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

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended March 31, 2005

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3247

CORNING INCORPORATED

(Registrant)

New York

(State of incorporation)

16-0393470

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

One Riverfront Plaza, Corning, New York

(Address of principal executive offices)

14831

(Zip Code)

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

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

Yes  No

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

Yes  No

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

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

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outstanding as of May 3, 2006.

Explanatory Note

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

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

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

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

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

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

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information.

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

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

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

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#### PART I - FINANCIAL INFORMATION

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

|  |        | For t   |
|--|--------|---------|
|  |        | -----   |
|  |        | 2005    |
|  |        | (Restat |
|  |        | -----   |
| Net sales  | \$ 1,0 |         |
| Cost of sales  | 6      |         |
|  |        | -----   |
| Gross margin   |        | 4       |
| Operating expenses:  |        |         |
| Selling, general and administrative expenses                       |        | 1       |
| Research, development and engineering expenses                     |        |         |
| Amortization of purchased intangibles                              |        |         |
| Restructuring, impairment and other charges and (credits) (Note 3) |        |         |
| Asbestos settlement (Note 4)                                       |        | (       |
|  |        | -----   |
| Operating income (loss)  |        | 1       |
| Interest income  |        |         |
| Interest expense   |        | (       |
| Loss on repurchases and retirement of debt, net                    |        |         |
| Other expense, net (Note 1)  |        |         |

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

The accompanying notes are an integral part of these statements.

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

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

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|   |        |
|---|--------|
| Other assets  | 1      |
|   | -----  |
| Total Assets  | \$ 9,6 |
|   | =====  |
| Liabilities and Shareholders' Equity  |        |
| Current liabilities:  |        |
| Short-term borrowings, including current portion of long-term debt (Note 10)  | \$ 2   |
| Accounts payable  | 6      |
| Other accrued liabilities   | 1,1    |
|   | -----  |
| Total current liabilities   | 2,0    |
| Long-term debt (Note 10)  | 2,1    |
| Postretirement benefits other than pensions                                   | 5      |
| Other liabilities   | 7      |
|   | -----  |
| Total liabilities   | 5,5    |
|   | -----  |
| Commitments and contingencies (Note 4)  |        |
| Minority interests  |        |
| Shareholders' equity:   |        |
| Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million |        |
| Series C mandatory convertible preferred stock - Shares issued: 5.75 million; |        |
| Shares outstanding: 633 thousand and 637 thousand                             |        |
| Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;    |        |
| Shares issued: 1,437 million and 1,424 million                                | 7      |
| Additional paid-in capital  | 10,4   |
| Accumulated deficit   | (7,1   |
| Treasury stock, at cost; Shares held: 15 million and 16 million               | (1     |
| Accumulated other comprehensive income  | 1      |
|   | -----  |
| Total shareholders' equity  | 4,0    |
|   | -----  |
| Total Liabilities and Shareholders' Equity                                    | \$ 9,6 |
|   | =====  |

The accompanying notes are an integral part of these statements.

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

For t  
-----  
2005  
(Restat  
-----

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

The accompanying notes are an integral part of these statements.

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### 1. Basis of Presentation

#### General

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

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

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

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

#### Foreign Currency Translation and Transactions

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

#### Stock-Based Compensation

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

(In millions, except per share amounts):

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For the



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|  |       |       |
|--|-------|-------|
|  | ----- | 20    |
|  |       | (Rest |
| -----  |       |       |
| Net income - as reported   |       | \$    |
| Add: Stock-based employee compensation expense<br>determined under APB 25, included in reported net income, net of tax |       |       |
| Less: Stock-based employee compensation expense determined<br>under fair value based method, net of tax                |       |       |
| -----  |       |       |
| Net income - pro forma   |       | \$    |
| Earnings per common share:   |       |       |
| Basic - as reported  |       | \$    |
| Basic - pro forma  |       | \$    |
| Diluted - as reported  |       | \$    |
| Diluted - pro forma  |       | \$    |
| -----  |       |       |

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

|                         |       |           |
|-------------------------|-------|-----------|
|                         | ----- | For the t |
|                         |       | 200       |
| -----                   |       |           |
| Expected life in years  |       |           |
| Risk free interest rate |       | 3.        |
| Expected volatility     |       | 50.       |
| -----                   |       |           |

Changes in the status of outstanding options follow:

|                                       |       |           |
|---------------------------------------|-------|-----------|
|                                       | ----- | Number of |
|                                       |       | (in thous |
| -----                                 |       |           |
| Options outstanding December 31, 2004 |       | 139,0     |
| Options granted under plans           |       | 3,4       |
| Options exercised                     |       | (1,4      |
| Options terminated                    |       | (9        |
| -----                                 |       |           |
| Options outstanding March 31, 2005    |       | 140,0     |
| Options exercisable March 31, 2005    |       | =====     |
|                                       |       | 112,4     |
| -----                                 |       |           |

New Accounting Standards

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

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

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

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

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

### 2. Restatement of Previously Issued Financial Statements

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

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

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

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

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

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

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

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

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

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

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For t

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|  | -----<br>Previously<br>Reported<br>----- |
|--|--|
| Operating expenses:  |  |
| Asbestos settlement  | \$ (16)                                  |
| Operating income (loss)  | 139                                      |
| Interest expense   | 37                                       |
| Income (loss) from before income taxes                         | 103                                      |
| Provision for income taxes                                     | (19)                                     |
|  | -----                                    |
| Income (loss) before minority interests and equity earnings    | 84                                       |
| Equity in earnings of associated companies, net of impairments | 166                                      |
| Net income   | \$ 249                                   |
| Basic earnings per common share                                | \$ 0.18                                  |
| Diluted earnings per common share                              | \$ 0.17                                  |

|  | -----<br>Previously<br>Reported<br>----- | For t |
|--|--|-------|
| Operating expenses:  |  |       |
| Asbestos settlement  | \$ 19                                    |       |
| Operating loss   | (7)                                      |       |
| Interest expense   | 36                                       |       |
| Loss before income taxes                                       | (64)                                     |       |
| Benefit for income taxes                                       | 12                                       |       |
|  | -----                                    |       |
| Loss before minority interests and equity earnings             | (52)                                     |       |
| Equity in earnings of associated companies, net of impairments | 107                                      |       |
| Net income   | \$ 55                                    |       |
| Basic earnings per common share                                | \$ 0.04                                  |       |
| Diluted earnings per common share                              | \$ 0.04                                  |       |

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

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

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

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

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

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

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

2005 Actions

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

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

|   | January 1,<br>2005 | Quarter<br>ended Mar<br>31, 2005<br>charge |
|---|--------------------|--|
| -----   |                    |  |
| Restructuring charges:  |                    |  |
| Employee related costs  | \$ 18              |  |
| Other charges   | 77                 |  |
|   | -----              |  |
| Total restructuring charges                                     | \$ 95              |  |
| -----   |                    |  |
| Other:  |                    |  |
| Impairment of available-for-sale securities                     |                    | \$ 19                                      |
|   |                    | -----                                      |
| Total restructuring, impairment and other charges and (credits) |                    | \$ 19                                      |
| -----   |                    |  |

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

### 2004 Actions

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

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

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

|                             | January 1,<br>2004 | Quarter<br>ended March<br>31, 2004<br>charge | Revisions<br>to existing<br>plans | N<br>char<br>(reve |
|-----------------------------|--------------------|--|-----------------------------------|--------------------|
| -----                       |                    |  |                                   |                    |
| Restructuring charges:      |                    |  |                                   |                    |
| Employee related costs      | \$ 78              |  |                                   |                    |
| Other charges               | 108                | \$ 1   |                                   | \$                 |
|                             |                    | -----  |                                   |                    |
| Total restructuring charges | \$ 186             | \$ 1   |                                   | \$                 |
| -----                       |                    |  |                                   |                    |

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Impairment of long-lived assets:

Assets to be disposed of by sale  
or abandonment

\$ (6) \$

Other:

Accelerated depreciation

\$ 39 \$

Total restructuring, impairment and  
other charges and (credits)

\$ 40 \$ (6) \$

#### 4. Commitments and Contingencies

##### Asbestos Settlement

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

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

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

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

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



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

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

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

### Other Commitments and Contingencies

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

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

### 5. Income Taxes

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

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

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

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

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

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

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

### 6. Earnings Per Common Share

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

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

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

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

For the three months ended March 31,

2005 2004

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

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

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

63 55

7. Inventories

Inventories comprise the following (in millions):

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

8. Investments

Investments comprise the following (in millions):

|  | Ownership Interest | March 2005 (Restated) |
|--|--------------------|-----------------------|
|  | -----              | -----                 |

Associated companies at equity

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|   |             |        |
|---|-------------|--------|
| Samsung Corning Precision Glass Co., Ltd. | 50%         | \$ 5   |
| Dow Corning                               | 50%         | 3      |
| All other                                 | 25%-51% (a) | 5      |
|   |             | -----  |
| Other investments (b)                     |             | 1,4    |
|   |             | -----  |
| Total                                     |             | \$ 1,5 |

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

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

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

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

|  |            |
|--|------------|
|  | For the th |
|  | -----      |
|  | 200        |

Statement of Operations:

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

Related Party Transactions:

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

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

Dow Corning

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

For the three months ended March 31,

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

9. Goodwill and Other Intangible Assets

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

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

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

Other intangible assets follow (in millions):

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

Amortized intangible assets are primarily related to the Telecommunications

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segment.

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

### 10. Debt

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

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

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

### 11. Customer Deposits

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

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

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

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

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

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

12. Employee Retirement Plans

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

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

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

13. Comprehensive Income

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

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follow (in millions):

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

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

14. Operating Segments

Our reportable operating segments follow:

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

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



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

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

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

For the three months ended M

2005

2004

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

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

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

OVERVIEW

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

Financial Health

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

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

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

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

### Profitability

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

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

### Investing in our Future

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

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

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

### Restatement of Prior Period Financial Statements

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

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

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

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

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

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

### RESULTS OF OPERATIONS

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

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

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

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### Net Sales

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

### Gross Margin

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

### Selling, General and Administrative Expenses

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

### Research, Development and Engineering Expenses

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

### Restructuring, Impairment and Other Charges and (Credits)

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

### Asbestos Settlement

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

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

Income (Loss) Before Income Taxes

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

(Provision) Benefit for Income Taxes

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

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

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

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

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

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

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### Equity in Earnings of Associated Companies

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

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

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

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

### Net Income

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

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

### OPERATING SEGMENTS

Our reportable operating segments follow:

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

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

### Display Technologies

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

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

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

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

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



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

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

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

### Outlook:

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We expect to see a continuation of the overall industry growth and the trend toward large size substrates. Full year 2005 volume growth for the LCD glass market is anticipated to be greater than 50%, and we anticipate adding sufficient capacity to meet market growth. This market growth is expected to occur at varying rates in the principal LCD markets of Japan, Taiwan, China and Korea. Sales of our wholly-owned business are primarily to panel manufacturers in Japan, Taiwan, and China with customers in Korea being serviced by Samsung Corning Precision. The actual growth rates in these markets will impact our sales and earnings performance. For the second quarter of 2005, we expect volumes for our wholly-owned business and Samsung Corning Precision may grow between 10% and 20%, both individually and in the aggregate. We expect second quarter pricing pressures to be slightly less than what occurred in the first quarter, which experienced a sequential price decline of less than 4%. There can be no assurance that the end-market rates of growth will continue at the high rates experienced in recent quarters, that we will be able to pace our capacity expansions to actual demand, or that the rate of cost declines will offset price declines in any given period. While the industry has grown rapidly, consumer preferences for panels of differing sizes, or price or other factors, may lead to pauses in market growth, and it is possible that glass manufacturing capacity may exceed demand from time to time. In addition, changes in foreign exchange rates, principally the Japanese yen, will continue to impact the profitability of this segment.

### Telecommunications

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

| For the three months ended March 31, |      | % Change  |
|--------------------------------------|------|-----------|
| -----                                |      | -----     |
| 2005                                 | 2004 | 05 vs. 04 |
| -----                                |      | -----     |

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|                         |    |       |              |
|-------------------------|----|-------|--------------|
| Net sales:              |    |       |              |
| Optical fiber and cable | \$ | 212   | \$ 149 42%   |
| Hardware and equipment  |    | 215   | 163 32%      |
|                         |    | ----- | -----        |
| Total net sales         | \$ | 427   | \$ 312 37%   |
|                         |    | ===== | =====        |
|                         |    |       |              |
| Net income (loss)       | \$ | 9     | \$ (43) 121% |
| -----                   |    |       |              |

For the first quarter of 2005, fiber volumes increased 52% while prices declined 7% compared to the first quarter of 2004. The 2005 increase in fiber volumes was largely driven by sales in North America and Europe, offset by lower volumes in China. The stronger North America volumes were primarily due to increased sales to Verizon Communications (Verizon) to support their fiber-to-the-premises project. Sales to Verizon also accounted for the majority of the increase in hardware and equipment product sales. In the first quarter of 2004, the Telecommunications segment did not have any significant sales to Verizon for their fiber-to-the-premises project. The lower volume in China was due to the overall weakness in the market, which continues to suffer over capacity and pricing pressure. Based on these market conditions, we have been unable to regain the share we lost prior to the successful resolution of the 2004 anti-dumping preliminary determination. The comparison of sales of the Telecommunications segment between 2005 and 2004 was negatively affected by the 2004 sale of our frequency controls business. During the first quarter of 2004, the frequency controls business recorded sales of \$22 million. Excluding the impact of this divestiture, net sales for the Telecommunications segment increased 47% for the first quarter of 2005 compared to the year ago period. Movements in foreign exchange rates, primarily the Euro and Japanese yen, did not have a significant impact on sales for 2005 compared to 2004.

Although showing a modest profit, the first quarter 2005 net income represented a significant improvement over the loss incurred in the first quarter of 2004. This improvement in performance is primarily driven by operational efficiencies from the increase in sales volumes. Movements in exchange rates did not significantly impact net income.

### Outlook:

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For the second quarter of 2005, we expect net sales to increase approximately 5% compared to those of the first quarter. This sales performance primarily reflects typical seasonal increases in North America and Europe, as well as ongoing demand from fiber-to-the-premises projects. For China, we do not anticipate any significant recovery during the second quarter. We expect fiber volumes to be flat to up 10% and moderate pricing declines. Segment net sales continue to be impacted by Verizon's fiber-to-the-premises project. We expect the second quarter level of sales to Verizon to decline due to expected price declines as this program enters its second year. Second quarter sales volumes should be approximately flat with the first quarter. However, fiber-to-the-premises sales to Verizon could decline more significantly in the third and fourth quarters unless Verizon raises its announced targets for homes passed and connected. Potential changes in Verizon's inventory of fiber-to-the-premises products could also affect the sales level.

### Environmental Technologies

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

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|                   | For the three months ended March 31, |        | % Change  |
|-------------------|--------------------------------------|--------|-----------|
|                   | 2005                                 | 2004   | 05 vs. 04 |
| Net sales:        |                                      |        |           |
| Automotive        | \$ 127                               | \$ 125 | 2%        |
| Diesel            | 21                                   | 16     | 31%       |
| Total net sales   | \$ 148                               | \$ 141 | 5%        |
| Net (loss) income | \$ (2)                               | \$ 6   | (133)%    |

The 2005 increase in net sales is primarily the result of demand for our ceramic filters and substrates for diesel emission control applications. We have received several letters of intent from diesel engine manufacturers to supply filters for their 2007 model year platforms, but they have not yet developed into supply agreements. Negotiations with these diesel engine manufacturers will continue through the next several quarters. For automotive products, volumes were up slightly from 2004, and sales continue to benefit from a higher mix of our thin-wall and ultra thin-wall substrates, which allow engine manufacturers to meet increasingly tighter emissions control requirements in a more cost effective manner. Strong sales to Asian auto manufacturers were largely offset by weaker demand from U.S. auto manufacturers due to slowdowns in their production. A portion of this segment's sales are susceptible to movements in the U.S. dollar-Euro exchange rate. Movements in exchange rates did not have a significant impact on sales for 2005 compared to 2004.

The 2005 decline in net income is primarily the result of increased development costs and plant start-up costs to support our emerging diesel products. These costs offset the gross margin benefits of increased volumes and the higher mix of premium automotive products. Movements in exchange rates did not significantly impact net income.

Outlook:

For the second quarter of 2005, we expect net sales to be comparable to those of the first quarter. For automotive products, we expect to see stable demand based on anticipated worldwide auto production and a continuation of the shift to premium products, although at slightly slower rates than 2004. A portion of our automotive products are sold to U.S. auto manufacturers, and as a result, further slowdowns in automotive production by these manufacturers could adversely impact sales. Diesel product sales are expected to grow in the quarter as the retrofit market is anticipated to remain strong. The retrofit market is volatile, and any unanticipated declines in demand could adversely impact sales.

Life Sciences

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

|  | For the three months ended March 31, |      | % Change  |
|--|--------------------------------------|------|-----------|
|  | 2005                                 | 2004 | 05 vs. 04 |

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|                   |        |       |        |
|-------------------|--------|-------|--------|
| Net sales         | \$ 74  | \$ 79 | (6)%   |
| Net (loss) income | \$ (2) | \$ 5  | (140)% |

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The 2005 decrease in net sales is primarily due to volume decreases as a result of the change in our distribution channel previously disclosed in our 2004 Annual Report on Form 10-K. Movements in foreign exchange rates, primarily the Euro, did not have a significant impact on the comparability of sales.

The 2005 decrease in net income is largely attributable to the gross margin impact from the lower sales volumes. Additionally, the Life Science segment incurred higher operating expenses to implement the change in distribution channels and to support new product development efforts.

### Outlook:

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For the second quarter of 2005, we expect to see a modest decline in sales due to the ongoing change in our distribution channel. The second quarter of 2005 will be the first full quarter of our channel migration as the distribution agreement with one of our primary distributors expired in April. While we are encouraged by the early results of our efforts to migrate sales previously made through this distributor to our other primary distributor and other channels, the adverse impact to sales is likely to increase in the second quarter of 2005. There can be no assurance that we will be successful in migrating the majority of our 2004 sales made through this distributor, as end user preferences for distribution models, price or other factors may adversely impact sales in the second half of 2005. For the full year, sales may be negatively impacted by as much as 10% to 20% as a result of this change in our distribution channel.

### LIQUIDITY AND CAPITAL RESOURCES

#### Customer Deposits

Certain customers of our Display Technologies segment have entered into long-term supply agreements and agreed to make advance cash deposits to secure supply of large-size glass substrates. The deposits will be applied in the form of credits against future product purchases in later periods as credits are applied for cash deposits received in earlier periods. For the current year, we received a total of \$108 million of deposits against orders, of which \$20 million was received in the first quarter.

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

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

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

#### Financing Structure

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

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

In addition, in the first quarter of 2005 we completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, a leverage test (debt to capital ratio not greater than 50%) and an interest coverage ratio of no less than 3.5 times (calculated on the most recent four quarters). As of March 31, 2005, our interest coverage ratio was 8.4 times, and our debt to capital ratio was 36%. Concurrent with the closing of this credit facility, we terminated our previous \$2 billion revolving line of credit that was set to expire in August 2005.

### Capital Spending

Capital spending totaled \$323 million during the three months ended March 31, 2005. Our 2005 forecasted consolidated capital spending remains at \$1.2 billion to \$1.4 billion. Of this amount, \$900 million to \$1 billion will be directed toward expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and approximately \$150 million will be directed toward our Environmental Technologies segment.

### Restructuring

During the three months ended March 31, 2005, we made payments of \$5 million related to employee severance and termination costs and \$4 million in other exit costs resulting from prior years' restructuring actions. We expect additional payments to approximate \$9 million in the second quarter of 2005 for actions taken from 2001 through 2004.

### Key Balance Sheet Data

Balance sheet and working capital measures are provided in the following table (dollars in millions):

|  | As of March 31,<br>2005<br>(Restated) | As of Dec<br>2004<br>(Restated) |
|--|---------------------------------------|---------------------------------|
| Working capital  | \$ 929                                | \$                              |
| Working capital, excluding cash and short-term investments | \$ (618)                              | \$ (1,                          |
| Current ratio  | 1.4:1                                 | 1.                              |
| Trade accounts receivable, net of allowances               | \$ 621                                | \$                              |
| Days sales outstanding                                     | 53                                    |                                 |
| Inventories  | \$ 562                                | \$                              |
| Inventory turns  | 4.8                                   |                                 |

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|                             |          |       |
|-----------------------------|----------|-------|
| Days payable outstanding    | 95       |       |
| Long-term debt              | \$ 2,125 | \$ 2, |
| Total debt to total capital | 37%      |       |

Credit Rating

There has been no change in our credit ratings from those disclosed in our 2004 Form 10-K:

| RATING AGENCY<br>Last Update           | Rating<br>Long-Term Debt | Outlook<br>Last Update       |
|--|--------------------------|------------------------------|
| Fitch<br>August 12, 2004               | BB+                      | Positive<br>August 12, 2004  |
| Standard & Poor's (a)<br>July 29, 2002 | BB+                      | Stable<br>January 16, 2004   |
| Moody's<br>July 29, 2002               | Ba2                      | Positive<br>January 14, 2005 |

(a) Standard & Poor's placed Corning's credit rating on Credit Watch with positive implications on February 8, 2005.

Management Assessment of Liquidity

Our major source of funding for 2005 and beyond will be our existing balance of cash, cash equivalents and short-term investments. From time to time, we may also issue debt or equity securities for general corporate purposes. We believe we have sufficient liquidity for the next several years to fund operations, restructuring, the asbestos settlement, research and development, capital expenditures and scheduled debt repayments.

Contractual Obligations

There have been no material changes outside the ordinary course of business in the contractual obligations disclosed in our 2004 Annual Report on Form 10-K under the caption "Contractual Obligations."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The estimates that required management's most difficult, subjective or complex judgments are described in our 2004 Annual Report on Form 10-K and remain unchanged through the first quarter of 2005.

ENVIRONMENT

We have been named by the Environmental Protection Agency under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is our policy to accrue for the estimated liability related to Superfund sites and other environmental liabilities related to property owned and operated by us based on expert

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analysis and continual monitoring by both internal and external consultants. We have accrued \$14 million for the estimated liability for environmental cleanup and related litigation at March 31, 2005. Based upon the information developed to date, we believe that the accrued amount is a reasonable estimate of our liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

### FORWARD-LOOKING STATEMENTS

Many statements in this Quarterly Report on Form 10-Q are forward-looking statements. These typically contain words such as "believes," "expects," "anticipates," "estimates," "forecasts," or similar expressions. These forward-looking statements involve risks and uncertainties that may cause the actual outcome to be materially different. Such risks and uncertainties include, but are not limited to the following:

- global economic and political conditions;
- tariffs, import duties and currency fluctuations;
- product demand and industry capacity;
- competitive products and pricing;
- sufficiency of manufacturing capacity and efficiencies;
- availability and costs of critical components and materials;
- new product development and commercialization;
- order activity and demand from major customers;
- fluctuations in capital spending by customers;
- possible disruption in commercial activities due to terrorist activity, armed conflict, political instability or major health concerns;
- facility expansions and new plant start-up costs;
- effect of regulatory and legal developments;
- capital resource and cash flow activities;
- ability to pace capital spending to anticipated levels of customer demand, which may fluctuate;
- interest costs;
- credit rating and ability to obtain financing and capital on commercially reasonable terms;
- adequacy and availability of insurance;
- financial risk management;
- capital spending;
- acquisition and divestiture activities;
- rate of technology change;
- level of excess or obsolete inventory;
- ability to enforce patents;
- adverse litigation;
- product and components performance issues;
- stock price fluctuations;
- rate of substitution by end-users purchasing LCDs for notebook computers, desktop monitors and televisions;
- downturn in demand for LCD glass substrates;
- customer ability, most notably in the Display Technologies segment, to maintain profitable operations and obtain financing to fund their manufacturing expansions;
- fluctuations in supply chain inventory levels;
- equity company activities, principally at Dow Corning Corporation and Samsung Corning Co., Ltd.; and
- other risks detailed in Corning's Securities and Exchange Commission filings.

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### Risk factors

Current or future litigation may harm our financial condition or results of operations

Pending, threatened or future litigation is subject to inherent uncertainties. Our financial condition or results of operations may be adversely affected by unfavorable outcomes, expenses and costs exceeding amounts estimated or insured. In particular, we have been named as a defendant in numerous lawsuits against PCC and several other defendants involving claims alleging personal injury from exposure to asbestos. As described in Legal Proceedings, our negotiations with the representatives of asbestos claimants have produced a tentative settlement, but certain cases may still be litigated. Final approval of a global settlement through the PCC bankruptcy process may impact the results of operations for the period in which such costs, if any, are recognized. Total charges of \$588 million have been incurred through March 31, 2005; however, additional charges are possible due to the potential fluctuation in the price of our common stock, other adjustments in the proposed settlement, and other litigation factors.

There have been no material changes to the other risk factors, noted in our Annual Report on Form 10-K for the year ended December 31, 2004, during the first three months of 2005.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk Disclosures

There have been no material changes to our market risk exposures during the first three months of 2005. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risks, contained in our 2004 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Restatement

As discussed in Note 2 to the consolidated financial statements contained herein, the Company has restated its consolidated financial statements for the years 2003 through 2005 and its quarterly consolidated financial statements for each of the quarterly periods in the years ended December 31, 2005 and 2004. Specifically, between March 31, 2003, and December 31, 2005, the following accounting errors occurred:

- .. Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by \$13 million, \$24 million, and \$117 million, respectively.



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- .. Corning incorrectly suspended recording equity earnings of Pittsburgh Corning Europe, N.V. between March 31, 2003, and December 31, 2005. As a result, equity in earnings of affiliated companies for the years 2005, 2004, and 2003 was understated by \$13 million, \$11 million, and \$7 million, respectively.
- .. Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by \$8 million, \$8 million, and \$5 million, respectively.

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

### (b) Evaluation of disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is accumulated and communicated to our management, including our principal executive and principal financial officers, or other persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In the first quarter of 2006, management identified errors in the accounting of its Pittsburgh Corning Corporation (PCC) Asbestos Litigation liability and investments in affiliates and as noted above, has recorded the necessary adjustments in the unaudited interim consolidated financial statements for the quarter ended March 31, 2006 to correct these errors and has restated previously issued financial statements. In its Form 8-K filed on April 25, 2006, management indicated that the evaluation of internal control over financial reporting related to the above mentioned errors was still in process.

The evaluation has been completed, and management, under the direction of its principal executive and principal financial officers, has re-evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2005. Based upon this re-evaluation and as a result of the material weaknesses discussed below, the Company's principal executive and principal financial officers, have concluded that its disclosure controls and procedures were not effective as of March 31, 2005.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management determined that the following control deficiencies constitute material weaknesses in internal control over financial reporting at March 31, 2005:

- (i) The Company did not maintain effective controls over the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability pertaining to the 2003 Pittsburgh Corning Corporation Asbestos Litigation Bankruptcy Settlement. Specifically, the Company did not maintain effective controls to ensure that certain components of the liability, which may be settled by contributing the Company's equity interest of Pittsburgh Corning Europe, N.V. and

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assignment of rights to insurance proceeds, were appropriately recorded at fair value rather than book value as required by generally accepted accounting principles. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our asbestos settlement charges and related liability that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- (ii) The Company did not maintain effective controls over the completeness and accuracy of its equity investments. Specifically, the Company did not maintain effective controls to ensure that earnings of its equity investments were accurately and completely recorded. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our investments and equity in earnings of affiliated companies that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Plan for Remediation of Material Weaknesses - We believe the steps described below, some of which have already been taken, will remediate the material weaknesses described above.

- .. We have enhanced the procedures and documentation associated with the reconciliation of our PCC Asbestos Litigation liability in order to ensure that all components are included in the evaluation process and are accounted for in accordance with generally accepted accounting principles.
- .. We have augmented the resources in our Accounting Services department that will enable us to have a stronger segregation of duties associated with the reconciliation of the PCC Asbestos Litigation liability account to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of this work is done by separate individuals who have the requisite skill set and training.
- .. We are in the process of updating our key controls within the Investments in Affiliates cycle to specifically address 1) our ability to achieve full inclusion of all less than 100% owned entities in our accounting analysis of Investments in Affiliates and 2) to ensure proper monitoring and accounting for these entities.
- .. We are in the process of improving our investments in affiliates reconciliation procedures and documentation in order to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of the reconciliation is done by separate individuals who have the requisite skill set and training.

As discussed above, since March 31, 2006, we are in the process of making improvements to our internal control over financial reporting that have a material effect, or are reasonably likely to materially affect, our internal control over financial reporting and anticipate the control deficiencies described above can be remediated on or before September 30, 2006.

### (c) Changes in internal control over financial reporting

No changes in the Company's internal control over financial reporting occurred during the quarter ending March 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over

financial reporting.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS

Environmental Litigation. Corning has been named by the Environmental Protection Agency under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party at 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such 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. Corning has accrued \$14 million for its estimated liability for environmental cleanup and litigation at March 31, 2005. 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.

Schwinger and Stevens Toxins Lawsuits. In April 2002, Corning was named as a defendant in two actions, Schwinger and Stevens, filed in the U.S. District Court for the Eastern District of New York, which asserted various personal injury and property damage claims against a number of corporate defendants. These claims allegedly arise from the release of toxic substances from a Sylvania nuclear materials processing facility near Hicksville, New York. Amended complaints naming 205 plaintiffs and seeking damages in excess of \$3 billion were served in September 2002. The sole basis of liability against Corning was plaintiffs' claim that Corning was the successor to Sylvania-Corning Nuclear Corporation (Sylvania-Corning), a Delaware corporation formed in 1957 and dissolved in 1960. Management intends to vigorously contest all claims against Corning for the reason that Corning is not the successor to Sylvania-Corning. Management will also defend on the grounds that almost all of the wrongful death claims and personal injury claims are time-barred. At a status conference in December 2002, the Court decided to "administratively close" the Schwinger and Stevens cases and ordered plaintiffs' counsel to bring new amended complaints with "bellwether" plaintiffs. In these actions, known as Schwinger II and Astuto, the plaintiffs have not named Corning as a defendant. Although it appears that plaintiffs may proceed only against the other corporate defendants, the original Schwinger and Stevens cases remain pending, and no order has been entered dismissing Corning. Based upon the information developed to date, and recognizing that the outcome of litigation is uncertain, management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Dow Corning Bankruptcy. Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning, which was in reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code between May 1995 and June 2004. Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousand 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 and 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

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Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Of the approximately \$3.2 billion of required funding, Dow Corning has paid approximately \$1.6 billion (inclusive of insurance) and expects to pay up to an additional \$1.6 billion (\$710 million after-tax) over 16 years. Dow Corning has satisfied the claims of its commercial creditors, except that certain commercial creditors continue to pursue an appeal to the U.S. Court of Appeals of the Sixth Circuit seeking from Dow Corning an additional sum of approximately \$80 million for interest at default rates and enforcement costs. Corning believes the risk of loss to Dow Corning (net of amounts reserved) is remote.

In addition, Dow Corning has received a statutory notice of deficiency from the United States Internal Revenue Service asserting tax deficiencies totaling approximately \$65 million relating to its federal income tax returns for the 1995 and 1996 calendar years. This matter is pending before the U.S. District Court in Michigan. Dow Corning has also received a proposed adjustment from the IRS (approximately \$117 million) with respect to its federal income tax returns for the 1997, 1998 and 1999 calendar years. Dow Corning is vigorously contesting these deficiencies and proposed adjustments which it believes are excessive.

In 1995, Corning fully impaired its investment in Dow Corning upon its entry into bankruptcy proceedings and 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 its emergence from bankruptcy protection was probable. Corning considers the difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning's equity to be permanent. This difference is \$249 million. Subject to future rulings by the bankruptcy court and potential changes in estimated bankruptcy-related liabilities, it is possible that Dow Corning may record bankruptcy-related charges in the future.

Corning received no dividends from Dow Corning in the first quarter of 2005, but anticipates that Dow Corning will begin to pay dividends later in 2005.

Federal Securities Cases. From December 2001 through April 2002, Corning and three of its officers and directors were named defendants in lawsuits alleging (a) violations of the U.S. securities laws in connection with Corning's November 2000 offering of 30 million shares of common stock and \$2.7 billion zero coupon convertible debentures, due November 2015 and (b) misleading disclosures and non-disclosures that allegedly inflated the price of Corning's common stock in the period from October 2000 through July 9, 2001. On April 12, 2004, the U.S. District Court of the Western District of New York entered a decision and order dismissing plaintiffs' complaint. That dismissal was affirmed by the U.S. Court of Appeals of the Second Circuit by an order entered on March 30, 2005. Although it is possible that plaintiffs may seek further judicial review, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

Pittsburgh Corning Corporation. Corning and PPG Industries, Inc. ("PPG") each own 50% of the capital stock of 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. As of the bankruptcy filing, PCC had in excess of 140,000 open claims and had insufficient remaining insurance and assets to deal with its alleged current and future liabilities. More than 100,000 additional claims have been filed with PCC after its bankruptcy filing. As a

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result of PCC's bankruptcy filing, Corning recorded an after-tax charge of \$36 million in 2001 to fully impair its investment in PCC and discontinued recognition of equity earnings. At the time PCC filed for bankruptcy protection, there were approximately 12,400 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 named in approximately 11,400 other cases (approximately 43,400 claims) alleging injuries from asbestos and similar amounts of monetary damages per claim. Those cases have been covered by insurance without material impact to Corning to date. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

In the bankruptcy court, PCC in April 2000 obtained a preliminary injunction against the prosecution of asbestos actions arising from PCC's products against its two shareholders to afford the parties a period of time in which to negotiate a plan of reorganization for PCC ("PCC Plan").

On May 14, 2002, PPG announced that it had agreed with certain of its insurance carriers and representatives of current and future asbestos claimants on the terms of a settlement arrangement applicable to claims arising from PCC's products.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from the effective date of the settlement. In addition, Corning will assign policy rights or proceeds under primary insurance from 1962 through 1984, as well as rights to proceeds under certain excess insurance, most of which falls within the period from 1962 through 1973. In return for these contributions, Corning expects to receive a release and an injunction channeling asbestos claims against it into a settlement trust under the PCC Plan.

Corning recorded an initial charge of \$392 million in the period ending March 31, 2003 to reflect the settlement terms. However, the asbestos liability requires adjustment to fair value based upon movements in Corning's common stock price prior to the contribution of the shares to the trust and changes in the estimated fair value of the other components of the settlement offer.. Beginning with the first quarter of 2003 and through March 31, 2005, Corning recorded total net charges of \$588 million to reflect the initial settlement, the movement in Corning's common stock price since March 31, 2003, and changes in the estimated fair value of the other components of the settlement offer.

Two of Corning's primary insurers and several excess 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 settlement arrangement described above. Corning is vigorously contesting these cases. Management is unable to predict the outcome of this insurance litigation.

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The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made final oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. At this hearing, the court allowed the proponents of the PCC Plan 60 days to consider amendments to the Plan or to request rulings on the pending objections. The timing and outcome are uncertain. If the Bankruptcy Court does not confirm the PCC Plan in its current form, changes to the settlement agreement are reasonably possible. Further judicial review is also reasonably possible. Although the confirmation of the PCC Plan is subject to a number of contingencies, apart from the quarterly adjustment in the value of 25 million shares of Corning common stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

Astrium. In December of 2000, Astrium, SAS and Astrium, Ltd. filed a complaint for negligence in the U.S. District Court for the Central District of California against TRW, Inc., Pilkington Optronics Inc., Corning NetOptix, Inc. (NetOptix), OFC Corporation and Optical Filter Corporation claiming damages in excess of \$150 million. The complaint alleges that certain cover glasses for solar arrays used to generate electricity from solar energy on satellites sold by Astrium's corporate successor were negligently coated by NetOptix or its subsidiaries (prior to Corning's acquisition of NetOptix) in such a way that the amount of electricity the satellite can produce and their effective life were materially reduced. NetOptix has denied that the coatings produced by NetOptix or its subsidiaries caused the damage alleged in the complaint, or that it is legally liable for any damages that Astrium may have experienced. In April 2002, the Court granted motions for summary judgment by NetOptix and other defendants to dismiss the negligence claims, but permitted plaintiffs to add fraud and negligent misrepresentation claims against all defendants and a breach of warranty claim against NetOptix and its subsidiaries. In October 2002, the Court again granted defendants' motions for summary judgment and dismissed the negligent misrepresentation and breach of warranty claims. The intentional fraud claims were dismissed against all non-settling defendants on February 25, 2003. On March 19, 2003, Astrium appealed all of the Court's rulings regarding the various summary judgment motions to the Ninth Circuit Court of Appeals. The period of briefing the appeal was extended, and oral argument has not been scheduled. Recognizing that the outcome of litigation is uncertain, management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Furukawa Electric Company. On February 3, 2003, The Furukawa Electric Company (Furukawa) filed suit in the Tokyo District Court in Japan against Corning Cable Systems International Corporation (CCS International) alleging infringement of Furukawa's Japanese Patent No. 2,023,966 which relates to separable fiber ribbon units used in optical cable. Furukawa's complaint requests slightly over 6 billion Japanese yen in damages (approximately \$56 million) and an injunction against further sales in Japan of these fiber ribbon units. CCS International has denied the allegation of infringement, asserted that the patent is invalid, and is defending vigorously against this lawsuit. On October 29, 2004, the Tokyo District Court issued its ruling in favor of CCS on both non-infringement and patent invalidity. Furukawa has filed an appeal from this ruling to the Tokyo Court of Appeals. Management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

PicVue Electronics Ltd., PicVue OptoElectronics International, Inc. and

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Eglasstrek GmbH. In June 2002, Corning brought an action seeking to restrain the use of its trade secrets and for copyright infringement relating to certain aspects of the fusion draw machine used for liquid crystal display glass melting. This action is pending in the U.S. District Court for the Western District of New York against these three named defendants. The District Court in July 2003 denied the PicVue motion to dismiss and granted a preliminary injunction in favor of Corning, subject to posting a bond in an amount to be determined. PicVue, a Taiwanese company, filed a counterclaim alleging violations of the antitrust laws and claiming damages of more than \$120 million as well as requesting trebled damages. On PicVue's appeal from the District Court's grant of the preliminary injunction, the Court of Appeals affirmed but remanded the case for the District Court to clarify the scope of the injunction and to consider what, if any, bond should be posted. The parties have submitted papers to the District Court addressing the issues remanded. Recognizing that the outcome of litigation is uncertain, management believes that the PicVue counterclaim is without merit and that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Tyco Electronics Corporation and Tyco Technology Resources, Inc. On August 13, 2003, CCS Holdings Inc. (CCS), a Corning subsidiary, filed an action in the U.S. District Court for the Middle District of North Carolina against Tyco Electronics Corporation and Tyco Technology Resources, Inc. (Tyco), asking the court to declare a Tyco patent invalid and not infringed by CCS. The patent generally relates to a type of connector for optical fiber cables. Tyco has responded with a motion to dismiss the action for lack of jurisdiction, but that motion has been withdrawn. Tyco has filed an answer and counterclaims to CCS's complaint. Tyco's counterclaims allege patent infringement by CCS and seeks unspecified monetary damages and an injunction. Recognizing that the outcome of litigation is uncertain, management believes that the risk of a material impact on Corning's financial statements is remote.

Grand Jury Investigation of Conventional Cathode Ray Television Glass Business. In August 2003, Corning Asahi Video Products Company (CAV) was served with a federal grand jury document subpoena related to pricing, bidding and customer practices involving conventional cathode ray television glass picture tube components. A number of employees or former employees have received a related subpoena. CAV is a general partnership, 51% owned by Corning and 49% owned by Asahi Glass America, Inc. CAV's only manufacturing facility in State College, Pennsylvania closed in the first half of 2003 due to declining sales. CAV is cooperating with the government investigation. Management is not able to estimate the likelihood that any charges will be filed as a result of the investigation.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides information about our purchases of our common stock during the fiscal first quarter of 2005:

Issuer Purchases of Equity Securities (a)

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| Period              | Total Number of Shares Purchased (b) | Average Price Paid per Share (b) | Total Number of Shares Purchased a Part of Publicly Announced Plan (a) |
|---------------------|--------------------------------------|----------------------------------|--|
| January 1-31, 2005  | 0                                    | \$0                              | 0  |
| February 1-28, 2005 | 118,161                              | \$11.43                          | 0  |
| March 1-31, 2005    | 10,801                               | \$11.81                          | 0  |
| Total               | 128,962                              | \$11.46                          | 0  |

(a) During the quarter ended March 31, 2005, we did not have a publicly announced program for repurchase of shares of our common stock and did not repurchase our common stock in open-market transactions outside of such a program.

(b) These columns reflect the following transactions during the first quarter of 2005: (i) the deemed surrender to us of 58,921 shares of common stock to pay the exercise price and to satisfy tax withholding obligations in connection with the exercise of employee stock options, and (ii) the surrender to us of 70,041 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We will include voting results of our annual meeting of shareholders to be held on April 28, 2005 as part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, which we expect to file with the Securities and Exchange Commission on or about July 26, 2005.

ITEM 6. EXHIBITS

Exhibits

| Exhibit Number | Exhibit Name   |
|----------------|--|
| 10             | Five-Year Revolving Credit Agreement with Citibank, N.A.; J.P. Morgan Chase Bank, N.A.; Bank of America, N.A.; Bank of Tokyo - Mitsubishi, Ltd.; Wachovia Bank, National Association; Barclays Bank PLC; and Deutsche Bank A.G. New York branch Dated March 17, 2005 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed April 26, 2005) |
| 12             | Computation of Ratio of Earnings to Fixed Charges  |
| 31.1           | Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |



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- 31.2 Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification Pursuant to 18 U.S.C. Section 1350, As adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES  
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Pursuant to the requirements of the Securities and 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)

May 9, 2006  
-----

Date

/s/ JAMES B. FLAWS  
-----

James B. Flaws  
Vice Chairman and Chief Financial Officer  
(Principal Financial Officer)

May 9, 2006  
-----

Date

/s/ KATHERINE A. ASBECK  
-----

Katherine A. Asbeck  
Senior Vice President and Controller  
(Principal Accounting Officer)

EXHIBIT INDEX  
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Exhibit Number  
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Exhibit Name  
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|      |  |
|------|--|
| 10   | Five-Year Revolving Credit Agreement with Citibank, N.A.; J.P. Morgan Chase Bank, N.A.; Bank of America, N.A.; Bank of Tokyo - Mitsubishi, Ltd.; Wachovia Bank, National Association; Barclays Bank PLC; and Deutsche Bank A.G. New York branch Dated March 17, 2005 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed April 26, 2005) |
| 12   | Computation of Ratio of Earnings to Fixed Charges  |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) and 15d-15(e), As adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) and 15d-15(e), As adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32   | Certification Pursuant to 18 U.S.C. Section 1350, As adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |

### Exhibit 12

CORNING INCORPORATED AND SUBSIDIARY COMPANIES  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 (In millions, except ratios)

|  | For the three months ended<br>March 31, 2005<br>(Restated) |
|--|--|
|  | -----  |
| Income before income taxes   | \$ 101   |
| Adjustments:   |  |
| Distributed income of equity investees   | 143  |
| Fixed charges net of capitalized interest                                      | 41   |
|  | -----  |
| Income before taxes and fixed charges, as adjusted                             | \$ 285   |
|  | =====  |
| Fixed charges:   |  |
| Interest expense (a)   | \$ 35  |
| Portion of rent expense which represents an<br>appropriate interest factor (b) | 6  |
| Capitalized interest   | 4  |
|  | -----  |
| Total fixed charges  | 45   |
| Capitalized interest   | (4)  |
|  | -----  |
| Total fixed charges, net of capitalized interest                               | \$ 41  |
|  | =====  |
| Ratio of earnings to fixed charges   | 6.3x   |
|  | =====  |

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- (a) Interest expense includes amortization expense for capitalized interest and debt costs.
- (b) One-third of net rent expense is the portion deemed representative of the interest factor.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(A) OF  
THE SARBANES-OXLEY ACT OF 2002

I, Wendell P. Weeks, certify that:

1. I have reviewed this amendment to quarterly report on Form 10-Q/A of Corning Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

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reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ Wendell P. Weeks

-----  
Wendell P. Weeks  
President and Chief Executive Officer  
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(A) OF  
THE SARBANES-OXLEY ACT OF 2002

I, James B. Flaws, certify that:

1. I have reviewed this amendment to quarterly report on Form 10-Q/A of Corning Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's

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most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ James B. Flaws  
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James B. Flaws  
Vice Chairman and Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Wendell P. Weeks, President and Chief Executive Officer, and James B. Flaws, Vice Chairman and Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the amendment to Quarterly Report on Form 10-Q/A for the three-month period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) that information contained in such Form 10-Q/A fairly presents in all material respects the financial condition and results of operations of Corning Incorporated.

Date: May 9, 2006

/s/ Wendell P. Weeks  
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Wendell P. Weeks

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President and Chief Executive Officer

/s/ James B. Flaws

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James B. Flaws  
Vice Chairman and Chief Financial Officer