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CORNING INC /NY  
Form 8-K  
July 25, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report: (Date of earliest event reported) July 25, 2006

CORNING INCORPORATED  
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation)	1-3247 (Commission File Number)	16-0393470 (I.R.S. Employer Identification No.)
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One Riverfront Plaza, Corning, New York (Address of principal executive offices)	14831 (Zip Code)
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(607) 974-9000  
(Registrant's telephone number, including area code)

N/A  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

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Item 7.01. Regulation FD Disclosure

The Corning Incorporated press release dated July 25, 2006, regarding its financial results for the second quarter ended June 30, 2006 and its third quarter 2006 earnings guidance, is attached hereto as Exhibit 99.

The information in this report, being furnished pursuant to Item 2.02 and 7.01 of Form 8-K, shall not be deemed to be "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, and is not incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibit

99 Press Release dated July 25, 2006, issued by Corning Incorporated.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORNING INCORPORATED  
Registrant

Date: July 25, 2006

By /s/ JANE D. POULIN  
-----  
Jane D. Poulin  
Chief Accounting Officer

Exhibit 99  
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FOR RELEASE -- July 25, 2006

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### Corning Announces Second-Quarter Results

#### Company meets EPS guidance

CORNING, N.Y. -- Corning Incorporated (NYSE: GLW) today announced second-quarter sales of \$1.26 billion and net income of \$514 million, or \$0.32 per share. These results include net special gains of \$93 million, or \$0.06 per share.

Excluding these net special gains, Corning's second-quarter net income would have been \$421 million, or \$0.26 per share. These are non-GAAP financial measures. These and all non-GAAP financial measures are reconciled on the company's investor relations Web site and in attachments to this news release.

Wendell P. Weeks, president and chief executive officer, said, "We were pleased to meet our earnings-per-share (EPS) guidance as we overcame the impact of the second-quarter panel inventory correction on our Display Technologies segment. The decline in Display Technologies' quarterly performance was offset by strength in our Telecommunications segment and lower operating expenses."

Corning's second-quarter results included the following special gains and charges:

- .. A \$61 million gain primarily to reflect the decrease in the market value of Corning common stock to be contributed to settle the asbestos litigation related to Pittsburgh Corning Corporation.
- .. A \$10 million reduction in income tax expense related to the release of the valuation allowance on certain deferred tax assets in Australia.
- .. A gain of \$33 million in equity earnings related to Dow Corning Corporation's settlement with the U.S. Internal Revenue Service regarding liabilities for tax years 1992 to 2003. The settlement resolves all federal tax issues related to Dow Corning's implant settlement.
- .. An \$11 million charge related to Corning's ongoing debt-reduction program.

#### Second-Quarter Operating Results

Corning's second-quarter sales of \$1.26 billion were even with first-quarter sales and increased 11 percent over last year's second-quarter sales of \$1.14 billion. As expected, gross margin for the second quarter was 43 percent, a slight decline from the previous quarter's gross margin of 45 percent.

(more)

### Corning Announces Second-Quarter Results

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Equity earnings for the second quarter were \$256 million, including the \$33 million tax gain from Dow Corning. First-quarter equity earnings of \$200 million included a \$21 million impairment charge for Samsung Corning Company, Ltd. (Samsung Corning), a producer of glass panels and funnels for cathode ray tubes. Excluding the special items in both quarters, Corning's second-quarter equity earnings were even with the first quarter. Including the \$33 million tax gain, our second-quarter equity earnings in Dow Corning were \$104 million.

Second-quarter sales for Corning's Display Technologies segment were \$461 million, an 11-percent increase over 2005 second-quarter sales of \$415 million. Year-over-year liquid crystal display (LCD) glass volume increased by 38 percent in the second quarter, but this was largely offset by the change in foreign exchange rates and price declines. Sequentially, second-quarter sales declined

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16 percent from first-quarter sales of \$547 million, primarily due to volume declines of 14 percent and lower prices. As expected, price declines were less than those in the first quarter.

Samsung Corning Precision Glass Co., Ltd.'s (SCP) second-quarter volume increased 52 percent year-over-year and 3 percent sequentially. Equity earnings from SCP were \$133 million in the second quarter, compared to \$140 million in the previous quarter, which included about \$7 million in nonrecurring gains.

Total LCD glass volume, including both Corning's wholly owned business and SCP, declined 6 percent sequentially in the second quarter. Net income for the Display Technologies segment was \$344 million, down 18 percent from \$417 million last quarter, but up 20 percent versus the second quarter of 2005.

"The quarterly sales decline in Display Technologies was disappointing, but as we have warned in the past, supply-chain issues can occur in any given quarter. Our LCD volume decline of 6 percent was consistent with our May 22 guidance change," Weeks said.

Second-quarter Telecommunications segment sales increased 19 percent to \$472 million versus \$397 million in the first quarter. The increase was driven by strong demand from U.S. and European carriers for the company's fiber and cable and hardware and equipment products. Fiber-to-the-premises (FTTP) sales in the second quarter increased significantly over the previous quarter's performance.

In the company's Environmental Technologies segment, sales of \$152 million were slightly lower than sales of \$155 million in the first quarter. An increase in diesel retrofit sales was offset by lower automotive sales, especially in North America. Corning's Life Sciences segment sales increased \$3 million to \$75 million in the second quarter.

(more)

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### Cash Flow/Liquidity Update

Corning ended the second quarter with \$2.48 billion in cash and short-term investments, consistent with the previous quarter. The company's debt level declined to \$1.5 billion compared to \$1.8 billion at the end of the first quarter. James B. Flaws, vice chairman and chief financial officer, said, "As we continue to focus on improving the company's overall financial health, you can expect us to opportunistically issue or refinance certain debt over the remainder of the year." In the second quarter Corning had positive free cash flow of \$299 million and remains on track to be free cash flow positive for the year. Free cash flow is a non-GAAP financial measure. Flaws also noted that Moody's Investor Service recently raised Corning's overall debt rating to Baa2 with a stable outlook.

### Third-Quarter Outlook

Corning expects third-quarter sales to be in the range of \$1.26 billion to \$1.33 billion, and EPS in the range of \$0.22 to \$0.26 before special items. This EPS estimate is a non-GAAP financial measure and excludes any special items.

Gross margin for the third quarter is expected to be in the range of 41 percent to 43 percent. The third-quarter tax rate is expected to be between 15 percent and 20 percent.

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For its Display Technologies segment, Corning anticipates that third-quarter sequential volume growth for its wholly owned business will be in the range of 5 percent to 15 percent as the supply-chain correction begins to ease and the LCD industry gears up for the holiday buying season. Samsung Corning Precision should also see sequential volume increases in the range of 5 percent to 15 percent. Corning expects third-quarter price declines in its wholly owned business to be in line with the previous quarter.

"As we start the third quarter, we believe there will be inventory adjustments by some panel manufacturers, while others are beginning to increase production levels," Flaws said. "However, the long-term LCD market dynamics remain positive. We have not changed our expectation that the overall glass market volume growth will be between 40 percent and 50 percent in 2006. We believe that LCD TV penetration will reach about 20 percent of the global television market this year, nearly doubling that of 2005."

Corning's Telecommunications segment third-quarter sales are expected to be flat to down slightly. Third-quarter sales in the company's Environmental Technologies segment are also expected to be flat.

Excluding the impact of the \$33 million second-quarter tax gain at Dow Corning, third-quarter equity earnings are expected to be down 5 to 10 percent, as stronger earnings at Dow Corning may be offset by lower earnings at SCP and nonrecurring charges at Samsung Corning.

(more)

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Weeks said, "While our first-half 2006 performance met our expectations, we need to be cautious about the potential negative impact that economic conditions and political tensions could have on consumer sentiment. The LCD TV market is strongly weighted towards the fourth quarter and we need a robust retail holiday season to achieve our goals. The good news is that retail prices for LCD TVs have declined substantially and that should accelerate consumer demand."

Separately, the company also announced that it will be meeting with Boston-area investors on Tuesday, August 1 and will host a luncheon at 12:30 p.m. Investors interested in attending the luncheon should contact Corning's investor relations department at (607) 974-8764.

### Second-Quarter Conference Call Information

The company will host a second-quarter conference call at 8:30 a.m. EDT on Wednesday, July 26. To access the call, dial (210) 234-0003. The password is QUARTER TWO. The leader is SOFIO. A replay of the call will begin at approximately 10:30 a.m. EDT, and will run through 5 p.m. EDT, Wednesday, August 9. To listen, dial (402) 220-9709. No pass code is required. To listen to a live audio webcast of the call, go to Corning's Web site: [http://www.corning.com/investor\\_relations](http://www.corning.com/investor_relations), and follow the instructions. The audio webcast will be archived for one year following the call.

### Presentation of Information in this News Release

Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP. Corning's non-GAAP net income and EPS measure excludes restructuring, impairment and other charges and adjustments to prior estimates for such

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charges. Additionally, the company's non-GAAP measure excludes adjustments to asbestos settlement reserves required by movements in Corning's common stock price, gains and losses arising from debt retirements, charges resulting from the impairment of equity or cost method investments, or adjustments to deferred tax assets, and gains or losses recognized in equity earnings from restructuring, impairment or other charges or credits taken by equity method companies. Corning's free cash flow financial measures are also non-GAAP measures. The company believes presenting non-GAAP free cash flow; net income and EPS measures are helpful to analyze financial performance without the impact of unusual items that may obscure trends in the company's underlying performance. These non-GAAP measures are reconciled on the company's Web site at [www.corning.com/investor\\_relations](http://www.corning.com/investor_relations) and accompany this news release.

(more)

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### About Corning Incorporated

Corning Incorporated ([www.corning.com](http://www.corning.com)) is a diversified technology company that concentrates its efforts on high-impact growth opportunities. Corning combines its expertise in specialty glass, ceramic materials, polymers and the manipulation of the properties of light, with strong process and manufacturing capabilities to develop, engineer and commercialize significant innovative products for the telecommunications, flat panel display, environmental, semiconductor, and life sciences industries.

### Forward-Looking and Cautionary Statements

This press release contains forward-looking statements that involve a variety of business risks and other uncertainties that could cause actual results to differ materially. These risks and uncertainties include the possibility of changes in global economic and political conditions; tariffs, import duties and currency fluctuations; product demand and industry capacity; competition; manufacturing efficiencies; cost reductions; availability and costs of critical components and materials; new product development and commercialization; order activity and demand from major customers; changes in the mix of sales between premium and non-premium products; facility expansions and new plant start-up costs; possible disruption in commercial activities due to terrorist activity, armed conflict, political instability or major health concerns; adequacy and availability of insurance; capital spending; equity company activities; acquisition and divestiture activities; the level of excess or obsolete inventory; the rate of technology change; the ability to enforce patents; product and components performance issues; stock price fluctuations; and adverse litigation or regulatory developments. Additional risk factors are identified in Corning's filings with the Securities and Exchange Commission. Forward-looking statements speak only as of the day that they are made, and Corning undertakes no obligation to update them in light of new information or future events.

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(Unaudited; in millions, except per share amounts)

	Three months ended June 30,		2006
	2006	2005	
Net sales	\$	1,261	\$ 1,141
Cost of sales		720	658
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Gross margin		541	483
Operating expenses:			
Selling, general and administrative expenses		194	191
Research, development and engineering expenses		128	104
Amortization of purchased intangibles		3	3
Restructuring, impairment and other charges and (credits)		5	(1)
Asbestos settlement (Note 1)		(61)	143
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Operating income		272	43
Interest income		26	13
Interest expense		(18)	(26)
Loss on repurchases and retirement of debt, net (Note 2)		(11)	(12)
Other income, net		14	20
<hr style="border-top: 1px dashed black;"/>			
Income before income taxes		283	38
Provision for income taxes (Note 3)		(24)	(44)
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Income (loss) before minority interests and equity earnings		259	(6)
Minority interests		(1)	(5)
Equity in earnings of associated companies, net of impairments (Note 4)		256	176
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Net income	\$	514	\$ 165
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Basic earnings per common share (Note 5)	\$	0.33	\$ 0.11
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Diluted earnings per common share (Note 5)	\$	0.32	\$ 0.11
<hr style="border-top: 3px double black;"/>			

See accompanying notes to these financial statements.

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

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	June 30 2006
-----	
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,0
Short-term investments, at fair value	1,3
	-----
Total cash, cash equivalents and short-term investments	2,4
Trade accounts receivable, net	6
Inventories	6
Deferred income taxes	
Other current assets	1
	-----
Total current assets	4,0
Investments	2,1
Property, net	5,0
Goodwill and other intangible assets, net	3
Deferred income taxes	
Other assets	5
	-----
Total Assets	\$ 12,1
	=====
Liabilities and Shareholders' Equity	
Current liabilities:	
Current portion of long-term debt	\$ 7
Accounts payable	1,6
Other accrued liabilities	
	-----
Total current liabilities	2,3
Long-term debt	1,4
Postretirement benefits other than pensions	5
Other liabilities	1,0
	-----
Total liabilities	5,4
	-----
Commitments and contingencies	
Minority interests	
Shareholders' equity:	
Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;	
Shares issued: 1,569 million and 1,552 million	7
Additional paid-in capital	11,8
Accumulated deficit	(6,0)
Treasury stock, at cost; Shares held: 17 million	(1
Accumulated other comprehensive income	2
	-----
Total shareholders' equity	6,6
	-----
Total Liabilities and Shareholders' Equity	\$ 12,1
	=====

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See accompanying notes to these financial statements.

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

	Three months ended		Six
	June 30, 2006	March 31, 2006	2006
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 514	\$ 257	\$ 771
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	149	141	290
Amortization of purchased intangibles	3	3	6
Restructuring, impairment and other charges and (credits)	5	6	11
Asbestos settlement	(61)	185	124
Stock compensation charges	30	32	62
Loss on repurchases and retirement of debt, net	11		11
Undistributed earnings of affiliated companies	(169)	(70)	(239)
Deferred taxes	(5)	(62)	(67)
Restructuring payments	(2)	(4)	(6)
Customer deposits, net	82	(8)	74
Employee benefit payments less than expense	8	15	23
Changes in certain working capital items:			
Trade accounts receivable	68	(65)	3
Inventories	(47)	(46)	(93)
Other current assets	3	(8)	(5)
Accounts payable and other current liabilities, net of restructuring payments	1	(196)	(195)
Other, net	(9)	1	(8)
	581	181	762
<b>Net cash provided by operating activities</b>			
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures	(274)	(280)	(554)
Acquisitions of businesses, net of cash acquired	(16)		(16)
Net proceeds from sale or disposal of assets	8		8
Net increase in long-term investments and other long-term assets		(77)	(77)
Short-term investments - acquisitions	(647)	(858)	(1,505)
Short-term investments - liquidations	485	735	1,220
Other, net			
	(444)	(480)	(924)
<b>Net cash used in investing activities</b>			
<b>Cash Flows from Financing Activities:</b>			
Repayments of short-term borrowings and current portion of long-term debt	(3)	(4)	(7)
Proceeds from issuance of long-term debt, net			
Retirements of long-term debt	(334)		(334)

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Proceeds from issuance of common stock, net	9	6	15
Proceeds from the exercise of stock options	32	219	251
Other, net	(6)	(2)	(8)
	-----	-----	-----
Net cash provided by (used in) financing activities	(302)	219	(83)
	-----	-----	-----
Effect of exchange rates on cash	1		1
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(164)	(80)	(244)
Cash and cash equivalents at beginning of period	1,262	1,342	1,342
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 1,098	\$ 1,262	\$ 1,098
	=====	=====	=====

Certain amounts for 2005 were reclassified to conform to 2006 classifications.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES  
SEGMENT RESULTS  
(Unaudited; in millions)

Our reportable operating segments include Display Technologies, Telecommunications, Environmental Technologies and Life Sciences.

	Display Technologies	Telecom- munications	Environmental Technologies	Life Sciences
	-----	-----	-----	-----
Three months ended June 30, 2006				
Net sales	\$ 461	\$ 472	\$ 152	\$ 75
Depreciation (1)	\$ 68	\$ 43	\$ 20	\$ 5
Amortization of purchased intangibles		\$ 3		
Research, development and engineering expenses (2)	\$ 36	\$ 18	\$ 31	\$ 12
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		\$ (1)		\$ 2
Income tax provision	\$ (21)	\$ (13)	\$ (3)	
Earnings (loss) before minority interest and equity earnings (loss) (3)	\$ 209	\$ 40	\$ 9	\$ (2)
Minority interests		(1)		
Equity in earnings (loss) of affiliated companies (4)	135	1		
	-----	-----	-----	-----
Net income (loss)	\$ 344	\$ 40	\$ 9	\$ (2)
	=====	=====	=====	=====
Three months ended June 30, 2005				
Net sales	\$ 415	\$ 415	\$ 146	\$ 75
Depreciation (1)	\$ 44	\$ 46	\$ 18	\$ 5
Amortization of purchased intangibles		\$ 2		
Research, development and engineering expenses (2)	\$ 24	\$ 19	\$ 26	\$ 9
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)				

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interest)		\$ 8		
Income tax provision	\$ (33)	\$ (7)	\$ (3)	\$ (1)
Earnings (loss) before minority interest and equity earnings (loss) (3)	\$ 199	\$ (10)	\$ 4	\$ 1
Minority interests				
Equity in earnings (loss) of affiliated companies	87	1		
	-----	-----	-----	-----
Net income (loss)	\$ 286	\$ (8)	\$ 4	\$ 1
	=====	=====	=====	=====
Six months ended June 30, 2006				
Net sales	\$ 1,008	\$ 869	\$ 307	\$ 147
Depreciation (1)	\$ 130	\$ 85	\$ 40	\$ 10
Amortization of purchased intangibles		\$ 6		
Research, development and engineering expenses (2)	\$ 66	\$ 38	\$ 61	\$ 25
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		\$ 6		\$ 2
Income tax provision	\$ (50)	\$ (19)	\$ (3)	
Earnings (loss) before minority interest and equity earnings (loss) (3)	\$ 484	\$ 38	\$ 9	\$ (7)
Minority interests				
Equity in earnings (loss) of affiliated companies (4)	277	3	(1)	
	-----	-----	-----	-----
Net income (loss)	\$ 761	\$ 41	\$ 8	\$ (7)
	=====	=====	=====	=====
Six months ended June 30, 2005				
Net sales	\$ 735	\$ 842	\$ 294	\$ 149
Depreciation (1)	\$ 85	\$ 92	\$ 35	\$ 10
Amortization of purchased intangibles		\$ 7		
Research, development and engineering expenses (2)	\$ 45	\$ 36	\$ 49	\$ 17
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		\$ 8		
Income tax provision	\$ (41)	\$ (15)	\$ (6)	\$ (2)
Earnings (loss) before minority interest and equity earnings (loss) (3)	\$ 318	\$ 8	\$ 13	\$ 5
Minority interests				
Equity in earnings (loss) of affiliated companies	168	1		
	-----	-----	-----	-----
Net income (loss)	\$ 486	\$ 9	\$ 13	\$ 5
	=====	=====	=====	=====

- (1) Depreciation expense for Corning's reportable segments is recorded based on the assets of each segment and also includes an allocation of depreciation of corporate property not specifically identifiable to a segment.
- (2) Research, development, and engineering expenses includes direct project spending which is identifiable to a segment.
- (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.
- (4) In the three and six months ended June 30, 2006, equity in earnings (loss) of affiliated companies includes charges of \$3 million and \$24 million, respectively, in All Other related to impairments for Samsung Corning.

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## CORNING INCORPORATED AND SUBSIDIARY COMPANIES SEGMENT RESULTS (Unaudited; in millions)

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

	Three months ended June 30,	
	2006	2005
Net income of reportable segments	\$ 404	\$ 303
Unallocated amounts:		
Net financing costs (1)	(2)	(24)
Stock-based compensation expense	(30)	(9)
Exploratory research	(19)	(17)
Corporate contributions	(9)	(7)
Equity in earnings of affiliated companies, net of impairments (2)	70	81
Asbestos settlement (3)	61	(143)
Other corporate items (4)	39	(19)
	\$ 514	\$ 165
Net income	\$ 514	\$ 165

- (1) Net financing costs include interest expense, interest income, and interest costs and investment gains associated with benefit plans.
- (2) Equity in earnings of affiliated companies, net of impairments, includes the following items:
  - . In the three and six months ended June 30, 2006, a \$33 million gain representing our share of a tax settlement relating to an IRS examination at Dow Corning.
  - . In the three and six months ended June 30, 2005, a gain of \$11 million for our share of a gain on the issuance of subsidiary stock at Dow Corning.
- (3) The asbestos settlement arrangement to be incorporated into the Pittsburgh Corning Corporation (PCC) reorganization plan, when the reorganization plan becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe (PCE), and 25 million shares of Corning common stock to a trust. Corning also agreed to make cash payments over the 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 asbestos liability requires adjustment to fair value based upon movements in Corning's common stock price prior to contribution of the shares to the trust as well as changes in the estimated fair value of the other components of the settlement offer. In the second quarter of 2006 and 2005, Corning recorded a credit of \$68 million and a charge of \$137 million, respectively, to reflect the movement in Corning's common stock price in each year and charges of \$7 million and \$6 million, respectively, to reflect changes in the estimated fair value of other components of the settlement offer. In the six months ended June 30, 2006 and 2005, Corning

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recorded charges of \$114 million and \$121 million, respectively, to reflect the movement in Corning's common stock price in each year and charges of \$10 million in each year to reflect changes in the estimated fair value of other components of the settlement offer.

- (4) Other corporate items include the tax impact of the unallocated amounts plus the following items:
- . In the three and six months ended June 30, 2006, tax benefits of \$10 million and \$48 million, respectively, from the release of valuation allowances for certain foreign locations.
  - . In the three and six months ended June 30, 2005, impairment charges of \$6 million and \$25 million, respectively, for an other-than-temporary decline in our investment in Avonex below its cost basis.
  - . In the three and six months ended June 30, 2005, restructuring credits of \$7 million for adjustments to prior years' reserves.

### CORNING INCORPORATED AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. Asbestos Settlement

On March 28, 2003, Corning announced that it 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, when the plan 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 insurance policy proceeds from its primary insurance and a portion of its excess insurance at the time of the settlement.

As a result of the proposed asbestos settlement, any changes in the estimated fair value of the components of the proposed settlement agreement will be recognized in Corning's quarterly results until the date of the contribution to the settlement trust. In the second quarter of 2006, Corning recorded a credit of \$61 million (pretax and after-tax) including a mark-to-market credit of \$68 million reflecting the decrease in Corning's common stock from March 31, 2006 to June 30, 2006 and a \$7 million charge to adjust the estimated fair value of certain other components of the proposed asbestos settlement.

Beginning with the first quarter of 2003, we have recorded total net charges of \$942 million to reflect the estimated fair value of our asbestos liability.

#### 2. Debt

In the second quarter of 2006, we redeemed \$315 million principal amount of our outstanding notes in three separate transactions resulting in losses of \$11 million.

#### 3. Provision for Income Taxes

In the second quarter of 2006, Corning recorded a \$10 million tax benefit from the release of a valuation allowance on Australian tax benefits due to sustained

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profitability of Corning's Australian entities and positive future earnings projections for the Australian consolidated group.

### 4. Equity in Earnings of Associated Companies

In the second quarter of 2006, equity in earnings of associated companies includes a gain of \$33 million related to Dow Corning's settlement with the IRS regarding liabilities for tax years 1992 to 2003. This settlement resolves all Federal tax issues related to Dow Corning's implant settlement.

### 5. Weighted Average Shares Outstanding

Our weighted average shares outstanding are as follows (in millions):

	Three months ended June 30,		Three months ended March 31, 2006
	2006	2005	March 31, 2006
Basic	1,549	1,438	1,541
Diluted	1,597	1,517	1,592
Diluted used for non-GAAP measures	1,597	1,523	1,592

### CORNING INCORPORATED AND SUBSIDIARY COMPANIES QUARTERLY SALES INFORMATION (Unaudited; in millions)

	2006		
	Three Months Ended		Six Months Ended
	March 31	June 30	June 30
Display Technologies	\$ 547	\$ 461	\$ 1,008
Telecommunications			
Fiber and cable	205	234	439
Hardware and equipment	192	238	430
	397	472	869
Environmental Technologies			
Automotive	121	113	234
Diesel	34	39	73
	155	152	307
Life Sciences	72	75	147
Other	91	101	192





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	Share -----	Income Tax -----
Earnings per share (EPS) and net income, excluding special items	\$ 0.27	\$ 241
Special items:		
Asbestos settlement (a)	(0.12)	(185)
Provision for income taxes (b)	0.02	
Equity in earnings of associated companies (c)	(0.01)	
	-----	-----
Total EPS and net income	\$ 0.16 =====	\$ 56 =====

- (a) As a result of Corning's proposed asbestos settlement, any changes in the estimated fair value of the components of the proposed settlement agreement will be recognized in our quarterly results until the date of the contribution to the settlement trust. In the first quarter of 2006, Corning recorded a charge of \$185 million (before- and after-tax) including \$182 million for the change in its common stock price of \$26.92 at March 31, 2006, compared to \$19.66 at December 31, 2005 and \$3 million for the change in estimated fair value of certain other components of the proposed asbestos settlement liability.
- (b) Amount reflects a \$38 million tax benefit from the release of our valuation allowance on certain deferred tax assets in Germany.
- (c) Amount reflects a charge of \$21 million to reflect Corning's share of an impairment charge at Samsung Corning Co., Ltd., a South Korea-based manufacturer of glass panels and funnels for cathode ray tube television and display monitors.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES  
RECONCILIATION OF NON-GAAP FINANCIAL MEASURE TO GAAP FINANCIAL MEASURE  
Three Months Ended June 30, 2005  
(Unaudited; amounts in millions, except per share amounts)

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Corning's net income and earnings per share (EPS) excluding special items for the second quarter of 2005 are non-GAAP financial measures within the meaning of Regulation G of the Securities and Exchange Commission. Non-GAAP financial measures are not in accordance with, or an alternative to, generally accepted accounting principles (GAAP). The company believes presenting non-GAAP net income and EPS is helpful to analyze financial performance without the impact of unusual items that may obscure trends in the company's underlying performance. A detailed reconciliation is provided below outlining the differences between these non-GAAP measures and the directly related GAAP measure.

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Per Share -----	Income Be Income Ta -----
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EPS and net income, excluding special items	\$ 0.20	\$ 192
Special items:		
Restructuring, impairment and other (charges) and credits (a)		1
Asbestos settlement (b)	(0.09)	(143)
Loss on repurchases and retirement of debt, net (c)	(0.01)	(12)
Equity in earnings of associated companies (d)	0.01	
	-----	-----
Total EPS and net income	\$ 0.11	\$ 38
	=====	=====

(a) In the second quarter of 2005, Corning recorded net credits of \$1 million (net charge of \$3 million after-tax and minority interest) included in restructuring, impairment and other charges and (credits). A summary of these credits and charges follows:

- . We recorded net credits of \$7 million (\$3 million after-tax and minority interest), primarily for adjustments to prior years' restructuring and impairment reserves.
- . We recorded an additional impairment charge of \$6 million (pretax and after-tax) for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its adjusted 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 June 30, 2005, shares of Avanex stock were trading at \$0.90 per share compared to our adjusted cost basis of \$1.30 per share (after adjusting for the first quarter of 2005 impairment charge). 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 additional impairment in the second quarter was required.

(b) As a result of Corning's proposed asbestos settlement, any changes in the estimated fair value of the components of the proposed settlement agreement will be recognized in Corning's quarterly results until the date of the contribution to the settlement trust. In the second quarter of 2005, Corning recorded a charge of \$143 million (before- and after-tax) including \$137 million for the change in Corning's common stock price of \$16.62 at June 30, 2005, compared to \$11.13 at March 31, 2005 and a \$6 million charge for the change in estimated fair value of certain other components of the proposed asbestos settlement liability.

(c) In the second quarter of 2005, we redeemed for cash the \$100 million principal amount of our 7% debentures due March 15, 2007. We recognized a \$12 million loss upon the early redemption of these debentures.

(d) In the second quarter of 2005, Dow Corning Corporation recorded a gain on the issuance of subsidiary stock. Our equity earnings included \$11 million related to this gain.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES  
 RECONCILIATION OF NON-GAAP FINANCIAL MEASURE TO GAAP FINANCIAL MEASURE  
 Three Months Ended June 30, 2006  
 (Unaudited; amounts in millions)

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Corning's free cash flow financial measure for the three months ended June 30, 2006 is a non-GAAP financial measure within the meaning of Regulation G of the Securities and Exchange Commission. Non-GAAP financial measures are not in accordance with, or an alternative to, generally accepted accounting principles (GAAP). The company believes presenting non-GAAP financial measures are helpful to analyze financial performance without the impact of unusual items that may obscure trends in the company's underlying performance. A detailed reconciliation is provided below outlining the differences between this non-GAAP measure and the directly related GAAP measure.

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	Three months ended June 30, 2006 -----
Cash flows from operating activities	\$ 581
Less: Cash flows from investing activities	(444)
Plus: Short-term investments - acquisitions	647
Less: Short-term investments - liquidations	(485) -----
Free cash flow	\$ 299 =====

CORNING INCORPORATED AND SUBSIDIARY COMPANIES  
 RECONCILIATION OF NON-GAAP FINANCIAL MEASURE TO GAAP FINANCIAL MEASURE  
 Three Months Ended September 30, 2006  
 (Unaudited; amounts in millions, except per share amounts)

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Corning's earnings per share (EPS) excluding special items for the third quarter of 2006 is a non-GAAP financial measure within the meaning of Regulation G of the Securities and Exchange Commission. Non-GAAP financial measures are not in accordance with, or an alternative to, generally accepted accounting principles (GAAP). The company believes presenting non-GAAP EPS is helpful to analyze financial performance without the impact of unusual items that may obscure trends in the company's underlying performance. A detailed reconciliation is provided below outlining the differences between this non-GAAP measure and the directly related GAAP measure.

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	Range	
	-----	-----
Guidance: EPS excluding special items	\$0.22	\$0.26
Special items:		
Restructuring, impairment and other (charges) and credits (a)		
Asbestos settlement (b)	-----	-----

Earnings per share

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This schedule will be updated as additional announcements occur.  
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- (a) From time to time, Corning may need to make adjustments to estimates used in the determination of prior year restructuring and impairment charges, which could result in a gain or loss during the quarter.
- (b) As part of Corning's asbestos settlement arrangement to be incorporated into the Pittsburgh Corning Corporation reorganization plan, Corning will contribute, when the reorganization plan becomes effective, 25 million shares of Corning common stock to a trust. The common stock will be contributed to the trust, after the plan has been approved by the asbestos claimants and bankruptcy court. The portion of the asbestos liability to be settled in common stock requires adjustment each quarter based upon movements in Corning's common stock price prior to contribution of the shares to the trust. In the third quarter of 2006, Corning will record a charge or credit for the change in its common stock price as of September 30, 2006 compared to \$24.19, the common stock price at June 30, 2006. In addition, Corning will record an adjustment to the asbestos liability to reflect the change in fair value of any of the other components of the proposed asbestos settlement.

Please note that the company may pursue other financing, restructuring and divestiture activities at any time in the future, and that the potential impact of these events is not included within Corning's third quarter 2006 guidance.

This schedule contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements are based on current expectations and involve certain risks and uncertainties. Actual results may differ from those projected in the forward looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the Securities and Exchange Commission filings of this Company.