As of March 31, 2005, we were contingently liable for the items described above totaling \$364 million, compared with \$368 million at December 31, 2004. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

From time to time, we are subject to uncertainties and litigation and are not always able to predict the outcome of these items with assurance. Various legal actions (including the PCC matter discussed previously), claims and proceedings are pending against us, including those arising out of alleged product defects, product warranties, patents, asbestos and environmental matters. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Corning's consolidated financial position, liquidity or results of operations.

5. Income Taxes

Our (provision) benefit for income taxes and the related tax rates follow (in millions):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
(Provision) benefit for income taxes	\$ (19)	\$ 13

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Effective (income tax) benefit rate (18.8)% (20.0)%

For the three months ended March 31, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pre-tax income or losses were not provided. The \$19 million income tax provision included income taxes for certain foreign operations that were favorably impacted by tax holiday benefits and investment tax credits. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pre-tax income or losses was recorded as an adjustment to the valuation allowance.

At March 31, 2005, we had net deferred tax assets of \$535 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable, or if the PCC settlement is finalized earlier than we anticipate. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective benefit rate for the three months ended March 31, 2004 is lower than the U.S. statutory income tax rate of 35%. Our effective benefit rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and loss on repurchases and retirement of debt.

6. Earnings Per Common Share

The reconciliation of the amounts used in the basic and diluted earnings per common share computations follow (in millions, except per share amounts):

	For the three months ended			
	2005 (Restated)			
	Net Income	Weighted- Average Shares	Per Share Amount	Net Income
Basic earnings per common share	\$ 250	1,411	\$ 0.18	\$ 5
Effect of dilutive securities:				
Stock options		31		
7% mandatory convertible preferred stock		32		
3.50% convertible debentures	2	29		

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Diluted earnings per common share \$ 252 1,503 \$ 0.17 \$ 5

The following potential common shares were excluded from the calculation of diluted earnings per common share due to their anti-dilutive effect or, in the case of stock options, because their exercise price was greater than the average market price for periods presented (in millions):

For the three months ended March 31,

	2005	2004
--	------	------

Potential common shares excluded from the calculation of diluted earnings per common share:

3.50% convertible debentures		57
4.875% convertible notes	6	6
Zero coupon convertible debentures	3	4
Total	9	67

Stock options excluded from the calculation of diluted earnings (loss) per share because the exercise price was greater than the average market price of the common shares

	63	55
--	----	----

7. Inventories

Inventories comprise the following (in millions):

	March 31, 2005	December 31, 2004
Finished goods	\$ 157	\$ 136
Work in process	170	172
Raw materials and accessories	137	139
Supplies and packing materials	98	88
Total inventories	\$ 562	\$ 535

8. Investments

Investments comprise the following (in millions):

	Ownership Interest	

Associated companies at equity

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Samsung Corning Precision Glass Co., Ltd.	50%	\$ 5
Dow Corning	50%	3
All other	25%-51% (a)	5

Other investments (b)		1,4

Total		\$ 1,5

- (a) Amounts reflect Corning's direct ownership interests in the respective associated companies. Corning does not control any such entities.
- (b) Amounts reflect \$22 million and \$53 million at March 31, 2005 and December 31, 2004, respectively, of available-for-sale securities stated at market. During the first quarter of 2005, Corning recorded an impairment charge of \$19 million for an other than temporary decline in the fair value of shares of Avanex below their cost basis. This included the reversal of previously unrecognized gains on Avanex shares of \$14 million included in accumulated other comprehensive income at December 31, 2004 on the consolidated balance sheet. Refer to Note 3 (Restructuring, Impairment and Other Charges and Credits) for additional information.

Summarized results of operations for our two significant investments accounted for by the equity method follow:

Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision)

Samsung Corning Precision is a South Korea-based manufacturer of liquid crystal display glass for flat panel displays. Samsung Corning Precision's results of operations follow (in millions):

	For the th

	200

Statement of Operations:

Net sales	\$ 3
Gross profit	\$ 2
Net income	\$ 1
Corning's equity in earnings of Samsung Corning Precision	\$

Related Party Transactions:

Corning sales of inventory to Samsung Corning Precision	
Corning purchases from Samsung Corning Precision	\$
Corning sales of machinery and equipment to Samsung Corning Precision	\$

Balances due to and from Samsung Corning Precision were immaterial at March 31, 2005 and December 31, 2004.

Dow Corning

Dow Corning is a U.S. based manufacturer of silicone products. Dow Corning's results of operations follow (in millions):

For the three months ended March 31,

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	2005	2004
Statement of Operations:		
Net sales	\$ 983	\$ 814
Gross profit	\$ 346	\$ 230
Net income	\$ 136	\$ 52
Corning's equity in earnings of Dow Corning	\$ 68	\$ 24

9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2005 follow (in millions):

	Telecom- munications	Display Technologies	Other
Balance at January 1, 2005	\$ 123	\$ 9	\$ 1
Foreign currency translation & other	(5)		
Balance at March 31, 2005	\$ 118	\$ 9	\$ 1

(1) This balance relates to our Specialty Materials operating segment.

Other intangible assets follow (in millions):

	March 31, 2005			
	Gross	Accumulated Amortization	Net	Gro
Amortized intangible assets:				
Patents and trademarks	\$ 146	\$ 81	\$ 65	\$ 1
Non-competition agreements	115	115		1
Other	4	1	3	
Total amortized intangible assets	265	197	68	2
Unamortized intangible assets:				
Intangible pension assets	42		42	
Total	\$ 307	\$ 197	\$ 110	\$ 3

Amortized intangible assets are primarily related to the Telecommunications

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segment.

Estimated amortization expense related to these intangible assets is \$13 million in 2006, \$12 million in 2007, \$11 million in 2008, and insignificant thereafter.

10. Debt

In the first quarter of 2005, we completed the following debt transactions:

- .. We obtained a loan of approximately \$48 million, bearing interest at 2.1%, from a Japanese bank. This loan is part of a 10-year loan agreement entered into in 2004 to fund certain capital expansion activities in Japan.
- .. We redeemed \$100 million of our outstanding 3.50% convertible debentures. The bondholders affected by this redemption elected to convert \$98 million of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture, with the remaining \$2 million repaid in cash. Separately, bondholders elected to convert approximately \$6 million of outstanding debentures into Corning common stock. In total, we issued 11 million shares upon the conversion of the debentures, resulting in an increase to equity of \$105 million. At March 31, 2005, \$191 million of our 3.50% convertible debentures remained outstanding. We expect to redeem these debentures, subject to market conditions, before December 31, 2005.
- .. We repaid a total of \$192 million of notes in accordance with their stated repayment schedule. This was primarily comprised of our 5.625% Euro notes.

In addition, in the first quarter of 2005, we completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, including a leverage test (debt to capital ratio) and an interest coverage ratio (calculated on the most recent four quarters). As of March 31, 2005, we were in compliance with these covenants. Concurrent with the closing of this credit facility, we terminated our previous \$2 billion revolving line of credit that was set to expire in August 2005.

11. Customer Deposits

In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers have agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the current year, we received a total of \$108 million of deposits against orders, of which \$20 million was received in the first quarter. Upon receipt of the cash deposits made by customers, we record a customer deposit liability, which will be applied in the form of credits against future product purchases over the life of the agreements. As product is shipped to a customer, Corning will recognize revenue at the selling price and issue a credit memorandum for an agreed amount of the customer deposit liability. The credit memorandum will be applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods.

Customer deposits will be received in the following periods (in millions):

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	2004	For the three months ended March 31, 2005	Remainder of 2005
Customer deposits received (a)	\$ 204	\$ 20	\$ 463

(a) The majority of customer deposits will be received through 2006.

We had total customer deposit liabilities of \$228 million and \$215 million at March 31, 2005 and December 31, 2004, respectively, of which \$40 million and \$18 million were recorded in the current liabilities - other accrued liabilities component of our consolidated balance sheets.

In the event the customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, we may retain certain amounts of the customer deposits. If we do not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, we may be required to return certain amounts of the customer deposits.

12. Employee Retirement Plans

The following table summarizes the components of net periodic benefit cost for our defined benefit pension and postretirement health care and life insurance plans (in millions):

	Pension benefits For the three months ended March 31,		Post For
	2005	2004	2005
Service cost	\$ 16	\$ 11	\$ 2
Interest cost	45	38	12
Expected return on plan assets	(52)	(43)	
Amortization of net loss	1	6	1
Amortization of prior service cost	10	3	(2)
Total expense	\$ 20	\$ 15	\$ 13

For 2005, we expect to contribute at least \$100 million in cash or stock to our domestic and international pension plans.

13. Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable,

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follow (in millions):

	For the th
	2005
	(Restated
Net income	\$ 250
Other comprehensive income:	
Change in unrealized gain (loss) on investments, net	(33
Reclassification adjustment relating to investments included in net income, net	19
Change in unrealized gain (loss) on derivative instruments, net	26
Reclassification adjustment relating to derivatives, net	(13
Foreign currency translation adjustment, net (a)	(15
Change in minimum pension liability	2
Total comprehensive income	\$ 236

(a) The initial implementation of our Taiwan subsidiary's change in its functional currency from the new Taiwan dollar to the Japanese yen effective January 1, 2005 had the effect of increasing the U.S. dollar value of its net assets and increasing accumulated other comprehensive income by \$23 million. The impact of this change is included in the foreign currency translation adjustment, net amount.

14. Operating Segments

Our reportable operating segments follow:

- .. Display Technologies - manufactures liquid crystal display glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

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Operating Segments (in millions)	Display Technologies	Telecom- munications	Environmental Technologies	Li Scie
For the three months ended March 31, 2005 (Restated)				
Net sales	\$ 320	\$ 427	\$ 148	\$
Research, development and engineering expenses (1)	\$ 25	\$ 22	\$ 26	\$
Restructuring, impairment and other charges and (credits)				
Interest expense (2)	\$ 16	\$ 11	\$ 6	\$
(Provision) benefit for income taxes	\$ (17)	\$ (2)		
Income (loss) before minority interests and equity earnings (3)	\$ 80	\$ 9	\$ (2)	\$
Minority interests				
Equity in earnings of associated companies	81			
Net income (loss)	\$ 161	\$ 9	\$ (2)	\$
For the three months ended March 31, 2004 (Restated)				
Net sales	\$ 230	\$ 312	\$ 141	\$
Research, development and engineering expenses (1)	\$ 16	\$ 25	\$ 20	\$
Restructuring, impairment and other charges and (credits)		\$ (4)		
Interest expense (2)	\$ 11	\$ 16	\$ 5	\$
(Provision) benefit for income taxes	\$ (26)	\$ 23	\$ (3)	\$
Income (loss) before minority interests and equity earnings (3)	\$ 53	\$ (47)	\$ 6	\$
Minority interests		1		
Equity in earnings of associated companies	65	3		
Net income (loss)	\$ 118	\$ (43)	\$ 6	\$

- (1) Non-direct research, development and engineering expenses are allocated based upon direct project spending for each segment.
- (2) Interest expense is allocated to segments based on a percentage of segment net operating assets. Consolidated subsidiaries with independent capital structures do not receive additional allocations of interest expense.
- (3) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales.

A reconciliation of reportable segment net income to consolidated net income follows (in millions):

For the three months ended M

2005

2004

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	(Restated)	(Restated)
Net income of reportable segments	\$ 166	\$
Non-reportable operating segments net income (loss) (1)	10	(
Unallocated amounts:		
Non-segment loss and other (2)		
Non-segment restructuring, impairment and other (charges) and credits (3)	(19)	
Asbestos settlement	12	
Interest income	10	
Loss on repurchases of debt		
Benefit for income taxes (4)		
Equity in earnings of associated companies (5)	71	
Net income	\$ 250	\$

- (1) Non-reportable operating segments net income (loss) includes the results of non-reportable operating segments.
- (2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
- (3) For the first quarter of 2005, non-segment restructuring, impairment and other (charges) and credits includes an impairment charge for the other than temporary decline in the market value of Avanex shares.
- (4) Benefit for income taxes includes taxes associated with non-segment restructuring, impairment and other (charges) and credits.
- (5) Equity in earnings of associated companies includes amounts derived from corporate investments, primarily Dow Corning.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Our key priorities for 2005 remain unchanged from the previous year: protect our financial health, improve our profitability, and invest in the future. During the first quarter of 2005, we made the following progress against these priorities:

Financial Health

Our balance sheet remains strong and we continue to generate positive cash flows from operating activities. Significant activities during the quarter included the following:

- .. We reduced outstanding debt by \$279 million. This included the scheduled repayment of \$192 million of debt and the early retirement of \$106 million of long-term debt, the majority of which was converted into Corning common stock. As a result of these transactions, our debt to capital ratio declined to 36%.
- .. We entered into additional multi-year customer supply agreements in the Display Technologies segment, and received \$108 million in deposits against orders, of which \$20 million was received in the first quarter.
- .. We completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million revolving

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line of credit and expires in March 2010. This facility replaces our previous \$2 billion revolving line of credit facility that was set to expire in August 2005.

We ended the first quarter of 2005 with \$1.5 billion in cash, cash equivalents and short-term investments. This represents a decrease of approximately \$300 million from December 31, 2004, primarily due to capital spending in excess of cash provided by operating activities and the net debt repayments.

Profitability

For the three months ended March 31, 2005, we generated net income of \$250 million or \$0.17 per share. This represents an improvement of \$194 million over the same period in 2004. This improvement in net income was primarily driven by the following:

- .. Growth in our Display Technologies segment, which continued to experience strong market demand for LCD glass substrates. For 2005, net income for the Display Technologies segment, including equity earnings from Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision), a South Korea-based manufacturer of LCD glass substrates, increased \$43 million, or 36%.
- .. Improved performance in the Telecommunications segment. This segment generated a modest profit of \$9 million, which represented an improvement of \$52 million compared to the first quarter of 2004 net loss.
- .. Strong equity earnings from Dow Corning Corporation (Dow Corning), a U.S. based manufacturer of silicone products, of \$68 million, which represented a 183% increase over the amount recognized in the first quarter of 2004.

Investing in our Future

We continue to invest in a wide array of technologies, with our focus being LCD glass substrates, diesel filters and substrates in response to tightening emissions control standards, and optical fiber and cable and hardware and equipment to enable fiber-to-the-premises.

Our research, development and engineering expenses have increased \$14 million compared to the first quarter of 2004, but are relatively constant as a percentage of net sales. We believe our current spending levels are adequate to enable us to execute our growth strategies.

Our capital expenditures are primarily focused on expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and diesel products in the Environmental Technologies segment. Total capital expenditures for the first quarter of 2005 were \$323 million, of which \$283 million and \$34 million was directed toward our Display Technologies and Environmental Technologies segments, respectively.

Restatement of Prior Period Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that the Company would restate previously issued consolidated financial statements to properly account for the asbestos settlement charges and liability and for its investment in and equity earnings of Pittsburgh Corning Europe (PCE) from March 31, 2003, through December 31, 2005. The Company also changed the classification of accretion on a portion of the liability to be paid in cash from interest expense to asbestos settlement charge for the same time period.

The cumulative effect of these adjustments to Corning's balance sheet as of March 31, 2005, resulted in an increase in investments in affiliate companies of

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\$26 million, an increase to other accrued liabilities of \$143 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$5 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other accrued liabilities of \$141 million, an increase to accumulated deficit of \$123 million, and an increase to accumulated other comprehensive income of \$8 million.

To correct these errors, the Company has restated its consolidated financial statements and, on May 9, 2006, filed an amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005. In addition, on May 9, 2006, the company filed amended reports on Form 10-Q/A for the quarters ended March 31, 2005, June 30, 2005, and September 31, 2005, to restate the financial periods provided for those quarterly periods.

All information in this document reflects the impact of the restatement described in Note 2 (Restatement of Prior Period Financial Statements) to the consolidated financial statements

RESULTS OF OPERATIONS

Selected highlights for the first quarter were as follows (dollars in millions):

	For the three months ended	
	2005 (Restated)	(R)
Net sales	\$ 1,050	\$
Gross margin (gross margin %)	\$ 429 41%	\$
Selling, general and administrative expenses (as a % of net sales)	\$ 184 18%	\$
Research, development and engineering expenses (as a % of net sales)	\$ 98 9%	\$
Restructuring, impairment and other charges and (credits) (as a % of net sales)	\$ 19 2%	\$
Asbestos settlement (as a % of net sales)	\$ (12) (1)%	\$
Income (loss) before income taxes (as a % of net sales)	\$ 101 10%	\$
(Provision) benefit for income taxes (as a % of net sales)	\$ (19) (2)%	\$
Equity in earnings of associated companies	\$ 169	\$

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(as a % of net sales)		16%	
Net income	\$	250	\$
(as a % of net sales)		24%	

Net Sales

The net sales increase for the first quarter of 2005 was the result of demand for products in our Telecommunications segment to support fiber-to-the-premises projects and continued strong demand for LCD glass substrates in our Display Technologies segment. The performance in all other segments of the company was comparable to the year ago period. Movements in foreign exchange rates, primarily the Japanese yen and Euro. Movements in foreign exchange rates, primarily the Japanese yen and Euro, did not significantly impact the comparison of net sales between 2005 and 2004.

Gross Margin

As a percentage of net sales, gross margin improved 5 points in the first quarter of 2005. The improvement in overall dollars and as a percentage of net sales was primarily driven by increased volume in our Telecommunications and Display Technologies segments.

Selling, General and Administrative Expenses

The increase in selling, general and administrative expenses is primarily driven by increases in compensation costs. As a percentage of net sales, selling, general and administrative expenses have remained comparable to the year ago period.

Research, Development and Engineering Expenses

Research, development and engineering expenses have increased \$14 million over 2004, but have remained comparable as a percentage of net sales. Our expenditures are focused on our Environmental Technologies, Display Technologies and Telecommunications segments as we strive to capitalize on the current market opportunities in those segments.

Restructuring, Impairment and Other Charges and (Credits)

In the first quarter of 2005, we recorded a \$19 million impairment charge for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At March 31, 2005, shares of Avanex stock were trading at \$1.30 per share compared to our average cost basis of \$2.40 per share. We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the impairment in the first quarter was required. The charge in the first quarter of 2004 was primarily due to the final shutdown of our semiconductor manufacturing facility in Charleston, South Carolina.

Asbestos Settlement

The asbestos settlement activity relates to changes in the estimated fair value of certain items to be contributed by Corning under the Pittsburgh Corning Corporation (PCC) asbestos settlement agreement if the PCC Plan of Reorganization receives judicial approval. For additional information on this matter, refer to Note 4 (Commitments and Contingencies) to the consolidated

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financial statements and Part II - Other Information, Item 1. Legal Proceedings.

Income (Loss) Before Income Taxes

In addition to the key drivers outlined above, the comparability of income (loss) before income taxes between 2005 and 2004 was impacted by movements in foreign exchange rates. In the first quarter of 2005, we incurred an exchange rate loss of \$26 million. This exchange rate loss was due to the impact of currency movements on unhedged balance sheet exposures, most notably at our Taiwan subsidiary which changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen in the first quarter of 2005. Refer to Note 1 to the consolidated financial statements for additional information. Movements in exchange rates did not significantly impact results for the first quarter of 2004.

(Provision) Benefit for Income Taxes

Our (provision) benefit for income taxes and the related tax rates follow (in millions):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
(Provision) benefit for income taxes	\$ (19)	\$ 13
Effective (income tax) benefit rate	(18.8)%	(20.0)%

For the three months ended March 31, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pre-tax income were not provided. The \$19 million income tax provision included income taxes for certain foreign operations that were favorably impacted by tax holiday benefits and investment tax credits. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pre-tax income or losses was recorded as an adjustment of the valuation allowance.

At March 31, 2005, we had net deferred tax assets of \$535 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable, or if the Pittsburgh Corning Corporation settlement is finalized earlier than we anticipate. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective benefit rate for the three months ended March 31, 2004 is lower than the U.S. statutory income tax rate of 35%. Our effective benefit rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and loss on repurchases and retirement of debt.

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Equity in Earnings of Associated Companies

The following provides a summary of equity in earnings of associated companies, net of impairments (in millions):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
Samsung Corning Precision	\$ 80	\$ 65
Dow Corning	68	24
All other	21	19
Total equity earnings	\$ 169	\$ 108

The improvement in equity earnings recognized from Samsung Corning Precision is explained in the discussion of the performance of our Display Technologies segment. The increase in 2005 equity earnings recognized from Dow Corning compared to 2004 is largely attributed to record sales volumes and improved pricing for Dow Corning in 2005.

Refer to Note 8 to the consolidated financial statements for additional information relating to Samsung Corning Precision and Dow Corning's operating results.

Net Income

As a result of the above, our net income and per share data follow (in millions, except per share amounts):

	For the three months ended March 31,	
	2005 (Restated)	2004 (Restated)
Net income	\$ 250	\$ 56
Basic earnings per common share	\$ 0.18	\$ 0.04
Diluted earnings per common share	\$ 0.17	\$ 0.04
Shares used in computing per share amounts:		
Basic	1,411	1,358
Diluted	1,503	1,437

OPERATING SEGMENTS

Our reportable operating segments follow:

- .. Display Technologies - manufactures liquid crystal display (LCD) glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

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All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

Display Technologies

The following table provides net sales and other data for the Display Technologies segment (in millions):

	For the three months ended March 31,		% Change 05 vs. 04
	2005	2004	
Net sales	\$ 320	\$ 230	39%
Income before equity earnings	\$ 80	\$ 53	51%
Equity earnings of associated companies	\$ 81	\$ 65	25%
Net income	\$ 161	\$ 118	36%

The 2005 net sales increase is largely reflective of the overall LCD market growth. During the first quarter of 2005, glass substrate volumes (measured in square feet of glass sold) increased approximately 35%. Weighted average selling prices increased modestly compared to 2004. Included in this weighted average were selling price declines that were more than offset by increases in the market demand for large-size glass substrates (generation 5 and above), which carry a higher selling price per square foot. For the first quarter of 2005, large-size glass substrates accounted for 58% of total sales volumes, compared to 34% for the first quarter of 2004. The sales of the Display Technologies segment are denominated in Japanese yen and, as such, our revenues are susceptible to movements in the US dollar - Japanese yen exchange rates. Sales growth benefited by approximately 3% from a weakening of the U.S. dollar compared to 2004.

For 2005, the increase in income before equity earnings was the result of higher volumes and ongoing improvements in manufacturing efficiencies. Net income before equity earnings for the first quarter of 2005, includes approximately \$20 million of exchange losses related to foreign currency denominated transactions. The impact of this loss on the comparability of results was largely offset by a lower effective tax rate in 2005 than in 2004. The increase in our equity earnings from Samsung Corning Precision were largely driven by the same factors identified for our wholly-owned business, excluding the foreign exchange loss.

The Display Technologies segment continues to have a concentrated customer base comprised of LCD panel makers primarily located in Japan and Taiwan. The most significant customers in these markets are AU Optronics Corp., Chi Mei Optoelectronics Corp., Hannstar Display Corp., Quanta Display Inc., Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. For the three months ended March 31, 2005, these customers accounted for 79% of the Display Technologies segment sales.

We expect the LCD market to continue to grow rapidly. We anticipate higher demand for LCD televisions, for which our customers require large-size glass substrates. During 2005 and 2004, Corning held discussions with several of its customers to discuss how to meet this demand. As part of its discussions, Corning has sought improved payment terms, including deposits against orders, to provide a greater degree of assurance that we are effectively building capacity to meet the needs of a rapidly growing industry.

In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers have agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. We now have customer deposit agreements with five customers of the Display Technologies segment.

In the event the customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, Corning may retain certain amounts of the customer deposits. If Corning does not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, Corning may be required to return certain amounts of the customer deposits.

Outlook:

We expect to see a continuation of the overall industry growth and the trend toward large size substrates. Full year 2005 volume growth for the LCD glass market is anticipated to be greater than 50%, and we anticipate adding sufficient capacity to meet market growth. This market growth is expected to occur at varying rates in the principal LCD markets of Japan, Taiwan, China and Korea. Sales of our wholly-owned business are primarily to panel manuf