CORNING INC /NY
Form 10-Q
November 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2009**

OR

o 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

(Exact name of registrant as specified in its charter)

New York	**16-0393470**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Riverfront Plaza, Corning, New York	**14831**
(Address of principal executive offices)	(Zip Code)

607-974-9000

(Registrant s telephone number, including area code)

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Class	Outstanding as of October 15, 2009
Corning s Common Stock, $0.50 par value per share	1,556,093,519 shares

INDEX

PART I FINANCIAL INFORMATION

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net sales	$ 1,479	$ 1,555	$ 3,863	$ 4,864
Cost of sales	880	820	2,419	2,433
Gross margin	599	735	1,444	2,431
Operating expenses:				
Selling, general and administrative expenses	219	220	637	722
Research, development and engineering expenses	131	160	418	474
Amortization of purchased intangibles	3	2	8	7
Restructuring, impairment and other charges and (credits) (Note 2)	10	(2)	175	(3)
Asbestos litigation charge (credit) (Note 3)	6	6	15	(312)
Operating income	230	349	191	1,543
Equity in earnings of affiliated companies (Note 9)	418	391	974	1,070
Interest income	4	22	16	74
Interest expense	(24)	(15)	(58)	(48)
Other-than-temporary impairment (OTTI) losses:				
Total OTTI losses	(11)		(25)	
Portion of OTTI losses recognized in other comprehensive income (before taxes)	10		23	
Net OTTI losses recognized in earnings	(1)		(2)	
Other income (expense), net	48	(30)	109	11
Income before income taxes	675	717	1,230	2,650
(Provision) benefit for income taxes (Note 5)	(32)	51	38	2,358
Net income attributable to Corning Incorporated	$ 643	$ 768	$ 1,268	$ 5,008
Earnings per common share attributable to Corning Incorporated:				
Basic (Note 6)	$ 0.41	$ 0.49	$ 0.82	$ 3.20
Diluted (Note 6)	$ 0.41	$ 0.49	$ 0.81	$ 3.15
Dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

The accompanying notes are an integral part of these consolidated financial statements.

Certain amounts from the prior periods were reclassified to conform to the 2009 presentation.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except per share amounts)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 1,962	$ 1,873
Short-term investments, at fair value (Note 7)	968	943
Total cash, cash equivalents and short-term investments	2,930	2,816
Trade accounts receivable, net of doubtful accounts and allowances - $20 and $20	835	512
Inventories (Note 8)	618	798
Deferred income taxes (Note 5)	126	158
Other current assets	338	335
Total current assets	4,847	4,619
Investments (Note 9)	3,818	3,056
Property, net of accumulated depreciation - $5,598 and $5,070 (Note 11)	8,180	8,199
Goodwill and other intangible assets, net (Note 12)	680	305
Deferred income taxes (Note 5)	3,075	2,932
Other assets	147	145
Total Assets	$ 20,747	$ 19,256
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 75	$ 78
Accounts payable	470	846
Other accrued liabilities (Notes 3 and 13)	975	1,128
Total current liabilities	1,520	2,052
Long-term debt (Note 4)	1,945	1,527
Postretirement benefits other than pensions	768	784
Other liabilities (Notes 3 and 13)	1,496	1,402
Total liabilities	5,729	5,765
Commitments and contingencies (Note 3)		
Shareholders equity:		
Common stock Par value $0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,614 million and 1,609 million	807	804
Additional paid-in capital	12,658	12,502
Retained earnings	2,974	1,940
Treasury stock, at cost; Shares held: 64 million and 61 million	(1,206)	(1,160)
Accumulated other comprehensive loss (Note 18)	(266)	(643)
Total Corning Incorporated shareholders equity	14,967	13,443
Noncontrolling interests	51	48
Total equity	15,018	13,491
Total Liabilities and Equity	$ 20,747	$ 19,256

The accompanying notes are an integral part of these consolidated financial statements.

Certain amounts from the prior period were reclassified to conform to the 2009 presentation.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine months ended September 30, 2009	2008
Cash Flows from Operating Activities:		
Net income	$ 1,268	$ 5,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	586	483
Amortization of purchased intangibles	8	7
Asbestos litigation	15	(312)
Restructuring, impairment and other charges (credits)	175	(3)
Stock compensation charges	97	104
Loss on sale of business		14
Undistributed earnings of affiliated companies	(535)	(600)
Deferred tax benefit	(169)	(2,532)
Restructuring payments	(71)	(10)
Customer deposits, net of (credits) issued	(207)	(202)
Employee benefit payments less than (in excess of) expense	12	(31)
Changes in certain working capital items:		
Trade accounts receivable	(265)	50
Inventories	204	(129)
Other current assets	13	(71)
Accounts payable and other current liabilities, net of restructuring payments	24	(106)
Other, net	9	78
Net cash provided by operating activities	1,164	1,748
Cash Flows from Investing Activities:		
Capital expenditures	(727)	(1,155)
Acquisitions of business, net of cash received	(410)	(15)
Net proceeds from sale or disposal of assets	15	17
Short-term investments acquisitions	(876)	(1,298)
Short-term investments liquidations	859	1,890
Net cash used in investing activities	(1,139)	(561)
Cash Flows from Financing Activities:		
Net repayments of short-term borrowings and current portion of long-term debt	(84)	(20)
Proceeds from issuance of long-term debt, net	346	
Principal payments under capital lease obligations	(10)	
Proceeds from issuance of common stock, net	18	19
Proceeds from the exercise of stock options	8	79
Repurchase of common stock		(625)
Dividends paid	(234)	(235)
Other, net	3	
Net cash provided by (used in) financing activities	47	(782)
Effect of exchange rates on cash	17	(25)
Net increase in cash and cash equivalents	89	380
Cash and cash equivalents at beginning of period	1,873	2,216
Cash and cash equivalents at end of period	$ 1,962	$ 2,596

The accompanying notes are an integral part of these consolidated financial statements.

Certain amounts from the prior period were reclassified to conform with the 2009 presentation.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited; in millions)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total Corning Incorporated shareholders equity	Non-controlling interests	To
Balance, December 31, 2008	$804	$12,502	$1,940	$(1,160)	$(643)	$13,443	$48	$1
Net income			1,268			1,268	6	1,2
Foreign currency translation adjustment					313	313		31
Amortized postretirement benefit plan losses and prior service costs					(1)	(1)		(1)
Net unrealized gain on investments without credit losses					36	36		36
Unrealized gain on investments with credit losses					3	3		3
Unrealized gain on cash flow hedges					25	25		25
Reclassification adjustments on cash flow hedges					1	1		1
Total comprehensive income						1,645	6	1,6
Shares issued to benefit plans and for option exercises	3	155		(36)		122		12
Dividends on shares			(234)			(234)		(2
Other, net		1		(10)		(9)	(3)	(1
Balance, September 30, 2009	$807	$12,658	$2,974	($1,206)	$(266)	$14,967	$51	$1

The accompanying notes are an integral part of these consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

Effective September 30, 2009, the Financial Accounting Standards Board (FASB) established *The FASB Accounting Standards Codification* (ASC) as the source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Except for newly issued standards which have not been codified, references to codified literature have been updated to reflect this change.

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 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, 2008 (2008 Form 10-K). Corning evaluates all events or transactions that occur after the balance sheet date through the date of issuance of our financial statements. For the period ending September 30, 2009, subsequent events were evaluated through November 2, 2009.

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. Certain amounts for prior periods have been reclassified to conform to the 2009 presentation. 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.

Effective January 1, 2009, the Company adopted ASC 810-10-65-1 Transition Related to SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements*. A noncontrolling interest, previously called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Under this standard, noncontrolling interests in subsidiaries are now included as a component of equity in the consolidated statements of financial position. This guidance also provides the required accounting treatment for changes in ownership of noncontrolling interests. As required, the related presentation and disclosure provisions have been applied retrospectively. For the three and nine months ended September 30, 2009, and 2008, net income attributable to noncontrolling interests was not significant ($6 million and $1 million for the nine months ended September 30, 2009 and 2008, respectively) and therefore, was not presented separately on the consolidated statements of income.

Effective January 1, 2009, the Company changed the presentation of equity in earnings of affiliated companies in the Consolidated Statements of Income from below Benefit for income taxes to above Income before income taxes. The change in presentation reflects the strategic nature and economic importance of the Company s investments accounted for under the equity method of accounting. There was no effect on the Company s consolidated results of operation, financial condition, or cash flows as a result of this change.

Effective April 1, 2009, the Company adopted the following:

- ASC 320-10-65-1 Transition Related to FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* which changes the method for determining whether an other-than temporary impairment exists for debt securities and for determining the amount of an impairment charge to be recorded in earnings;
- ASC 820-10-65-4 Transition Related to FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* which provides guidance addressing the determination of (a) when a market for an asset or a liability is active or inactive and (b) when a particular transaction is distressed; and
- ASC 825-10-65-1 Transition Related to FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements.

The impact of adopting these fair value standards was not significant.

Equity Method Investments

Our equity investments are accounted for under the equity method of accounting for investments as required by ASC 323 Investments Equity Method and Joint Ventures.

Our equity method investments are reviewed for impairment on a periodic basis or if an event occurs or circumstances change that indicate the carrying amount may be impaired. This assessment is based on a review of the equity investments performance and a review of indicators of impairment to determine if there is evidence of a loss in value of an equity investment. Factors we consider include:

- Absence of our ability to recover the carrying amount;
- Inability of the equity affiliate to sustain an earnings capacity which would justify the carrying amount of the investment; and
- Significant litigation, bankruptcy or other events that could impact recoverability.

For an equity investment with impairment indicators, we measure fair value on the basis of discounted cash flows or other appropriate valuation methods, depending on the nature of the company involved. If it is probable that we will not recover the carrying amount of our investment, the impairment is considered other-than-temporary and recorded in earnings, and the equity investment balance is reduced to its fair value accordingly. We require our equity method affiliates to provide audited financial statements in accordance with GAAP. Consequently, required assessments of asset recoverability are included in their results. We also include these financial statements in our recoverability assessment.

Property, Net of Accumulated Depreciation

Land, buildings, and equipment, including precious metals, are recorded at cost. Depreciation is based on estimated useful lives of properties using the straight-line method. Except as described in Note 2 (Restructuring, Impairment and Other Charges and (Credits)) related to accelerated depreciation arising from restructuring programs and Note 11 (Property, Net of Accumulated Depreciation) related to the depletion of precious metals, the estimated useful lives range from 10 to 40 years for buildings and 2 to 20 years for equipment.

Included in the subcategory of equipment are the following types of assets:

Asset type	Range of useful life
Computer hardware and software	3 to 7 years
Manufacturing equipment (excluding precious metals)	2 to 15 years
Furniture and fixtures	5 to 10 years
Transportation equipment	5 to 20 years

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. These assets are not depreciated because they have very low physical losses and are repeatedly reclaimed and reused in our manufacturing process over a very long useful life. We treat the physical loss of precious metals in the manufacturing and reclamation process as depletion and account for these losses as a period expense based on actual units lost. Precious metals are integral to many of our glass production processes. They are only acquired to support our operations and are not held for trading or other purposes.

Fair Value Measurements

The company applies ASC 820 Fair Value Measurements and Disclosures (ASC 820) to all assets and liabilities that are measured and reported on a fair value basis. Major categories of financial assets and liabilities, including short-term investments, other assets and derivatives are measured at fair value on a recurring basis. Certain assets and liabilities including long-lived assets, goodwill, asset retirement obligations, and cost and equity investments are measured at fair value on a nonrecurring basis.

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Other Income (Expense), Net

Other income (expense), net in Corning s consolidated statements of income includes the following (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Royalty income from Samsung Corning Precision	$ 62	$ 54	$ 165	$ 148
Foreign currency exchange and hedge (losses)/gains, net	(12)	(19)	(47)	(53)
Net realized losses on available-for-sale securities		(39)		(41)
Loss on sale of Steuben glass business		(14)		(14)
Net (loss) income attributable to noncontrolling interests	(5)		(6)	1
Other, net	3	(12)	(3)	(30)
Total	$ 48	$ (30)	$ 109	$ 11

New Accounting Standards

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46 (R)* (SFAS 167). SFAS 167 revises the consolidation guidance for variable interest entities. SFAS 167 modifies the approach for determining the primary beneficiary of a variable interest entity (VIE). Under SFAS 167, the primary beneficiary is the variable interest holder that has the power to direct the activities of the VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. In addition, SFAS 167 provides guidance on shared power and joint venture relationships, removes the scope exemption for qualified special purpose entities, revises the definition of a VIE, and requires additional disclosures. SFAS 167 is effective for fiscal years beginning after November 15, 2009. Corning does not expect adoption of this standard to have a material impact on its consolidated results of operations and financial condition.

In October 2009, the FASB issued Accounting Standard Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. ASU 2009-13 is required to be applied prospectively to new or materially modified revenue arrangements in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. Corning does not expect adoption of this standard to have a material impact on its consolidated results of operations and financial condition.

2. Restructuring, Impairment and Other Charges (Credits)

2009 Activities

In the third quarter of 2009, we recorded a charge of $10 million which was comprised of severance costs for a restructuring plan in the Environmental Technologies segment and asset disposal costs in other segments.

In the first quarter of 2009, we recorded a charge of $165 million associated with a corporate-wide restructuring plan to reduce our global workforce in response to anticipated lower sales in 2009. The charge included costs for severance, special termination benefits, outplacement services, and the impact of a $30 million curtailment loss for postretirement benefits. Total cash expenditures associated with this plan are expected to be approximately $105 million with the majority of spending completed by early 2010.

The following table summarizes the restructuring, impairment and other charges (credits) as of and for the nine months ended September 30, 2009 (in millions):

	Reserve at January 1, 2009	Charges	Non-Cash Settlements	Cash Payments	Reserve at September 30, 2009
Restructuring:					
Employee related costs	$ 17	$ 152	$ (47)	$ (68)	$ 54
Other charges (credits)	17	5		(3)	19
Total restructuring charges	$ 34	$ 157	$ (47)	$ (71)	$ 73
Impairment of long-lived assets:					
Assets to be disposed of		$ 18			
Total impairment charges		$ 18			
Total restructuring, impairment and other charges and (credits)		$ 175			

The year-to-date cost of these plans for each of our reportable operating segments was as follows (in millions):

Operating segment	Employee-related and other costs
Display Technologies	$ 29
Telecommunications	15
Environmental Technologies	22

Specialty Materials		17
Life Sciences		8
Corporate and All Other		84
Total restructuring, impairment and other charges	$	175

Cash payments for employee-related costs will be substantially complete by early 2010, while payments for exit activities will be substantially complete by the end of 2011.

2008 Activities

The following table summarizes the restructuring, impairment, and other charges and (credits) as of and for the nine months ended September 30, 2008 (in millions):

	Reserve at January 1, 2008	Revisions to existing plans	Net charges/ (reversals)	Cash payments	Reserve at September 30, 2008
Restructuring activity:					
Employee related costs	$ 12	$ (3)	$ (3)	$ (7)	$ 2
Other charges	22			(3)	19
Total restructuring charges	$ 34	$ (3)	$ (3)	$ (10)	$ 21

3. Commitments and Contingencies

Asbestos Litigation

Pittsburgh Corning Corporation. Corning and PPG Industries, Inc. (PPG) each own 50% of the capital stock of Pittsburgh Corning Corporation (PCC). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. At the time PCC filed for bankruptcy protection, there were approximately 11,800 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC s asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC s asbestos products. Corning is also currently involved in approximately 10,300 other cases (approximately 38,700 claims) alleging injuries from asbestos and similar amounts of monetary damages per case. Those cases have been covered by insurance without material impact to Corning to date. As described below, several of Corning s insurance carriers have filed a legal proceeding concerning the extent of any insurance coverage for these claims. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

On March 28, 2003, Corning announced that it had reached agreement with the representatives of asbestos claimants for the resolution of all current and future asbestos claims against it and PCC, which might arise from PCC products or operations (the 2003 Plan). The 2003 Plan would have required Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, contribute 25 million shares of Corning common stock, and pay a total of $140 million in six annual installments (present value $131 million at March 2003), beginning one year after the plan s effective date, with 5.5 percent interest from June 2004. In addition, the 2003 Plan provided that Corning would assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance.

On December 21, 2006, the Bankruptcy Court issued an order denying confirmation of the 2003 Plan for reasons it set out in a memorandum opinion. Several parties, including Corning, filed motions for reconsideration. These motions were argued on March 5, 2007, and the Bankruptcy Court reserved decision.

On January 10, 2008, some of the parties in the proceeding advised the Bankruptcy Court that they had made substantial progress on a proposed amended plan of reorganization (the Amended PCC Plan) that resolved issues raised by the Court in denying the confirmation of the 2003 Plan and that would therefore make it unnecessary for the Bankruptcy Court to decide the motion for reconsideration. On March 27, 2008 and May 22, 2008, the parties further informed the Bankruptcy Court on the progress toward the Amended PCC Plan. The parties filed a partial tentative plan on August 8, 2008. The parties continued to inform the Bankruptcy Court of the status of their discussions on the Amended PCC Plan. The complete Amended PCC Plan and its ancillary documents were filed with the Bankruptcy Court on January 29, 2009.

As a result, Corning believes the Amended PCC Plan now represents the most probable outcome of this matter and expects that the Amended PCC Plan will be confirmed by the Court. At the same time, Corning believes the 2003 Plan no longer serves as the basis for the Company s best estimate of liability. Key provisions of the Amended PCC Plan address the concerns expressed by the Bankruptcy Court. Accordingly, in the first quarter of 2008, Corning adjusted its asbestos litigation liability to reflect components of the Amended PCC Plan. The proposed resolution of PCC asbestos claims under the Amended PCC Plan requires Corning to contribute its equity interests in PCC and PCE and to contribute a fixed series of payments, recorded at present value. Corning will have the option to use its shares rather than cash to make these payments, but the liability is fixed by dollar value and not the number of shares. The Amended PCC Plan would require Corning to make (1) one payment of $100 million one year from the date the Amended PCC Plan becomes effective and certain conditions are met and (2) five additional payments of $50 million, on each of the five subsequent anniversaries of the first payment, the final payment of which is subject to reduction based on the application of credits under certain circumstances.

The Amended PCC Plan does not include non-PCC asbestos claims that may be or have been raised against Corning. Corning has recorded an additional $150 million for such claims in its estimated asbestos litigation liability. The liability for non-PCC claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the injunction issued by the Bankruptcy Court. The estimated liability represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more Company-specific data becomes available.

The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be $677 million at September 30, 2009, compared with an estimate of liability of $662 million at December 31, 2008. In the three and nine months ended September 30, 2009, Corning recorded asbestos litigation expense of $6 million and $15 million, respectively. The entire obligation is classified as a non-current liability as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC Plan becomes effective and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning s investment in PCE (currently recorded as a non-current other equity method investment).

In the first quarter of 2008, Corning recorded a credit to asbestos settlement expense of $327 million as a result of the increase in likelihood of a settlement under the Amended PCC Plan and a corresponding decrease in the likelihood of a settlement under the 2003 Plan. In the second and third quarters of 2008, Corning recorded a charge of $9 million and $6 million, respectively, to reflect the change in value of the estimated liability under an Amended PCC Plan.

The Amended PCC Plan is subject to a number of contingencies. Payment of the amounts required to fund the Amended PCC Plan from insurance and other sources are subject to a number of conditions which may not be achieved. The approval of the Amended PCC Plan by the Bankruptcy Court is not certain and faces objections by some parties. Any approval of the Amended PCC Plan by the Bankruptcy Court is subject to appeal. The Amended PCC Plan will also be subject to a vote of PCC s creditors. For these and other reasons, Corning s liability for these asbestos matters may be subject to changes in subsequent quarters. The estimate of the cost of resolving the non-PCC asbestos claims may also be subject to change as developments occur. Management continues to believe that the likelihood of the uncertainties surrounding these proceedings causing a material adverse impact to Corning s financial statements is remote.

Several of Corning s insurers have commenced litigation for a declaration of the rights and obligations of the parties under insurance policies, including rights that may be affected by the potential resolutions described above. Corning is vigorously contesting these cases. Management is unable to predict the outcome of this insurance litigation and therefore cannot estimate the range of any possible loss.

Other Commitments and Contingencies

In the normal course of our business, we do not routinely provide significant third-party guarantees. When provided, these guarantees have various terms, and none of these guarantees are individually significant. Generally, third party guarantees provided by Corning are limited to certain financial guarantees including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones.

We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning). The funding of the Dow Corning $125 million credit facility is subject to events connected to the Dow Corning Bankruptcy Plan. Refer to Note 13 (Commitments, Contingencies, and Guarantees) to the consolidated financial statements in our 2008 Form 10-K for a discussion of contingent liabilities associated with Dow Corning.

As of September 30, 2009, contingent guarantees totaled a notional value of $251 million, compared with $292 million at December 31, 2008. We believe a significant majority of these contingent guarantees will expire without being funded. We also were contingently liable for purchase obligations of $111 million and $126 million, at September 30, 2009 and December 31, 2008, respectively.

Product warranty liability accruals at September 30, 2009 and December 31, 2008 were $24 million and $18 million, respectively.

Corning is a defendant in various lawsuits, including environmental litigation, product-related suits, the Dow Corning and PCC matters, discussed in Note 7 (Investments) to the consolidated financial statements in our 2008 Form 10-K and in Part II Item 1, Legal Proceedings, and is subject to various claims which arise in the normal course of business. In the opinion of management, the likelihood that the ultimate disposition of these matters will have a material adverse effect on Corning s consolidated financial position, liquidity, or results of operations, is remote.

Corning has been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 21 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning s policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At September 30, 2009, and December 31, 2008, Corning had accrued approximately $23 million (undiscounted) and $21 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company s liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

4. Debt

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was $2.0 billion at September 30, 2009 and $1.5 billion at December 31, 2008.

<u>Third Quarter</u>

There were no significant debt transactions in the third quarter of 2009.

<u>Second Quarter</u>

In the second quarter of 2009, we issued $250 million of 6.625% senior unsecured notes and $100 million of 7% senior unsecured notes for net proceeds of approximately $248 million and $98 million, respectively. The 6.625% notes mature on May 15, 2019 and the 7% notes mature on May 15, 2024. We may redeem these debentures at any time.

First Quarter

In the first quarter of 2009, we recorded the impact of a capital lease obligation associated with a manufacturing facility in our Display Technologies segment. The balance of this obligation at March 31, 2009 was $141 million and is included in our long-term debt balance. Corning repaid $72 million of debt which included the redemption of $54 million principal amount of our 6.3% notes due March 1, 2009. There were no other significant debt transactions in the first quarter of 2009.

There were no significant debt transactions in the first, second, and third quarters of 2008.

5. Income Taxes

Our (provision) benefit for income taxes and the related effective income tax rates were as follows (in millions):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
(Provision) benefit for income taxes	$ (32)	$ 51	$ 38	$ 2,358
Effective (tax) benefit rate	(4.7)%	7.1%	3.1%	89.0%

For the three months ended September 30, 2009, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following items:

Rate differences on income/ (losses) of consolidated foreign companies.

The impact of equity in earnings of affiliated companies.

The benefit of tax holidays and investment credits in foreign jurisdictions.

The impact of discrete items, including a restructuring charge of $10 million. Refer to Note 2 (Restructuring, Impairment and Other Charges (Credits)) for additional information about Corning s restructuring charge. Discrete items decreased our effective tax rate by 2.5 percentage points.

In addition to the items noted above, the tax provision for the nine months ended September 30, 2009, reflected the impact of discrete items, including a restructuring charge of $165 million. Discrete items decreased our effective rate by 7.4 percentage points.

For the three months ended September 30, 2008, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following items:

The release of $70 million of valuation allowances resulting from a change in estimate regarding 2008 U.S. taxable income.

A $43 million benefit related to a favorable tax settlement with the Canadian Revenue Agency.

The impact of not recording net tax expense on income generated in the U.S.

The benefit of tax holidays and investment credits in foreign jurisdictions.

The impact of discrete items for which no tax benefit was recorded, including $39 million of net realized losses on short-term investments and a $14 million loss on the sale of our Steuben glass business. Discrete items and the valuation allowance release decreased our effective tax rate by 15.1 percentage points. Refer to Note 7 (Available-for-Sale Investments) for additional information about net realized losses.

In addition to the items noted above, the tax provision for the nine months ended September 30, 2008 reflected the impact of the release of $2.4 billion of valuation allowances attributable to a change in judgment about the realizability of certain deferred tax assets and other discrete items for which no tax expense was recorded including an asbestos settlement credit of $312 million and litigation related items totaling $12 million. For the nine months ended September 30, 2008, discrete items and valuation allowance releases decreased our effective tax rate by 97.7 percentage points. Refer to Note 3 (Commitments and Contingencies) for additional information about asbestos settlement litigation.

As more fully described in Note 6 (Income Taxes) to the consolidated financial statements in our 2008 Form 10-K, all of our U.S. deferred tax assets had full valuation allowances until the second quarter of 2008. At that time, we concluded that it was more likely than not that we would realize substantially all of our U.S. deferred tax assets because we expect to generate sufficient levels of income in the U.S. As a result, we released $2.4 billion of valuation allowances on our U.S. deferred tax assets in the second quarter of 2008. We considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance was needed.

- 14 -

The evaluation of the realizability of deferred tax assets is inherently subjective. Following are the key items that provided positive evidence to support the release of the valuation allowance for a large portion of our deferred tax assets in the second quarter of 2008:

Positive pre-tax income in the U.S. for the first half of 2008 and the preceding year;

The impact of positive results in the Display Technologies operating segment and the royalty income generated from the foreign locations in this segment;

The number of years remaining to utilize our net operating loss carryforwards; and

Increased confidence in our longer-term forecasted income levels which were supported by detailed sensitivity analyses.

At June 30, 2008, the following items were considered as negative evidence in our valuation allowance assessment, but were less heavily weighted than our positive evidence:

Uncertainty of future taxable earnings;

Historical utilization of deferred tax assets caused largely by non-recurring items; and

Economic and consumer demand uncertainty.

Deferred tax liabilities totaled $26 million at December 31, 2008, and therefore, were not a significant factor in our assessment of the realizability of deferred tax assets.

U.S. profits of approximately $8.3 billion dollars will be required to fully realize the deferred tax assets as of December 31, 2008. Of that amount, $3.9 billion of U.S. profits will be required over the next 18 years to fully realize the deferred tax assets associated with federal net operating loss carry forwards.

For the three and nine months ended September 30, 2008, we recorded tax expense on income generated in the U.S. of $16 million and $239 million, respectively, which was fully offset by releases of valuation allowance. These amounts include the impact of discrete items described above.

Certain foreign subsidiaries in China and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out through 2013 according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective tax rate is a reduction in the rate of 6.5 and 5.3 percentage points for the three months ended September 30, 2009 and 2008, respectively, and a reduction in the rate of 7.2 and 4.8 percentage points for the nine months ended September 30, 2009 and 2008, respectively.

While we expect the amount of unrecognized tax benefits to change in the next 12 months, we do not expect the change to have a significant impact on the results of operations or our financial position.

6. Earnings per Common Share

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

	Three months ended September 30, 2009			2008		
	Net Income Attributable to Corning Incorporated	Weighted-Average Shares	Per Share Amount	Net Income Attributable to Corning Incorporated	Weighted-Average Shares	Per Share Amount
Basic earnings per common share	$ 643	1,550	$ 0.41	$ 768	1,558	$ 0.49
Effect of dilutive securities:						
Stock options and other dilutive securities		19			20	
Diluted earnings per common share	$ 643	1,569	$ 0.41	$ 768	1,578	$ 0.49

	Nine months ended September 30, 2009			2008		
	Net Income Attributable to Corning Incorporated	Weighted-Average Shares	Per Share Amount	Net Income Attributable to Corning Incorporated	Weighted-Average Shares	Per Share Amount
Basic earnings per common share	$ 1,268	1,549	$ 0.82	$ 5,008	1,564	$ 3.20
Effect of dilutive securities:						
Stock options and other dilutive securities		16			28	
Diluted earnings per common share	$ 1,268	1,565	$ 0.81	$ 5,008	1,592	$ 3.15

The following potential common shares were excluded from the calculation of diluted earnings per common share because their inclusion would have been anti-dilutive. In addition, the following performance-based restricted stock awards have been excluded from the calculation of diluted earnings per common share because the number of shares ultimately issued is contingent on our performance against certain targets established for the performance period (in millions):

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Potential common shares excluded from the calculation of diluted earnings per share:				
Employee stock options and awards	50	49	60	41
Performance-based restricted stock awards	4	2	4	2
Total	54	51	64	43

7. Available-for-Sale Investments

The following is a summary of the fair value of available-for-sale investments (in millions):

	Amortized Cost		Fair Value	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
Bonds, notes and other securities:				
U.S. government and agencies	$ 845	$ 733	$ 847	$ 737
Asset-backed securities		6		5
Other debt securities	119	210	121	201
Total short-term investments	$ 964	$ 949	$ 968	$ 943
Asset-backed securities	$ 78	$ 87	$ 41	$ 40
Total long-term investments	$ 78	$ 87	$ 41	$ 40

Long-term investment securities are comprised of asset-backed securities with a fair value of $41 million at September 30, 2009. We do not intend to sell, nor do we believe it is more likely than not that we would be required to sell, the $78 million amortized cost-basis of these asset-backed securities (which are collateralized by mortgages) before recovery of their amortized cost basis. It is possible that a significant degradation in the delinquency or foreclosure rates in the underlying assets could cause further temporary or other-than-temporary impairments in the future.

The following table provides the fair value and gross unrealized losses of the Company s investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009 (in millions):

	Period Ended September 30, 2009					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds, notes and other securities						
U.S. government and agencies	$ 102				$ 102	
Asset-backed securities						
Other debt securities	10		$ 54		64	
Total short-term investments	$ 112		$ 54		$ 166	
Asset-backed securities			$ 41	$ (37)	$ 41	$ (37)
Total long-term investments			$ 41	$ (37)	$ 41	$ (37)

Gross realized gains and losses for the three and nine months ended September 30, 2009 and 2008 were as follows

(in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Gross realized gains	$ 1	$ 2	$ 2	$ 5
Gross realized losses	$ (1)	$ (41) (1)	$ (5)	$ (46)

(1) Realized losses in the third quarter of 2008 included an other-than-temporary impairment of $26 million for securities of Lehman Brothers Holdings Inc., which filed for bankruptcy protection in mid-September 2008.

Gross unrealized gains and losses included in accumulated other comprehensive income at September 30, 2009 and December 31, 2008, were as follows (in millions):

	September 30, 2009	December 31, 2008
Gross unrealized gains		$ 2
Gross unrealized losses	$ (37) (1)	$ (58) (2)

(1) Unrealized losses included temporary impairments of asset-backed securities with an amortized cost of $23 million and a fair value of $12 million at September 30, 2009.
(2) Unrealized losses included temporary impairments of asset-backed securities with a fair value of $40 million at December 31, 2008.

A reconciliation of the changes in credit losses recognized in earnings for the three and six months ended September 30, 2009 (in millions):

Beginning balance of credit losses, April 1, 2009	$ 0
Additions for credit losses not previously recognized in earnings	2
Ending balance of credit losses, for the six months ended September 30, 2009	$ 2

Beginning balance of credit losses, July 1, 2009	$ 1
Additions for credit losses not previously recognized in earnings	1
Ending balance of credit losses, for the three months ended September 30, 2009	$ 2

The $2 million loss represents management s estimate of credit losses inherent in the securities considering projected cash flows using assumptions of delinquency rates, loss severities, and other estimates of future collateral performance. These credit losses are limited to asset-backed securities in our investment portfolio.

8. Inventories

Inventories comprise the following (in millions):

	September 30, 2009	December 31, 2008
Finished goods	$ 209	$ 293
Work in process	123	197
Raw materials and accessories	109	120
Supplies and packing materials	177	188
Total inventories	$ 618	$ 798

9. Investments

Investments comprise the following (in millions):

	Ownership Interest (1)	September 30, 2009	December 31, 2008
Affiliated companies accounted for by the equity method			
Samsung Corning Precision Glass Co., Ltd.	50%	$ 2,746	$ 1,965
Dow Corning Corporation	50%	846	866
All other	20%-50%	222	221
		3,814	3,052

Other investments	4	4
Total	$ 3,818	$ 3,056

(1) Amounts reflect Corning s direct ownership interests in the respective affiliated companies. Corning does not control any of these entities.

Related party information for these investments in affiliates follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Related Party Transactions:				
Corning sales to affiliates	$ 6	$ 9	$ 27	$ 32
Corning purchases from affiliates	$ 14	$ 16	$ 26	$ 38
Dividends received from affiliates	$ 20	$ 191	$ 439	$ 470
Royalty income from affiliates	$ 62	$ 54	$ 167	$ 148
Contractual services to affiliates	$ 14		$ 14	
Corning transfers of assets, at cost, to affiliates	$ 12	$ 53	$ 54	$ 152

As of September 30, 2009, balances due to and due from affiliates were $3 million and $139 million, respectively. As of December 31, 2008, balances due to and due from affiliates were $2 million and $20 million, respectively.

We have contractual agreements with several of our equity affiliates which include sales, purchasing, licensing, financing and technology agreements.

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 primarily of liquid crystal display (LCD) glass for flat panel displays.

Samsung Corning Precision s results of operations follow (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Statement of Operations:				
Net sales	$ 1,164	$ 1,022	$ 2,989	$ 2,837
Gross profit	$ 854	$ 704	$ 2,145	$ 1,955
Net income	$ 632	$ 540	$ 1,592	$ 1,494
Corning s equity in earnings of Samsung Corning Precision	$ 316	$ 268	$ 797	$ 737
Related Party Transactions:				
Corning purchases from Samsung Corning Precision	$ 8	$ 11	$ 12	$ 25
Corning sales to Samsung Corning Precision			$ 9	$ 7
Dividends received from Samsung Corning Precision		$ 126	$ 181	$ 277
Royalty income from Samsung Corning Precision	$ 62	$ 54	$ 165	$ 148
Corning transfers of machinery and equipment to Samsung Corning Precision at cost (1)	$ 12	$ 53	$ 54	$ 152

(1) Corning purchases machinery and equipment on behalf of Samsung Corning Precision to support its capital expansion initiatives. The machinery and equipment are transferred to Samsung Corning Precision at our cost basis, with no gain or loss recognized on the transaction.

Corning owns 50% of Samsung Corning Precision. Samsung Electronics Co., Ltd. owns 43% and three other shareholders own the remaining 7%.

As of September 30, 2009 and December 31, 2008, balances due from Samsung Corning Precision were $42 million and $17 million, respectively.

On December 31, 2007, Samsung Corning Precision acquired all of the outstanding shares of Samsung Corning Co., Ltd. (Samsung Corning). After the transaction, Corning retained its 50% interest in Samsung Corning Precision. Samsung Corning Precision accounted for the transaction at fair value while Corning accounted for the transaction at historical cost.

Prior to their merger, Samsung Corning Precision and Samsung Corning Co. Ltd. (Samsung Corning) were two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and thirteen other creditors (SGI and Creditors) for alleged breach of an agreement that approximately twenty-eight affiliates of the Samsung group (Samsung Affiliates) entered into with SGI and Creditors on August 24, 1999 (the Agreement). The lawsuit is pending in the courts of South Korea. Under the Agreement it is alleged that the Samsung Affiliates agreed to sell certain shares of Samsung Life Insurance Co., Ltd. (SLI), which had been transferred to SGI and Creditors in connection with the petition for court receivership of Samsung Motor Inc. In the lawsuit, SGI and Creditors allege a breach of the Agreement by the Samsung Affiliates and are seeking the loss of principal (approximately $1.95 billion) for loans extended to Samsung Motors Inc., default interest and a separate amount for breach. On January 31, 2008, the Seoul District Court ordered the Samsung Affiliates: to pay approximately $1.3 billion by disposing of 2,334,045 shares of SLI less 1,165,955 shares of SLI previously sold by SGI and Creditors and paying the proceeds to SGI and Creditors; to satisfy any shortfall by participating in the purchase of equity or subordinate debentures issued by them; and pay default interest of 6% per annum. The ruling has been appealed and a ruling on the appeal is expected sometime in November of 2009. Due to the uncertainties around the financial impact to each of the respective Samsung affiliates, Samsung Corning Precision is unable to reasonably estimate the amount of potential loss, if any, associated with this case and therefore no provision for such loss is reflected in its financial statements. Other than as described above, no claim in these matters has been asserted against Corning or any of its affiliates.

In connection with an investigation by the Commission of the European Communities, Competition DG, of alleged anticompetitive behavior relating to the worldwide production of LCD glass, Corning and Samsung Corning Precision received a request on March 30, 2009, for certain information from the Competition DG. Corning and Samsung Corning Precision have responded to those requests for information. On October 9, 2009, in connection with its investigation, the Competition DG made a further request for information from both Corning and Samsung Corning Precision to which each party is responding.

In September 2009, Corning and Samsung Corning Precision formed Corsam Technologies LLC (Corsam), a new equity affiliate established to provide glass technology research for future product applications. Samsung Corning Precision invested $124 million in cash and Corning contributed intellectual property with a corresponding value. Corning and Samsung Corning Precision each own 50% of the common stock of Corsam and Corning has agreed to provide research and development services at arms length to Corsam. Corning does not control Corsam because Samsung Corning Precision s other investors maintain significant participating voting rights. In addition, Corsam has sufficient equity to finance its activities, the voting rights of investors in Corsam are considered substantive, and the risks and rewards of Corsam s research are shared only by those investors noted. As a result, Corsam is accounted for under the equity method of accounting for investments.

Dow Corning Corporation (Dow Corning)

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

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Statement of Operations:				
Net sales	$ 1,409	$ 1,487	$ 3,625	$ 4,146
Gross profit	$ 529	$ 565	$ 1,187	$ 1,444
Net income	$ 184	$ 218	$ 309	$ 566
Corning s equity in earnings of Dow Corning	$ 92	$ 109	$ 154	$ 283
Related Party Transactions:				
Corning purchases from Dow Corning	$ 5	$ 4	$ 13	$ 12
Dividends received from Dow Corning		$ 52	$ 222	$ 155

Balances due to Dow Corning were $2 million and $1 million as of September 30, 2009 and December 31, 2008, respectively.

In response to recent economic challenges, Dow Corning incurred restructuring charges associated with a global workforce reduction in the first quarter of 2009. Our share of these charges was $29 million.

At September 30, 2009, Dow Corning s marketable securities included approximately $1.1 billion of auction rate securities, net of a temporary impairment of $50 million. As a result of the temporary impairment, unrealized losses of $39 million, net of $11 million for a minority interest s share, were included in accumulated other comprehensive income in Dow Corning s consolidated balance sheet. Corning s share of this unrealized loss was $20 million and is included in Corning s accumulated other comprehensive income.

Dow Corning has borrowed the full amount under its $500 million revolving credit facility and believes it has adequate liquidity to fund operations, its capital expenditure plan, breast implant settlement liabilities, and shareholder dividends.

Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning. In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousands of breast implant product lawsuits. On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the Plan) which provided for the settlement or other resolution of implant claims. The Plan also includes releases for Corning and Dow Chemical as shareholders in exchange for contributions to the Plan.

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Inclusive of insurance, Dow Corning has paid approximately $1.6 billion to the Settlement Trust. As of September 30, 2009, Dow Corning had recorded a reserve for breast implant litigation of $1.6 billion and anticipates insurance receivables of $16 million. As a separate matter arising from the bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. As of September 30, 2009, Dow Corning has estimated the liability to commercial creditors to be within the range of $82 million to $224 million. As Dow Corning management believes no single amount within the range appears to be a better estimate than any other amount within the range, Dow Corning has recorded the minimum liability within the range. Should Dow Corning not prevail in this matter, Corning s equity earnings would be reduced by its 50% share of the amount in excess of $82 million, net of applicable tax benefits. In addition, the London Market Insurers (the LMI Claimants) have claimed a reimbursement right with respect to a portion of insurance proceeds previously paid by the LMI Claimants to Dow Corning. This claim is based on a theory that the LMI Claimants overestimated Dow Corning s liability for the resolution of implant claims pursuant to the Plan. The LMI Claimants offered two calculations of their claim amount: $54 million and $93 million, plus minimum interest of $67 million and $116 million, respectively. These estimates were explicitly characterized as preliminary and subject to change. Litigation regarding this claim is in the discovery stage. Dow Corning disputes the claim and is unable to reasonably estimate any potential liability. There are a number of other claims in the bankruptcy proceedings against Dow Corning awaiting resolution by the U.S. District Court, and it is reasonably possible that Dow Corning may record bankruptcy-related charges in the future. There are no remaining tort claims against Corning, other than those that will be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

In 1995, Corning fully impaired its investment in Dow Corning after it filed for bankruptcy protection. Corning did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that Dow Corning s emergence from bankruptcy was probable. Corning considers the $249 million difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning s equity to be permanent.

Pittsburgh Corning Corporation (PCC)

Corning and PPG Industries, Inc. (PPG) each own 50% of the capital stock of Pittsburgh Corning Corporation (PCC). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. Corning also has an equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian Corporation which is a component of the Company s proposed settlement for asbestos litigation. At September 30, 2009 and December 31, 2008, the fair value of PCE significantly exceeded its carrying value of $122 million and $112 million, respectively. There have been no impairment indicators for our investment in PCE and we continue to recognize equity earnings of this affiliate. PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania on April 16, 2000. At that time, Corning determined that it lacked the ability to recover the carrying amount of its investment in PCC and its investment was other-than-temporarily impaired. As a result, we reduced our investment in PCC to zero. Refer to Note 3 (Commitments and Contingencies) for additional information about PCC and PCE.

Variable Interest Entities

Corning leases certain transportation equipment from three Trusts that qualify as variable interest entities under ASC 810 *Consolidation (ASC 810*). The sole purpose of these entities is to lease transportation equipment to Corning.

For variable interest entities, we assess the terms of our interest in each entity to determine if we are the primary beneficiary as prescribed by ASC 810. Corning has performed the required ASC 810 assessments and has identified three entities as being variable interest entities. None of these entities are considered significant to Corning s consolidated financial statements.

Corning does not have retained interests in assets transferred to an unconsolidated entity that serve as credit, liquidity or market risk support to that entity.

- 22 -

10. Acquisition

On September 15, 2009, Corning acquired all of the shares of Axygen Bioscience, Inc. and its subsidiaries from American Capital Ltd. for $410 million, net of $7 million cash received. Axygen is a leading manufacturer and distributor of high-quality life sciences plastic consumable labware, liquid handling products, and bench-top laboratory equipment.

The purchase price of the acquisition was allocated to the net tangible and other intangible assets acquired with the remainder recorded as goodwill on the basis of fair value. The following amounts represent preliminary estimates and are subject to revision when valuations are finalized (in millions):

Total current assets	$ 63
Other tangible assets	49
Other intangible assets	153
Current and non-current liabilities	(80)
Net tangible and intangible assets	$ 185
Purchase price, including cash received	417
Goodwill (1)	$ 232

(1) None of the goodwill recognized is deductible for U.S. income tax purposes. The goodwill was allocated to the Life Sciences segment.

Goodwill is primarily related to the value of Axygen s product portfolio and distribution network and its combination with Corning s existing life science platform, as well as synergies and other intangibles that do not qualify for separate recognition. Acquisition-related costs of $4 million in the three months ended September 30, 2009 included costs for legal, accounting, valuation and other professional services and were included in selling, general and administrative expense in the Consolidated Statements of Income. Supplemental pro forma information was not provided because Axygen is not material to Corning s consolidated financial statements.

11. Property, Net of Accumulated Depreciation

Property, net follows (in millions):

	September 30, 2009	December 31, 2008
Land	$ 101	$ 71
Buildings	3,442	2,906
Equipment	9,087	8,364
Construction in progress	1,148	1,928
	13,778	13,269
Accumulated depreciation	(5,598)	(5,070)
Total	$ 8,180	$ 8,199

In the three months ended September 30, 2009 and 2008, interest costs capitalized as part of property, net, were $6.3 million and $6.9 million, respectively. In the nine months ended September 30, 2009 and 2008, interest costs capitalized as part of property, net, were $24 million and $20 million, respectively.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. At September 30, 2009 and December 31, 2008, the recorded value of precious metals totaled $1.8 billion. Depletion expense for precious metals in the three months ended September 30, 2009 and 2008 totaled $4 million in both years. Depletion expense in the nine months ended September 30, 2009 and 2008 totaled $7 million and $10 million, respectively.

12. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2009 are as follows (in millions):

	Telecom-munications	Display Technologies	Specialty Materials	Life Sciences	Total
Balance at December 31, 2008	$ 118	$ 9	$ 150		$ 277
Acquired Goodwill (1)				$ 232	$ 232
Balance at September 30, 2009	$ 118	$ 9	$ 150	$ 232	$ 509

(1) The Company recorded goodwill associated with the purchase of Axygen Bioscience, Inc. in the third quarter 2009. Refer to Note 10 (Acquisition) for additional information.

Other intangible assets follow (in millions):

	September 30, 2009			December 31, 2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortized intangible assets:						
Patents, trademarks, and trade names (1)	$ 206	$ 120	$ 86	$ 129	$ 112	$ 17
Non-competition agreements	99	93	6	98	90	8
Other (1)	80	1	79	5	2	3
Total	$ 385	$ 214	$ 171	$ 232	$ 204	$ 28

(1) The Company recorded other identifiable intangible assets associated with the purchase of Axygen Bioscience, Inc. in the third quarter 2009. Refer to Note 10 (Acquisition) for additional information.

Amortized intangible assets are primarily related to the Telecommunications and Life Sciences segments.

Estimated amortization expense related to these intangible assets is $10 million for 2009 and $7 million thereafter.

13. Customer Deposits

In 2005 and 2004, several of Corning s customers entered into long-term purchase and supply agreements in which Corning s Display Technologies segment would supply large-size glass substrates to these customers over periods of up to six years. As part of the agreements, these customers agreed to advance cash deposits to Corning for a portion of the contracted glass to be purchased. Between 2004 and 2007, we received a total of $937 million for customer deposit agreements. We received our last deposit of $105 million in 2007 and do not expect to receive additional deposits related to these agreements.

Upon receipt of the cash deposits made by customers, we recorded a customer deposit liability. This liability is reduced at the time of future product sales over the life of the agreements. As product is shipped to a customer, Corning recognizes revenue at the selling price and issues credit memoranda for an agreed amount of the customer deposit liability. The credit memoranda are applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as these credits are applied for cash deposits received in earlier periods.

During the three and nine months ended September 30, 2009, we issued $42 million and $207 million, respectively, in credit memoranda. During the three and nine months ended September 30, 2008, we issued $64 million and $202 million, respectively, in credit memoranda.

Customer deposit liabilities were $152 million and $369 million at September 30, 2009 and December 31, 2008, respectively, of which $121 million and $320 million, respectively, were recorded in the current portion of other accrued liabilities in our consolidated balance sheets. Because these liabilities are denominated in Japanese yen, changes in the balances include the impact of movements in the Japanese yen U.S. dollar exchange rate.

In the event customers do not 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 customer deposits.

14. Employee Retirement Plans

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

	Pension benefits				Postretirement benefits			
	Three months ended September 30,		Nine months ended September 30,		Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$ 12	$ 12	$ 35	$ 39	$ 2	$ 3	$ 8	$ 9
Interest cost	39	37	117					