

Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 September 30, 2005

OR

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

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

Commission file number 1-3247

CORNING INCORPORATED

(Exact name of Registrant as specified in its charter)

New York 16-0393470  
-----  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York 14831  
-----  
(Address of principal executive offices) (Zip Code)

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 (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

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

Yes  No

Edgar Filing: CORNING INC /NY - Form 10-Q/A

---

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed any documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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 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 September 30, 2005 (the Original Filing), which was originally filed on October 28, 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 September 30, 2005 balance sheet was to increase its investments in affiliate companies by \$30 million, increase other accrued liabilities by \$150 million, increase accumulated deficit by \$122 million, and increase accumulated other comprehensive income by \$2 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 September 30,		Nine mon
	-----		-----
	2005	2004	2005
	----	----	----
As reported:			
Net income (loss)	\$ 203	\$ (2,491)	\$ 6
Basic earnings per share	\$ 0.14	\$ (1.78)	\$ 0.
Diluted earnings (loss) per share	\$ 0.13	\$ (1.78)	\$ 0.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

As restated:

Net income (loss)	\$ 203	\$ (2,546)	\$	6
Basic earnings per share	\$ 0.14	\$ (1.82)	\$	0.
Diluted earnings (loss) per share	\$ 0.13	\$ (1.82)	\$	0.
Increase in net (loss) income		\$ (55)	\$	
Increase in basic earnings per share				
Increase in diluted loss per share		\$ (0.04)		

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 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.

INDEX

-----

# Edgar Filing: CORNING INC /NY - Form 10-Q/A

PART I - FINANCIAL INFORMATION  
-----

	Page -----
ITEM 1. Financial Statements	
Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2005 and 2004	5
Consolidated Balance Sheets (Unaudited) at September 30, 2005 and December 31, 2004	6
Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2005 and 2004	7
Notes to Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3. Quantitative and Qualitative Disclosures About Market Risk	57
Item 4. Controls and Procedures	57

PART II - OTHER INFORMATION  
-----

Item 1. Legal Proceedings	59
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	63
Item 6. Exhibits	64
Signatures	65

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

	Three months ended September 30,		
	2005 (Restated)	2004 (Restated)	
Net sales	\$ 1,188	\$ 1,006	\$
Cost of sales	643	602	
Gross margin	545	404	

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Operating expenses:			
Selling, general and administrative expenses	178	153	
Research, development and engineering expenses	118	88	
Amortization of purchased intangibles	3	9	
Restructuring, impairment and other charges (Note 3)	28	1,794	
Asbestos settlement (Note 4)	73	(45)	
	-----	-----	
Operating income (loss)	145	(1,595)	
Interest income	17	6	
Interest expense	(23)	(34)	
Loss on repurchases and retirement of debt, net (Note 5)		(4)	
Other income, net	17	5	
	-----	-----	
Income (loss) from continuing operations before income taxes	156	(1,622)	
Provision for income taxes (Note 6)	(28)	(1,040)	
	-----	-----	
Income (loss) from continuing operations before minority interests and equity earnings	128	(2,662)	
Minority interests	(2)	(3)	
Equity in earnings of associated companies, net of impairments (Note 10)	77	99	
	-----	-----	
Income (loss) from continuing operations	203	(2,566)	
Income from discontinued operation (Note 8)		20	
	-----	-----	
Net income (loss)	\$ 203	\$ (2,546)	\$
	=====	=====	=====
Basic earnings (loss) per common share from (Note 7):			
Continuing operations	\$ 0.14	\$ (1.83)	\$
Discontinued operation		0.01	
	-----	-----	
Basic earnings (loss) per common share	\$ 0.14	\$ (1.82)	\$
	=====	=====	=====
Diluted earnings (loss) per common share from (Note 7):			
Continuing operations	\$ 0.13	\$ (1.83)	\$
Discontinued operation		0.01	
	-----	-----	
Diluted earnings (loss) per common share	\$ 0.13	\$ (1.82)	\$
	=====	=====	=====

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

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

Edgar Filing: CORNING INC /NY - Form 10-Q/A

	September 2005 (Restat -----
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,3
Short-term investments, at fair value	1,0
	-----
Total cash, cash equivalents and short-term investments	2,4
Trade accounts receivable, net of doubtful accounts and allowances - \$28 and \$30	6
Inventories (Note 9)	5
Deferred income taxes (Note 6)	
Other current assets	2
	-----
Total current assets	3,8
Investments (Note 10)	1,6
Property, net of accumulated depreciation - \$3,543 and \$3,532	4,3
Goodwill and other intangible assets, net (Note 11)	3
Deferred income taxes (Note 6)	4
Other assets	1
	-----
Total Assets	\$ 10,9
	=====
Liabilities and Shareholders' Equity	
Current liabilities:	
Short-term borrowings, including current portion of long-term debt (Note 5)	\$ 2
Accounts payable	5
Other accrued liabilities (Notes 4 and 12)	1,5
	-----
Total current liabilities	2,3
Long-term debt (Note 5)	1,8
Postretirement benefits other than pensions	5
Other liabilities (Notes 4 and 12)	1,0
	-----
Total liabilities	5,7
	-----
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: 0 and 637 thousand	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;	
Shares issued: 1,534 million and 1,424 million	7
Additional paid-in capital	11,2
Accumulated deficit	(6,8
Treasury stock, at cost; Shares held: 16 million	(1
Accumulated other comprehensive income (Note 14)	
	-----
Total shareholders' equity	5,1
	-----

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Total Liabilities and Shareholders' Equity

\$ 10,9

=====

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

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

	Nine Se ----- 2005 (Restate -----
Cash Flows from Operating Activities:	
Net income (loss)	\$ 61
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	37
Amortization of purchased intangibles	1
Restructuring, impairment and other charges and (credits)	4
Asbestos settlement	20
Gain on sale of discontinued operation	
Loss on repurchases and retirement of debt, net	1
Undistributed earnings of associated companies	(20)
Minority interests, net of dividends paid	
Deferred taxes	(1)
Interest expense on convertible debentures	
Restructuring payments	(2)
Employee retirement plan payments less than (in excess of) expense	4
Customer deposits, net	37
Changes in certain working capital items:	
Trade accounts receivable	(7)
Inventories	(4)
Other current assets	(1)
Accounts payable and other current liabilities, net of restructuring payments	(9)
Other, net	5
Net cash provided by operating activities	1,28 -----
Cash Flows from Investing Activities:	
Capital expenditures	(1,07)
Net proceeds from sale of businesses	
Net proceeds from sale or disposal of assets	1
Short-term investments - acquisitions	(1,31)
Short-term investments - liquidations	1,16
Restricted investments - liquidations	
Other, net	1 -----

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Net cash used in investing activities	(1,19
-----	
Cash Flows from Financing Activities:	
Net repayments of loans payable	(19
Proceeds from issuance of long-term debt, net	14
Repayments of long-term debt	(10
Proceeds from issuance of common stock, net	35
Cash dividends to preferred shareholders	(
Proceeds from the exercise of stock options	14
Other, net	(
-----	
Net cash provided by financing activities	33
-----	
Effect of exchange rates on cash	(3
-----	
Net increase in cash and cash equivalents	38
Cash and cash equivalents at beginning of period	1,00
-----	
Cash and cash equivalents at end of period	\$ 1,39
=====	

Certain amounts for 2004 were reclassified to conform with 2005 presentation.

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

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

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



## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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.

### Property, Plant, and Equipment

Included in the subcategory of equipment, as disclosed in Note 8 to the December 31, 2004 Form 10-K, are the following types of assets:

Asset type	Range of useful life
Software	3 years
Manufacturing equipment	3 to 15 years
Furniture and fixtures	5 to 7 years
Transportation equipment	20 years

Included in manufacturing equipment are certain components of production equipment that are coated with or constructed of precious metals. These metals have an indefinite useful life as they are returned to their elemental state and sold at current market value when fixed assets are rebuilt or disposed of.

### Foreign Currency Translation and Transactions

The determination of the functional currency for Corning's foreign subsidiaries is made based on the appropriate economic and management indicators. For most foreign operations, the local currencies are generally considered to be the functional currencies. Prior to 2005, non-U.S. operations which do not use the local currency as the functional currency use the U.S. dollar. 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.

For foreign subsidiary functional currency financial statements, balance sheet accounts are translated at current exchange rates, and statements of operations accounts are translated at average exchange rates for the year. Translation gains and losses are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity. The effects of remeasuring non-functional currency assets and liabilities into the functional currency are included in current earnings.

### Derivative Instruments

We participate in a variety of foreign exchange forward contracts and foreign exchange option contracts entered into in connection with the management of our exposure to fluctuations in foreign exchange and interest rates.

All derivatives are recorded at fair value on the balance sheet. Changes in the

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

fair value of derivatives designated as cash flow hedges and hedges of net investments in foreign operations are recorded in accumulated other comprehensive income (loss). Amounts related to cash flow hedges are reclassified from accumulated other comprehensive income (loss) when the underlying hedged item impacts earnings. This reclassification is recorded in the same line item of the consolidated statement of operations, primarily sales or cost of sales, where the effects of the hedged item are recorded.

Changes in the fair value of derivatives designated as fair value hedges are recorded currently in earnings offset, to the extent the derivative was effective, by the change in the fair value of the hedged item. Corning currently does not have any fair value hedges. Changes in the fair value of derivatives not designated as hedging instruments are recorded currently in earnings in the Other income line of the consolidated statement of operations.

### Hedging Activities

We operate and conduct business in many foreign countries and as a result are exposed to movements in foreign currency exchange rates. Our exposure to exchange rate effects includes:

- .. exchange rate movements on financial instruments and transactions denominated in foreign currencies which impact earnings, and
- .. exchange rate movements upon conversion of net assets in foreign subsidiaries for which the functional currency is not the U.S. dollar, which impact our net equity.

Our most significant foreign currency exposures relate to Japan, Korea, Taiwan and western European countries. We selectively enter into foreign exchange forward and option contracts with durations generally 15 months or less to hedge our exposure to exchange rate risk on foreign source income and purchases. The hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. The objective of these contracts is to neutralize the impact of exchange rate movements on our operating results.

We engage in foreign currency hedging activities to reduce the risk that changes in exchange rates will adversely affect the eventual net cash flows resulting from the sale of products to foreign customers and purchases from foreign suppliers. The hedge contracts reduce the exposure to fluctuations in exchange rate movements because the gains and losses associated with foreign currency balances and transactions are generally offset with gains and losses of the hedge contracts. Because the impact of movements in foreign exchange rates on the value of hedge contracts offsets the related impact on the underlying items being hedged, these financial instruments help alleviate the risk that might otherwise result from currency exchange rate fluctuations.

The following table summarizes the notional amounts and respective fair values of Corning's derivative financial instruments, which mature at varying dates, at September 30, 2005 (in millions):

	Notional Amount	Fair Value
Foreign exchange forward contracts	\$1,139	\$ 20
Foreign exchange option contracts	\$1,068	\$ 8

The amount of net gains expected to be reclassified into earnings within the next 12 months is \$27 million.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

The forward and option contracts we use in managing our foreign currency exposures contain an element of risk in that the counterparties may be unable to meet the terms of the agreements. However, we minimize this risk by limiting the counterparties to a diverse group of highly-rated major domestic and international financial institutions with which we have other financial relationships. We are exposed to potential losses in the event of non-performance by these counterparties; however, we do not expect to record any losses as a result of counterparty default. We do not require and are not required to place collateral for these financial instruments.

In the second quarter of 2005, Corning began using derivative instruments (forwards) to limit the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities. These derivative instruments are not designated as hedging instruments for accounting purposes and, as such, are referred to as undesignated hedges. Changes in the fair value of undesignated hedges are recorded in current period results in the other income, net component on the income statement, along with the foreign currency gains and losses arising from the underlying monetary assets or liabilities, in the consolidated statement of operations. At September 30, 2005, the notional amount of the undesignated derivatives was \$444 million.

We have issued foreign currency denominated debt that has been designated as a hedge of the net investment in a foreign operation. The effective portion of the changes in fair value of the debt is reflected as a component of other comprehensive income (loss) as part of the foreign currency translation adjustment. At September 30, 2005 the amount of net losses included in the cumulative translation adjustment is \$112 million.

### Variable Interest Entities

Corning leases certain transportation equipment from a Trust that qualifies as a variable interest entity under FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised (FIN 46R). The sole purpose of this entity is leasing transportation equipment to Corning. Since Corning is the primary beneficiary of this entity, the financial statements of the entity are included in Corning's consolidated financial statements. The entity's assets are primarily comprised of fixed assets which are collateral for the entity's borrowings. These assets, amounting to approximately \$29.8 million as of September 30, 2005, are classified as long-term assets in the consolidated balance sheet.

Corning leases certain transportation equipment from two additional Trusts that qualify as variable interest entities under FIN 46R. The sole purpose of the entities is leasing transportation equipment to Corning. Corning has been involved with these entities as lessee since the inception of the Trusts. Lease revenue generated by these Trusts was \$1.6 million for each of the nine month periods ended September 30, 2005 and 2004, and \$0.4 million for each of the quarters ended September 30, 2005 and 2004. Corning's maximum exposure to loss as a result of its involvement with the Trusts is estimated at approximately \$16.5 million at September 30, 2005.

### Stock-Based Compensation

We apply Accounting Principles Board Opinion (APB) 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.

Edgar Filing: CORNING INC /NY - Form 10-Q/A

(In millions, except per share amounts)

	Three months ended September 30,	
	2005 (Restated)	2004 (Restated)
Income (loss) from continuing operations - as reported	\$ 203	\$ (2,566)
Add: Stock-based employee compensation expense determined under APB 25, included in reported net income (loss), net of tax	12	
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(23)	(20)
Income (loss) from continuing operations - pro forma	\$ 192	\$ (2,586)
Earnings (loss) per common share:		
Basic - as reported	\$ 0.14	\$ (1.83)
Basic - pro forma	\$ 0.13	\$ (1.85)
Diluted - as reported	\$ 0.13	\$ (1.83)
Diluted - pro forma	\$ 0.12	\$ (1.85)

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 plans:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Expected life in years	4	4	4	4
Risk free interest rate	4.13%	3.62%	3.76%	3.34%
Expected volatility	50%	50%	50%	50%

Changes in the status of outstanding options follow:

	Number of Shares (in thousands)	Weighted-Average Exercise Price
Options outstanding December 31, 2004	139,023	\$ 20.43
Options granted under plans	7,665	\$ 12.87
Options exercised	(18,446)	\$ 8.16
Options terminated	(3,337)	\$ 36.24

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Options outstanding September 30, 2005	124,905	\$ 21.35
	=====	
Options exercisable September 30, 2005	96,949	\$ 25.05
-----		

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS 123 and supercedes APB 25. SFAS 123(R) 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 adoption dates of SFAS 123(R). Under SFAS 123(R), Corning must determine the appropriate fair value model to be used for valuing share-based payments, the attribution method for compensation cost, and the transition method to be used at date of adoption. We will implement the provisions of SFAS 123(R) on January 1, 2006 following the "prospective adoption" transition method. This adoption method requires Corning to begin expensing share-based payments effective January 1, 2006. Prior periods will not be restated.

Corning grants restricted shares and stock options that are subject to specific vesting conditions (e.g., three-year cliff vesting). The awards specify that the employee will continue to vest in the award after retirement without providing any additional service. Corning accounts for this type of arrangement by recognizing compensation cost over the nominal vesting period and, if the employee retires before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement (the "nominal vesting period approach").

SFAS 123(R) specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). That would be the case for Corning awards that vest when employees retire and are granted to retirement eligible employees. Effective January 1, 2006, related compensation cost must be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

We will continue to follow the nominal vesting period approach for (1) any new share-based awards granted prior to adopting SFAS 123(R) and (2) the remaining portion of unvested outstanding awards after adopting SFAS 123(R). Upon adoption of SFAS 123(R), we will apply the non-substantive vesting period approach to new grants that have retirement eligibility provisions. Had we applied the non-substantive vesting period approach in prior periods, stock-based compensation cost would have been \$11 million and \$5 million higher for the nine months ended September 30, 2005 and 2004, respectively, for stock options and restricted share awards.

Our current estimate is that our pretax and after-tax stock-based compensation expense will increase by \$60 million to \$70 million in 2006 and beyond as a result of adopting SFAS 123(R). This amount includes approximately \$15 million related to the impact of applying the non-substantive vesting period approach.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4" (SFAS 151). SFAS 151 amends ARB No. 43, Chapter 4, "Inventory Pricing," to clarify that abnormal amounts of idle facility expense,

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. Additionally, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Corning is required to adopt SFAS 151 effective January 1, 2006. Corning does not expect the adoption of SFAS 151 to have a material impact on its consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges in Nonmonetary Assets - an amendment of APB Opinion No. 29" (SFAS 153) which became effective in July 2005. This Statement amends APB No. 29, "Accounting for Nonmonetary Transactions," by eliminating an exception for nonmonetary exchanges of similar productive assets and replacing it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Corning adopted SFAS 153 prospectively, on July 1, 2005, as required. The impact of SFAS 153 was not material to Corning's consolidated results of operations and financial condition.

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.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Corning will apply the standard's guidance to changes in accounting methods as required. At this time, Corning does not expect the adoption of SFAS 154 will 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 the effective date of the settlement and to assign insurance policy proceeds

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 September 30, 2005, resulted in an increase in investments in affiliate companies of \$30 million, an increase to other accrued liabilities of \$150 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$2 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 provided in the following summaries.

In addition, the consolidated statements of cash flows for the nine months ended September 30, 2004, reflect changes to Investing Activities and Cash and Cash Equivalents at End of Period due to the reclassification of auction rate securities from cash and cash equivalents to short-term investments as of September 30, 2004. Amounts were reclassified because the securities had stated maturities beyond three months but priced and traded as short-term investments due to the liquidity provisions at specified interest rate reset dates, typically every 7, 28, or 35 days.

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

Edgar Filing: CORNING INC /NY - Form 10-Q/A

	For t S
	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ 68
Operating income (loss)	150
Interest expense	25
Income (loss) before income taxes	159
Provision for income taxes	(28)
	-----
Income (loss) before minority interests and equity earnings	131
Equity in earnings of associated companies, net of impairments	74
Net income	\$ 203
Basic earnings per common share	\$ 0.14
Diluted earnings per common share	\$ 0.13

	For t S
	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ (50)
Operating loss	(1,590)
Interest expense	36
Loss before income taxes	(1,619)
Provision for income taxes	(985)
	-----
Loss before minority interests and equity earnings	(2,604)
Equity in earnings of associated companies, net of impairments	96
Loss from continuing operations	\$ (2,511)
Net loss	\$ (2,491)
Basic loss per common share from continuing operations	\$ (1.79)
Basic loss per common share	\$ (1.78)
Diluted loss per common share from continuing operations	\$ (1.79)
Diluted loss per common share	\$ (1.78)



Edgar Filing: CORNING INC /NY - Form 10-Q/A

	For S
	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ 189
Operating income (loss)	338
Interest expense	90
Income before income taxes	304
Provision for income taxes	(91)
Income before minority interests and equity earnings	----- 213
Equity in earnings of associated companies, net of impairments	412
Net income	\$ 617
Basic loss per common share	\$ 0.43
Diluted loss per common share	\$ 0.41

	For S
	----- Previously Reported -----
Operating expenses:	
Asbestos settlement	\$ 16
Operating loss	(1,524)
Interest expense	109
Loss before income taxes	(1,647)
Provision for income taxes	(997)
Loss before minority interests and equity earnings	----- (2,644)
Equity in earnings of associated companies, net of impairments	310
Loss from continuing operations	\$ (2,348)
Net loss	\$ (2,328)

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Basic loss per common share from continuing operations	\$ (1.70)
Basic loss per common share	\$ (1.69)
Diluted loss per common share from continuing operations	\$ (1.70)
Diluted loss per common share	\$ (1.69)

---

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

	As o
	Previously Reported
Investments	\$ 1,605
Total Assets	\$ 10,883
Other accrued liabilities	\$ 1,384
Total current liabilities	\$ 2,231
Total liabilities	\$ 5,630
Accumulated deficit	\$ (6,692)
Accumulated other comprehensive income	\$ 35
Total shareholders' equity	\$ 5,226
Total Liabilities and Shareholders' Equity	\$ 10,883

---

	As
	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)

	For S
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net income	\$ 617
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:	
Asbestos settlement charge	189
Undistributed earnings of associated companies	(196)
Other, net	59
Net cash provided by operating activities	\$ 1,280

	For S
	----- Previously Reported -----
Cash Flows from Operating Activities:	
Net loss	\$ (2,328)
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	(199)
Deferred taxes	939
Other, net	64
Net cash provided by operating activities	\$ 643

3. Restructuring, Impairment and Other Charges

2005 Actions

Third Quarter

-----  
 In the third quarter of 2005, we approved a restructuring plan within the Telecommunications segment to continue to reduce costs in this segment. As a

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

result, we recorded a charge of \$30 million which is comprised of severance costs. Additional expenses, not included in this charge, related to relocating manufacturing assets, accelerated depreciation, and shutdown activities are not expected to be material and will be expensed as incurred in future periods. We also recorded net credits of \$2 million related to adjustments to prior period restructuring charges.

### Second Quarter

In the second quarter of 2005, we recorded net credits of \$1 million included in restructuring, impairment and other charges and (credits). A summary of these credits and charges follows:

- .. We recorded net credits of \$7 million, primarily for adjustments to prior years' restructuring and impairment reserves.
- .. We recorded an additional impairment charge of \$6 million for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its adjusted cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At June 30, 2005, shares of Avanex stock were trading at \$0.90 per share compared to our adjusted cost basis of \$1.30 per share (after recording for the first quarter of 2005 impairment charge discussed below). We continue to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the additional impairment in the second quarter was required.

### First Quarter

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.

The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the nine months ended September 30, 2005 (in millions):

	January 1, 2005	Nine months ended Sept. 30, 2005 charge	Revisions to existing plans	N char (reve
<b>Restructuring:</b>				
Employee related costs	\$ 18	\$ 30	\$ (1)	\$
Other charges	77		(14)	(
Total restructuring charges	\$ 95	\$ 30	\$ (15)	\$
<b>Impairment of assets:</b>				
Impairment of available-for-sale securities		\$ 25		\$
Assets to be disposed of by sale or abandonment			\$ 6	

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Total impairment charges	\$ 25	\$ 6	\$
Total restructuring, impairment and other charges and (credits)	\$ 55	\$ (9)	\$

Charges recorded in the third quarter of 2005 included severance costs for approximately 330 people. At September 30, 2005, none of these employees had been severed. Cash payments for employee related costs will be substantially complete by the end of 2007, while payments for other charges will be substantially complete by the end of 2008.

2004 Actions

Third Quarter

In the third quarter of 2004, we recorded restructuring, impairment and other charges and (credits) of \$1,794 million. A summary of the charges and credits follows:

- .. We recorded a charge of \$1,420 million to impair a significant portion of our Telecommunications segment goodwill balance. Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), goodwill is required to be tested for impairment annually at the reporting unit level. In addition, goodwill should be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its related carrying value. In the third quarter of 2004, we identified certain factors that caused us to lower our estimates and projections for the long-term revenue growth of the Telecommunications segment, which indicated that the fair value of the Telecommunications segment reporting unit was less than its carrying value. As such, we performed an interim impairment test of Telecommunications segment goodwill in the third quarter of 2004 and, as a result, recorded an impairment charge of \$1,420 million to reduce the carrying value of goodwill to its implied fair value at September 30, 2004, of \$117 million.
- .. We recorded a \$350 million charge to impair certain fixed assets of our Telecommunications segment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). This charge primarily relates to our third-quarter decision to permanently abandon approximately \$332 million of construction in progress at our optical fiber manufacturing facility in Concord, North Carolina that had been stopped in 2002. As a result of our lowered outlook, we have permanently abandoned this construction in progress as we no longer believe the demand for optical fiber will warrant the investment necessary to complete this facility.
- .. We recorded an asset held for use impairment charge of \$24 million to impair certain fixed assets and intangible assets other than goodwill in accordance with SFAS 144. Due to our decision to permanently abandon certain fixed assets and lower our long-term outlook for the Telecommunications segment, we determined that an event of impairment, as defined by SFAS 144, had occurred in our Telecommunications segment which required us to test the segment's long-lived assets other than goodwill for impairment. We assess recoverability of the carrying value of long-lived assets at the lowest level for which identifiable cash flows are largely

Edgar Filing: CORNING INC /NY - Form 10-Q/A

independent of the cash flows of other assets and liabilities. We estimated the fair value of the long-lived assets using the discounted cash flow approach as a measure of fair value. As a result of our impairment evaluation, we recorded an impairment charge to write-down certain assets to their estimated fair values.

- .. We recorded a gain of \$8 million related to proceeds in excess of assumed salvage values for assets of Corning Asahi Video Products Company (CAV) that were previously impaired but later sold to a Henan Anyang CPT Glass Bulb Group, Electronic Glass Co., Ltd. (Henan Anyang), located in China. CAV was our 51% owned affiliate that manufactured glass panels and funnels for use in conventional televisions that was shut down in 2003. This represents the substantial completion of the sale of CAV's assets.
- .. We recorded a loss of \$14 million on the sale of our frequency controls business for net cash proceeds of \$80 million. The frequency controls business, which was part of our Telecommunications segment, had annual sales of \$76 million.
- .. We recorded net credits of \$6 million comprised of adjustments to prior years' restructuring and impairment charges.

Second Quarter

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

- .. We recorded a \$25 million gain related to proceeds in excess of assumed salvage values for assets of CAV that were previously impaired but later sold to a third party in China.
- .. We recorded a \$9 million credit related to adjustments to prior years' restructuring reserves.

First Quarter

-----  
 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.
- .. 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 details the charges, credits and balances of the restructuring reserves as of and for the nine months ended September 30, 2004 (in millions):

	January 1, 2004	Nine months ended Sept. 30, 2004 charge	Revisions to existing plans	N char (reve
Restructuring charges:				
Employee related costs	\$ 78		\$ 4	\$
Other charges	108	\$ 2	(4)	

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Total restructuring charges	\$ 186	\$ 2	\$ 0	\$
Impairment of long-lived assets:				
Goodwill		\$ 1,420		\$ 1
Assets to be disposed of by sale or abandonment		350	\$ (55)	
Assets to be held and used		\$ 24		\$
Other:				
Accelerated depreciation		\$ 39		\$
Loss on sale of frequency controls business		\$ 14		\$
Total restructuring, impairment and other charges and (credits)		\$ 1,849	\$ (55)	\$ 1

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.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

In the third quarter of 2005, we recorded asbestos settlement expense of \$73 million, including \$68 million reflecting the increase in the value of Corning's common stock from June 30, 2005 to September 30, 2005, and \$5 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

In the third quarter of 2004, we recorded a credit of \$45 million, including \$50 million for the decrease in the value of Corning's common stock from June 30, 2004 to September 30, 2004, and a \$5 million charge to adjust the estimated fair value of the other components of the proposed asbestos settlement.

For the nine months ended September 30, 2005, we recorded asbestos settlement expense of \$204 million, including \$189 million reflecting the increase in the value of Corning's common stock from December 31, 2004 to September 30, 2005, and \$15 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

For the nine months ended September 30, 2004, we recorded asbestos settlement expense of \$29 million, including \$16 million reflecting the increase in the value of Corning's common stock from December 31, 2003 to September 30, 2004, and \$13 million 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 \$804 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 \$654 million at September 30, 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 \$150 million at September 30, 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 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 7 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 Dow Corning Bankruptcy Plan. As of September 30, 2005, we were contingently liable for the items described above totaling \$445 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 are not expected to have a material adverse effect on Corning's consolidated financial position,



## Edgar Filing: CORNING INC /NY - Form 10-Q/A

liquidity or results of operations.

### 5. Debt

#### Third Quarter

-----  
In the third quarter of 2005, substantially all holders of our \$96 million outstanding Oak 4 7/8% convertible subordinated notes, due March 1, 2008, elected to convert their notes into Corning common stock. The conversion ratio was 64.41381 shares of Corning common stock for each \$1,000 principal amount of notes. Upon the conversion of the notes, we issued 6 million shares of Corning common stock resulting in an increase to equity of \$95 million.

#### Second Quarter

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

- .. We issued \$100 million of 6.05% senior unsecured notes for net proceeds of approximately \$99 million. The notes mature on June 15, 2015. We may call the debentures at any time on or after June 15, 2010.
- .. We redeemed for cash the \$100 million principal amount of our 7% debentures due March 15, 2007, which at the time had a book value of \$88 million. We recognized a loss of \$12 million upon the early redemption of these debentures.
- .. We redeemed the remaining \$191 million of our outstanding 3.50% convertible debentures, due November 1, 2008. The bondholders elected to convert substantially all of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture. We issued 20 million shares upon the conversion of the debentures, resulting in an increase to equity of \$191 million.

#### First Quarter

-----  
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, due November 1, 2008. 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.
- .. 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. 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. 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 September 30, 2005, we were in compliance with these covenants.

Edgar Filing: CORNING INC /NY - Form 10-Q/A

The following table summarizes the activities related to our debt retirements (both current and long-term) for the nine months ended September 30, 2005 and 2004 (in millions):

	Book Value of Debentures Retired	Cash Paid
2005 activity:		
Convertible debentures, 3.5%, due 2008	\$ 297	\$ 2
Other (primarily Euro notes, 5.625%, due 2005)	198	198
Oak 4 7/8% Subordinated notes, due 2005	96	
Debentures, 7%, due 2007	88	100
Total 2005 activity	\$ 679	\$ 300
2004 activity:		
Convertible debentures, 3.5%, due 2008	\$ 368	\$ 37
Zero coupon convertible debentures, 2%, due 2015	119	117
Other loans payable	111	111
Total 2004 activity	\$ 598	\$ 265

In the second quarter of 2005, we completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million. The net proceeds from this stock offering are intended to be used primarily to repurchase Corning's remaining zero coupon convertible debentures due on November 8, 2015. At September 30, 2005, these debentures had a carrying value of \$276 million. On October 6, 2005, we notified current holders of our election to repurchase any debentures tendered by holders on November 8, 2005.

Both the \$100 million of 6.05% debentures and the 20 million shares of common stock, issued in the second quarter of 2005, were issued under our existing \$5 billion universal shelf registration statement. At September 30, 2005, our remaining capacity under the shelf registration is approximately \$2.1 billion.

6. Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Provision for income taxes	\$ (28)	\$(1,040)	\$ (91)	\$(1,050)
Effective tax rate	17.9%	(64.1)%	30.8%	(63.5)%

For the three and nine months ended September 30, 2005, the tax provision

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

reflected the following items:

- .. The impact of our inability to record tax benefits on net operating losses generated in the U.S. and certain foreign jurisdictions;
- .. The benefit of tax holidays and investment credits in Taiwan and tax holidays in China and South Africa; and,
- .. The benefit from the reversal of tax contingency liabilities following the conclusion of Internal Revenue Service (IRS) examinations.

As more fully described in Note 6 (Income Taxes) to the consolidated financial statements of the 2004 Form 10-K, significant events occurred in the third quarter of 2004 requiring us to increase our valuation allowance against certain U.S. and German deferred tax assets. Accordingly, we increased our valuation allowance by \$1.2 billion in the third quarter of 2004 to reduce our net deferred tax assets to approximately \$530 million.

At September 30, 2005, we had net deferred tax assets of \$541 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that these U.S. net deferred tax assets are realizable 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 there are tax planning strategies that would enable us to conclude that it is more likely than not that a larger portion of the deferred tax assets would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations.

During the third quarter of 2005, Corning filed its 2004 consolidated U.S. Federal income tax return, which included a \$3.9 billion worthless stock deduction for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition. This acquisition was completed in December 2000 and was substantially impaired in the second quarter of 2001. Prior to the third quarter of 2005, we did not record a deferred tax asset for this item as the ultimate realization of such deduction was uncertain, and consistent with the requirements of SFAS No. 5, "Accounting for Contingencies," recognition of an asset prior to the time management determines the realization of the asset is probable is prohibited. On September 2, 2005, Corning and the Commissioner of the IRS entered into a closing agreement under section 7121 of the Internal Revenue Code of 1986 which provides that Corning is entitled to this worthless stock deduction. We recorded a \$1.5 billion deferred tax asset for this item in the quarter, which was concurrently offset by a valuation allowance of an equal amount due to our current inability to record tax benefits for U.S. net operating losses.

Based on our 2004 consolidated U.S. Federal income tax return as filed, Corning has net operating loss carryforwards of \$4.9 billion for U.S. Federal income tax purposes. These operating losses will expire in 2022 (\$0.1 billion), 2023 (\$0.6 billion) and 2024 (\$4.2 billion).

Certain foreign subsidiaries in China, South Africa and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out in future years (2006 to 2009) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective rate is a reduction in the rate of 17% and 14% for the three and nine months ended September 30, 2005, respectively.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

We establish tax contingency liabilities when, despite our belief that our tax returns are fully supportable, it is probable that certain positions may not be sustained through the income tax audit process. These liabilities are analyzed on a quarterly basis and adjusted based upon changes in facts and circumstances, such as the progress of income tax audits, new case law and emerging legislation. In the third quarter of 2005, in conjunction with our reassessment process, we recorded a tax benefit of \$14 million following the conclusion of an IRS examination for the years 2001 and 2002.

### 7. Earnings (Loss) Per Common Share

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

	Three months ended Sep			
	2005 (Restated)			
	Income	Weighted-Average Shares	Per Share Amount	(Loss)
Basic earnings (loss) per common share	\$ 203	1,488	\$ 0.14	\$(2,)
Effect of dilutive securities:				
Stock compensation awards		48		
7% mandatory convertible preferred stock (a)		16		
Diluted earnings (loss) per common share	\$ 203	1,552	\$ 0.13	\$(2,)

	Nine months ended Sep			
	2005 (Restated)			
	Income	Weighted-Average Shares	Per Share Amount	(Loss)
Basic earnings (loss) per common share	\$ 618	1,444	\$ 0.43	\$(2,)
Effect of dilutive securities:				
Stock compensation awards		39		
7% mandatory convertible preferred stock (a)		27		
3.50% convertible debentures	3	13		
Diluted earnings (loss) per common share	\$ 621	1,523	\$ 0.41	\$(2,)

(a) On the mandatory conversion date of August 16, 2005, the remaining shares of our 7.00% Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

issued 31 million shares of Corning common stock resulting in an increase to equity of \$62 million.

The following potential common shares were excluded from the calculation of diluted earnings (loss) 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 the periods presented (in millions):

	Three months ended September 30,	
	2005	2004
Potential common shares excluded from the calculation of diluted earnings per common share:		
Stock options		32
3.5% convertible debentures		39
4 7/8% convertible notes (a)	4	6
Zero coupon convertible debentures	3	3
7% mandatory convertible preferred stock (b)		35
Total	7	115
Stock options excluded from the calculation of diluted earnings (loss) per common share		
	37	61

- (a) In the third quarter of 2005, substantially all holders of our \$96 million outstanding Oak 4 7/8% subordinated notes elected to convert their notes into Corning common stock. The conversion ratio was 64.41381 shares of Corning common stock for each \$1,000 principal amount of notes. Upon the conversion of these notes, we issued 6 million shares of Corning common stock resulting in an increase to equity of \$95 million.
- (b) On the mandatory conversion date of August 16, 2005, the remaining shares of our 7.00% Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we issued 31 million shares of Corning common stock resulting in an increase to equity of \$62 million.

### 8. Discontinued Operation

On December 13, 2002, we completed the sale of our precision lens business to 3M Company (3M) for cash proceeds up to \$850 million, of which \$50 million was deposited in an escrow account. 3M notified Corning that 3M believed it had certain claims arising out of the representations and warranties made by Corning in connection with the sale of the precision lens business to 3M. In the third quarter of 2004, Corning and 3M reached a final settlement agreement for the funds held in escrow. Accordingly, we recognized a gain of \$20 million upon receipt of \$20 million of proceeds. This gain is included in income from discontinued operation in the consolidated statements of operations.

Edgar Filing: CORNING INC /NY - Form 10-Q/A

9. Inventories

Inventories comprise the following (in millions):

	September 30, 2005	December 31, 2004
Finished goods	\$ 148	\$ 136
Work in process	171	172
Raw materials and accessories	130	139
Supplies and packing materials	110	88
<b>Total inventories</b>	<b>\$ 559</b>	<b>\$ 535</b>

10. Investments

Investments comprise the following (in millions):

	Ownership Interest	September 2005 (Restated)
Associated companies at equity		
Samsung Corning Precision Glass Co., Ltd.	50%	\$ 7
Dow Corning Corporation	50%	4
Samsung Corning Co., Ltd.	50%	2
All other	25%-51% (a)	1
Other investments (b)		1,6
<b>Total</b>		<b>\$ 1,6</b>

(a) Amounts reflect Corning's direct ownership interests in the respective associated companies. Corning does not control any such entities.

(b) Amounts reflect \$10 million and \$53 million at September 30, 2005 and December 31, 2004, respectively, of available-for-sale securities stated at market. During 2005, Corning recorded impairment charges totaling \$25 million for other than temporary declines in the fair value of shares of Avanex below their cost basis. This is in addition to 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 three significant investments accounted for by the equity method follow:

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

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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):

	Three months ended September 30,	
	2005	2004
<hr style="border-top: 1px dashed black;"/>		
Statement of Operations		
Net sales	\$ 466	\$ 275
Gross profit	\$ 346	\$ 211
Net income	\$ 242	\$ 137
Corning's equity in earnings of Samsung Corning Precision	\$ 114	\$ 68
Dividends received from Samsung Corning Precision		

### Related Party Transactions:

Corning sales of inventory to Samsung Corning Precision		
Corning purchases from Samsung Corning Precision	\$ 18	\$ 19
Corning transfers of machinery and equipment to Samsung Corning Precision at cost (a)	\$ 20	

- (a) Corning purchases machinery and equipment on behalf of Samsung Corning Precision to support its capital expansion initiatives. The machinery and equipment are transferred to Samsung Corning Precision at our cost basis, resulting in no revenue or gain being recognized on the transaction.

Balances due to and from Samsung Corning Precision were immaterial at September 30, 2005 and December 31, 2004.

### Dow Corning Corporation (Dow Corning)

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

	Three months ended September 30,	
	2005	2004
<hr style="border-top: 1px dashed black;"/>		
Statement of Operations:		
Net sales	\$ 946	\$ 830
Gross profit	\$ 319	\$ 262
Net income	\$ 117	\$ 80
Corning's equity in earnings of Dow Corning (a)	\$ 58	\$ 40
Dividends received from Dow Corning		

- (a) Corning's equity in earnings of Dow Corning includes the following:
- During the second quarter of 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included \$11 million

Edgar Filing: CORNING INC /NY - Form 10-Q/A

related to this gain.

- During the second quarter of 2004, Dow Corning recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included a \$21 million charge related to these actions.

Other - Samsung Corning Co., Ltd. (Samsung Corning)

Samsung Corning is a South Korea-based manufacturer of glass panels and funnels for cathode ray tube (CRT) television and display monitors.

In the third quarter of 2005, Samsung Corning concluded that there was an event of impairment triggered by an accelerated decline in its CRT glass business. In September 2005, Samsung Corning revised its outlook for the CRT glass market and reduced its projected operating results. Samsung Corning management then concluded that impairment charges were necessary for certain manufacturing assets and that certain severance and exit actions will be necessary. As a result, Samsung Corning incurred impairment and other charges of \$212 million which reduced Corning's equity earnings by \$106 million in the third quarter. None of the charges is expected to result in cash expenditures by Corning.

After the charges described above, Corning's investment in Samsung Corning was \$233 million. Corning has determined that a separate impairment of its investment in Samsung Corning was not necessary in the third quarter. We will continue to monitor this investment and it is possible an impairment may be required in the future.

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

	Three months ended September 30,	
	2005	2004
Statement of Operations:		
Net sales	\$ 205	\$ 250
Gross profit	\$ 28	\$ 70
Net income (loss)	\$ (232)	\$ (10)
Corning's equity in earnings (losses) of Samsung Corning	\$ (115)	\$ 14
Dividends received from Samsung Corning		

11. Goodwill and Other Intangibles Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2005 follow (in millions):

	Telecom- munications	Display Technologies	Ot
Balance at January 1, 2005 (2)	\$ 123	\$ 9	\$



Edgar Filing: CORNING INC /NY - Form 10-Q/A

Foreign currency translation and other	(5)		
Balance at September 30, 2005	\$ 118	\$ 9	\$

- (1) This balance relates to our Specialty Materials operating segment.  
(2) In the third quarter of 2004, we recorded an impairment charge of \$1,420 million to reduce the carrying value of goodwill in our Telecommunications segment to its implied fair value. Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)) for additional information.

Other intangible assets follow (in millions):

	September 30, 2005			
	Gross	Accumulated Amortization	Net	Gro
Amortized intangible assets:				
Patents and trademarks	\$ 144	\$ 86	\$ 58	\$ 1
Non-competition agreements				1
Other	4	1	3	
Total amortized intangible assets	148	87	61	2
Unamortized intangible assets:				
Intangible pension assets	42		42	
Total	\$ 190	\$ 87	\$ 103	\$ 3

Amortized intangible assets are primarily related to the Telecommunications 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.

## 12. Customer Deposits

In 2005 and 2004, several of Corning's customers entered into long-term purchase and supply agreements in which Corning's Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the first nine months of 2005, we received a total of \$389 million of deposits against orders. Subsequent to September 30, 2005, we received an additional \$13 million of deposits.

Upon receipt of the cash deposits made by customers, we record a customer deposit liability. This liability will be reduced for 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 credit memoranda for an agreed amount of the customer deposit liability. The credit memoranda will be applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as these credits are applied for cash deposits received in earlier periods.

Edgar Filing: CORNING INC /NY - Form 10-Q/A

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

	2004	Nine months ended September 30, 2005	Remainder of 2005
Customer deposits received	\$204	\$389	\$93

The majority of customer deposits will be received through 2006. For the three and nine months ended September 30, 2005, we issued \$11 million and \$13 million in credit memoranda, respectively. These credit amounts are not included in the above amounts, and were applied against customer receivables.

Customer deposit liabilities were \$560 million and \$215 million at September 30, 2005 and December 31, 2004, respectively, of which \$149 million and \$18 million were recorded in the current liabilities - other accrued liabilities component of our consolidated balance sheets, respectively.

In the event 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 customer deposits.

13. Employee Retirement Plans

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

	Pension benefits				
	Three months ended Sept. 30,		Nine months ended Sept. 30,		Three months ended
	2005	2004	2005	2004	2005
Service cost	\$ 9	\$ 10	\$ 39	\$ 30	\$ 2
Interest cost	26	33	111	99	12
Expected return on plan assets	(30)	(37)	(132)	(111)	
Amortization of net loss	6	5	24	16	3
Amortization of prior service cost	2	2	6	6	(1)
Total expense	\$ 13	\$ 13	\$ 48	\$ 40	\$ 16

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Corning and certain of its domestic subsidiaries also offer postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age. Prior to January 1, 2003, our principal retiree medical plans required retiree contributions each year equal to the excess of medical cost increases over general inflation rates. In response to rising health care costs, in 2002, Corning placed a "cap" on the amount it would contribute toward the cost of its retiree medical plans for salaried and non-union hourly employees. Further, as more fully described in Note 12 (Employee Retirement Plans) to the consolidated financial statements included in our 2004 Form 10-K, Corning will receive a non-taxable subsidy pursuant to Medicare Part D of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Medicare Part D subsidy gives Corning the opportunity to restructure the cap so that it takes effect at a later date. The restructured cap is a way for Corning to share the Medicare Part D subsidy with retirees and beneficiaries. The existing cap trigger is 150% of Corning's 2001 retiree medical costs. Effective July 1, 2005, we amended these plans and restructured the cap to be 120% of Corning's expected 2005 retiree medical costs. This amendment to the plans will increase 2005 periodic expense by \$6 million.

On October 4, 2005, we issued and contributed 5 million shares of Corning common stock, with a value of approximately \$97 million, to our domestic pension plan. We plan to contribute an additional 5 million shares of Corning common stock to this plan by December 31, 2005.

### 14. Comprehensive Income (Loss)

Components of comprehensive income (loss), on an after-tax basis where applicable, follow (in millions):

	Three months ended September 30,	
	2005 (Restated)	2004 (Restated)
Net income (loss)	\$ 203	\$ (2,546)
Other comprehensive income (loss):		
Change in unrealized gain (loss) on investments, net		(12)
Reclassification adjustment relating to investments included in net income, net		
Change in unrealized gain on derivative instruments, net	16	11
Reclassification adjustment relating to derivatives, net	(7)	2
Foreign currency translation adjustment, net (a)	(42)	1
Change in minimum pension liability	1	(5)
Total comprehensive income (loss)	\$ 171	\$ (2,549)

(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

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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.

### 15. 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, certain corporate investments, 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.

Operating Segments (in millions)	Display Technologies	Telecom- munications	Environmental Technologies	Li Scie
-----				
Three months ended September 30, 2005 (Restated)				
Net sales	\$ 489	\$ 398	\$ 144	\$
Research, development and engineering expenses (1)	\$ 32	\$ 27	\$ 29	\$
Restructuring, impairment and other charges and (credits)		\$ 28		
Interest expense (2)	\$ 12	\$ 6	\$ 5	\$
(Provision) benefit for income taxes	\$ (30)	\$ 2		\$
Income (loss) before minority interests and equity earnings (losses) (3)	\$ 246	\$ (37)	\$ (5)	\$
Minority interests (4)		1		
Equity in earnings (losses) of associated companies, net of impairments (5)	117	6		
Net income (loss)	\$ 363	\$ (30)	\$ (5)	\$
-----				
Three months ended September 30, 2004 (Restated)				
Net sales	\$ 295	\$ 412	\$ 136	\$
Research, development and engineering expenses (1)	\$ 22	\$ 21	\$ 23	\$
Restructuring, impairment and other charges				

Edgar Filing: CORNING INC /NY - Form 10-Q/A

and (credits)		\$ 1,802		
Interest expense (2)	\$ 15	\$ 9	\$ 7	\$
(Provision) benefit for income taxes	\$ (39)	\$ (9)		\$
Income (loss) before minority interests and equity earnings (losses) (3)	\$ 74	\$ (1,785)		\$
Minority interests (4)				
Equity in earnings (losses) of associated companies, net of impairments (5)	68	(35)		
Income from discontinued operations				
Net income (loss)	\$ 142	\$ (1,820)	\$ 0	\$

Nine months ended September 30, 2005 (Restated)				
Net sales	\$ 1,224	\$ 1,240	\$ 438	\$
Research, development and engineering expenses (1)	\$ 84	\$ 71	\$ 84	\$
Restructuring, impairment and other charges and (credits)		\$ 36		
Interest expense (2)	\$ 40	\$ 25	\$ 15	\$
(Provision) benefit for income taxes	\$ (94)	\$ 1	\$ 2	\$
Income (loss) before minority interests and equity earnings (losses) (3)	\$ 482	\$ (41)	\$ (11)	\$
Minority interests (4)		1		
Equity in earnings of associated companies, net of impairments (5)	285	6		
Net income (loss)	\$ 767	\$ (34)	\$ (11)	\$

Nine months ended September 30, 2004 (Restated)				
Net sales	\$ 802	\$ 1,116	\$ 418	\$
Research, development and engineering expenses (1)	\$ 57	\$ 69	\$ 64	\$
Restructuring, impairment and other charges and (credits)		\$ 1,797		
Interest expense (2)	\$ 37	\$ 41	\$ 17	\$
(Provision) benefit for income taxes	\$ (97)	\$ 25	\$ (5)	\$
Income (loss) before minority interests and equity earnings (losses) (3)	\$ 191	\$ (1,853)	\$ 10	\$
Minority interests (4)		1		
Equity in earnings (losses) of associated companies, net of impairments (5)	204	(32)		
Income from discontinued operations				
Net income (loss)	\$ 395	\$ (1,884)	\$ 10	\$

- (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

Edgar Filing: CORNING INC /NY - Form 10-Q/A

- and legal are allocated to segments, primarily as a percentage of sales.
- (4) For the three and nine months ended September 30, 2005, minority interests include gains of \$4 million for adjustments to prior years' restructuring and impairment reserves associated with CAV. For the three and nine months ended September 30, 2004, minority interests include gains of \$4 million and \$17 million, respectively, from the sale of CAV assets in excess of assumed salvage value.
- (5) Equity in earnings (losses) of associated companies, net of impairments, includes the following:
- . For the three and nine months ended September 30, 2005, a charge of \$106 million for Corning's share of Samsung Corning's impairment of certain manufacturing assets and other charges.
  - . For the three and nine months ended September 30, 2004, an impairment charge of \$35 million to write down certain Telecommunications equity method investments to fair value.

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

	Three months ended September 30,		
	2005 (Restated)	2004 (Restated)	
Net income of reportable segments	\$ 321	\$ (1,676)	\$
Non-reportable operating segments net income (1)	(119)	9	
Unallocated amounts:			
Non-segment loss and other (2)	(2)	(1)	
Non-segment restructuring, impairment and other (charges) and credits (3)		1	
Asbestos settlement	(73)	45	
Interest income	17	6	
Loss on repurchases of debt		(4)	
Provision for income taxes (4)	(3)	(989)	
Equity in earnings of associated companies (5)	62	43	
Income from discontinued operations		20	
Net (loss) income	\$ 203	\$ (2,546)	\$

- (1) Non-reportable operating segments net income includes the results of non-reportable operating segments. For the three and nine months ended September 30, 2005, we recorded a charge of \$106 million for our share of Samsung Corning's impairment of certain manufacturing assets and other charges for severance and exit costs.
- (2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
- (3) For the three and nine months ended September 30, 2005, non-segment restructuring, impairment and other (charges) and credits includes impairment charges for the other than temporary decline in the market value of Avanex shares. Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)).
- (4) Provision 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 Dow Corning.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Each of our reportable operating segments is concentrated across a relatively small number of customers. For the nine months ended September 30, 2005, four customers of the Display Technologies segment, each of which accounted for more than 10% of segment net sales, accounted for 62% of total segment sales. In the Telecommunications segment, two customers, each of which accounted for more than 10% of this segment's net sales, accounted for 26% of total segment sales in the first nine months of 2005. In the Environmental Technologies segment, three customers, each of which accounted for more than 10% of segment sales, represented 71% of total segment sales for the nine months ended September 30, 2005. In the Life Sciences segment, one customer accounted for 50% of this segment's sales for the nine months ended September 30, 2005.

### 16. Subsequent Events

On October 4, 2005, we issued and contributed 5 million shares of Corning common stock to our domestic pension plan. This non-cash contribution approximated \$97 million. We plan to contribute an additional 5 million shares of Corning common stock to this plan by December 31, 2005.

On October 6, 2005, we notified all remaining holders of our outstanding zero coupon convertible debentures of our election to use cash to repurchase any debentures tendered by holders on the November 8, 2005 optional repurchase date. At September 30, 2005, these debentures had a carrying value of \$276 million.

On October 7, 2005, the assets of O.T.I. S.r.l., a wholly-owned foreign subsidiary were substantially liquidated. As a result, \$84 million of cumulative translation will be realized in income in the fourth quarter.

## 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 third quarter of 2005, we made the following progress against these priorities:

#### Financial Health

Our balance sheet remains strong, and we continued to generate positive cash flows from operating activities. Significant activities during the third quarter of 2005 follow:

- .. We reduced long-term debt by calling \$96 million of convertible debt, which then converted into Corning common stock.
- .. We received \$155 million in deposits against orders relating to our multi-year customer supply agreements in the Display Technologies segment.
- .. Our debt to capital ratio declined to 29%.
- .. We ended the third quarter of 2005 with \$2.4 billion in cash, cash equivalents and short-term investments. This represents an increase of approximately \$537 million from December 31, 2004, primarily due to the

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

proceeds from the common stock offering and cash provided by operating activities more than offsetting the net debt repayments and capital spending.

We have a financial objective to reduce our outstanding debt below \$2 billion by the end of 2005. Upon the anticipated fourth quarter 2005 repurchase of our zero coupon convertible debentures, we expect to meet this objective. In April 2005 our public debt ratings were raised to BBB- by both Fitch Ratings and Standard & Poor's and most recently, in September 2005, to Baa3 by Moody's Investors Service.

### Profitability

For the three months ended September 30, 2005, we generated net income of \$203 million or \$0.13 per share compared to a net loss of \$2,546 million or \$1.82 per share for the same period in 2004. For the nine months ended September 30, 2005, we generated net income of \$618 million or \$0.41 per share compared to a net loss of \$2,381 million or \$1.73 per share for the nine months ended September 30, 2004.

We recorded non-recurring charges in the three and nine months ended September 30, 2005 and significant net charges for the same periods in 2004 which impact the comparability of both years. Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)), Note 6 (Income Taxes), and Note 10 (Investments) to the consolidated financial statements for additional information.

### 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 in both the three and nine month periods ended September 30, 2005, compared to their respective 2004 periods, but have remained 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 three and nine month periods ended September 30, 2005 were \$378 million and \$1,076 million, respectively. Of these amounts, \$304 million and \$895 million, respectively, were directed toward our Display Technologies segment, and \$46 million and \$120 million, respectively, were directed toward our Environmental Technologies segment.

### 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 September 30, 2005, resulted in an increase in investments in affiliate



## Edgar Filing: CORNING INC /NY - Form 10-Q/A

companies of \$30 million, an increase to other liabilities of \$150 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$2 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 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 30, 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 third quarter follow (dollars in millions):

	Three months ended September 30,		% Change 05 vs. 04	
	2005 (Restated)	2004 (Restated)		
Net sales	\$ 1,188	\$ 1,006	18%	\$
Gross margin (gross margin %)	\$ 545 46%	\$ 404 40%	35%	\$
Selling, general and administrative expenses (as a % of net sales)	\$ 178 15%	\$ 153 15%	16%	\$
Research, development and engineering expenses (as a % of net sales)	\$ 118 10%	\$ 88 9%	34%	\$
Restructuring, impairment and other charges (as a % of net sales)	\$ 28 2%	\$ 1,794 178%	(98)%	\$
Asbestos settlement (as a % of net sales)	\$ 73 6%	\$ (45) (4)%	(262)%	\$
Income (loss) from continuing operations before income taxes (as a % of net sales)	\$ 156 13%	\$ (1,622) (161)%	(110)%	\$

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Provision for income taxes (as a % of net sales)	\$ (28) (2)%	\$ (1,040) (103)%	(97)%	\$
Equity in earnings of associated companies, net of impairments (as a % of net sales)	\$ 77 6%	\$ 99 10%	(22)%	\$
Income (loss) from continuing operations (as a % of net sales)	\$ 203 17%	\$ (2,566) (255)%	(108)%	\$

---

### Net Sales

For the three months ended September 30, 2005, the net sales increase compared to the same period in 2004 was the result of continued strong demand for LCD glass substrates in our Display Technologies segment. For the nine months ended September 30, 2005, the net sales increase was the result of strong LCD glass substrate sales and demand for products in our Telecommunications segment to support fiber-to-the-premises projects. Net sales for all other segments was comparable to the respective prior year periods. Movements in foreign exchange rates, primarily the Japanese yen and Euro, did not significantly impact the comparison of net sales between 2005 and 2004.

### Cost of Sales

The types of expenses included in the cost of sales line item are: raw materials consumption, including direct and indirect materials; salaries, wages and benefits; depreciation and amortization; production utilities; production-related purchasing; warehousing (including receiving and inspection); repairs and maintenance; inter-location inventory transfer costs; production and warehousing facility property insurance; rent for production facilities; and other production overhead.

### Gross Margin

As a percentage of net sales, gross margin improved 6 percentage points for the three and nine months ended September 30, 2005, compared to the respective prior year periods. The improvement in overall dollars and as a percentage of net sales was driven by increased volume and manufacturing efficiencies in our Display Technologies segment.

### Selling, General and Administrative Expenses

For the three and nine months ended September 30, 2005, the increase in selling, general and administrative expenses compared to the respective 2004 periods is primarily driven by increases in compensation costs. As a percentage of net sales, selling, general and administrative expenses have remained comparable to the respective prior year periods.

The types of expenses included in the selling, general and administrative expenses line item are: salaries, wages and benefits; travel; sales commissions; professional fees; depreciation and amortization, utilities, and rent for administrative facilities.

### Research, Development and Engineering Expenses

Research, development and engineering expenses have increased in both the three and nine months ended September 30, 2005 compared to their respective 2004 periods, but have remained somewhat constant as a percentage of net sales. Our expenditures are focused on our Display Technologies, Environmental Technologies

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

and Telecommunications segments as we strive to capitalize on the current market opportunities in those segments.

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

For the three months ended September 30, 2005, we recorded a charge of \$30 million related to continued cost reduction actions in the Telecommunications segment and credits of \$2 million related to adjustments to prior period restructuring charges. Charges recorded for the nine months ended September 30, 2005 included the third quarter charge associated with the Telecommunications segment and impairment charges for other than temporary declines 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." We continue 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 did not expect the market value of the Avanex shares to recover in this timeframe, the impairments in the first and second quarters of 2005 were required.

We recorded significant net charges during the third quarter of 2004 which impact the comparability of the three and nine months ended September 30, 2005 and 2004. A summary of the net charges and credits recorded during the periods follows (in millions):

	Three months ended September 30,		end
	2005	2004	2005
Impairment of goodwill		\$ 1,420	
Impairment of assets other than goodwill			
Assets to be disposed of by sale or abandonment		330	\$
Assets to be held and used		24	
Impairment of available-for-sale securities			
Accelerated depreciation			
Loss on sale of businesses		14	
Restructuring charges, net	\$ 28	6	
Total restructuring, impairment other charges	\$ 28	\$ 1,794	\$

Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)) to the consolidated financial statements for additional information.

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

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Income (Loss) from Continuing Operations Before Income Taxes

In addition to the key drivers outlined above, the following had an impact on the results of our income (loss) before income taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Loss) gain on repurchases and retirement of debt, net		\$(4)	\$12	\$(36)

Also, the comparability of income (loss) from continuing operations before income taxes for the three and nine months ended September 30, 2005 and 2004 was impacted by movements in foreign exchange rates. In the third quarter of 2005, we incurred an exchange rate gain of \$1 million compared to a loss of \$5 million in the third quarter of 2004. For the nine months ended September 30, 2005, we incurred a net exchange rate loss of \$13 million compared to \$6 million for the prior year period. 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 (Basis of Presentation) to the consolidated financial statements for additional information.

### Provision for Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Provision for income taxes	\$ (28)	\$(1,040)	\$ (91)	\$(1,050)
Effective tax rate	17.9%	(64.1)%	30.8%	(63.5)%

For the three and nine months ended September 30, 2005, the tax provision reflected the following items:

- .. The impact of our inability to record tax benefits on net operating losses generated in the U.S. and certain foreign jurisdictions;
- .. The benefit of tax holidays and investment credits in Taiwan and tax holidays in China and South Africa; and,
- .. The benefit from the reversal of tax contingency liabilities following the conclusion of IRS examinations.

As more fully described in Note 6 (Income Taxes) to the consolidated financial statements of the 2004 Form 10-K, significant events occurred in the third quarter of 2004 requiring us to increase our valuation allowance against certain U.S. and German deferred tax assets. Accordingly, we increased our valuation allowance by \$1.2 billion in the third quarter of 2004 to reduce our net

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

deferred tax assets to approximately \$530 million.

At September 30, 2005, we had net deferred tax assets of \$541 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that these U.S. net deferred tax assets are realizable 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 there are tax planning strategies that would enable us to conclude that it is more likely than not that a larger portion of the deferred tax assets would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations.

During the third quarter of 2005, Corning filed its 2004 consolidated U.S. Federal income tax return, which included a \$3.9 billion worthless stock deduction for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition. This acquisition was completed in December 2000 and was substantially impaired in the second quarter of 2001. Prior to the third quarter of 2005, we did not record a deferred tax asset for this item as the ultimate realization of such deduction was uncertain, and consistent with the requirements of SFAS No. 5, "Accounting for Contingencies," recognition of an asset prior to the time management determines the realization of the asset is probable is prohibited. On September 2, 2005, Corning and the Commissioner of the Internal Revenue Service entered into a closing agreement under section 7121 of the Internal Revenue Code of 1986 which provides that Corning is entitled to this worthless stock deduction. We recorded a \$1.5 billion deferred tax asset for this item in the quarter, which was concurrently offset by a valuation allowance of an equal amount due to our current inability to record tax benefits for U.S. net operating losses.

Based on our 2004 consolidated U.S. Federal income tax return as filed, Corning has net operating loss carryforwards of \$4.9 billion for U.S. Federal income tax purposes. These operating losses will expire in 2022 (\$0.1 billion), 2023 (\$0.6 billion) and 2024 (\$4.2 billion).

Certain foreign subsidiaries in China, South Africa and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out in future years (2006 to 2009) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective rate is a reduction in the rate of 17% and 14% for the three and nine months ended September 30, 2005, respectively.

We establish tax contingency liabilities when, despite our belief that our tax returns are fully supportable, it is probable that certain positions may not be sustained through the income tax audit process. These liabilities are analyzed on a quarterly basis and adjusted based upon changes in facts and circumstances, such as the progress of income tax audits, new case law and emerging legislation. In the third quarter of 2005, in conjunction with our reassessment process, we recorded a tax benefit of \$14 million following the conclusion of an IRS examination for the years 2001 and 2002.

### Equity in Earnings of Associated Companies, Net of Impairments

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

-----

Edgar Filing: CORNING INC /NY - Form 10-Q/A

	Three months ended September 30,		Nine months ended September 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Samsung Corning Precision	\$ 114	\$ 68	\$ 279	\$ 204
Dow Corning Corporation	58	40	203	81
Samsung Corning	(115)	14	(108)	30
All other	20	(23)	48	2
Total equity earnings	\$ 77	\$ 99	\$ 422	\$ 317

The improvement in equity earnings recognized from Samsung Corning Precision for both the three and nine months ended September 30, 2005 compared to their respective 2004 periods is explained in the discussion of the performance of our Display Technologies segment.

The improvement in equity earnings recognized from Dow Corning for the three and nine months ended September 30, 2005 compared to their respective 2004 periods is largely attributable to the following:

- .. Strong sales volumes and improved pricing for Dow Corning in 2005.
- .. During the second quarter of 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included \$11 million related to this gain.
- .. During the second quarter of 2004, Dow Corning recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included a \$21 million charge related to these actions.

In the third quarter of 2005, Samsung Corning incurred impairment and other charges of \$212 million as a result of a decline in the projected operating results for its CRT glass business. The charge, which included certain manufacturing assets and severance and exit costs, reduced Corning's equity earnings by \$106 million in the third quarter. None of the charges is expected to result in cash expenditures by Corning.

As Samsung Corning executes its restructuring plan over the next several quarters, additional severance and shutdown charges may be required. We expect our share of these charges to approximate \$30 million.

Refer to Note 10 (Investments) to the consolidated financial statements for additional information relating to Samsung Corning Precision, Dow Corning, and Samsung Corning's operating results.

Income (loss) from Continuing Operations

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

Three months ended September 30,	
2005 (Restated)	2004 (Restated)

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Income (loss) from continuing operations	\$ 203	\$ (2,566)
Basic earnings (loss) per common share	\$ 0.14	\$ (1.83)
Diluted earnings (loss) per common share	\$ 0.13	\$ (1.83)
Shares used in computing per share amounts		
Basic earnings (loss) per common share	1,488	1,399
Diluted earnings (loss) per common share	1,552	1,399

OPERATING SEGMENTS

Our reportable operating segments follow:

- .. Display Technologies - manufactures 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.

All other operating segments, which do not meet the quantitative threshold for separate reporting, certain corporate investments, 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):

	Three months ended September 30,		% Change 05 vs. 04	en
	2005	2004		
Sales	\$ 489	\$ 295	66%	\$ 1
Income before equity earnings	\$ 246	\$ 74	232%	\$
Equity earnings of associated companies	\$ 117	\$ 68	72%	\$
Net income	\$ 363	\$ 142	156%	\$

The net sales increase for the third quarter of 2005 is largely reflective of the overall LCD market growth. During the third quarter of 2005, glass substrate volumes (measured in square feet of glass sold) increased approximately 73% compared with the same period in 2004. Weighted average selling prices decreased 2% compared to 2004. Included in this weighted average were selling price declines that were 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 third quarter of 2005, large-size glass substrates accounted for 70% of total sales volumes, compared to 48% for the third quarter

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

of 2004. Because the sales of the Display Technologies segment are denominated in Japanese yen, our sales are susceptible to movements in the U.S. dollar - Japanese yen exchange rate. Sales growth was negatively impacted by approximately \$6 million from a weakening of the Japanese yen compared to 2004.

For the nine months ended September 30, 2005, the net sales increase is largely driven by the same factors as those identified for the third quarter of 2005. For the comparable nine month period, glass substrate volumes increased approximately 53%, while weighted average selling prices increased modestly. Sales of large-size glass substrates accounted for 66% of year to date 2005 sales volumes compared to 43% for the same period in 2004. Movements in the U.S. dollar - Japanese yen exchange rate did not have a significant impact on the comparable nine month periods.

For the three and nine months ended September 30, 2005, the increase in income before equity earnings was primarily the result of higher volumes, ongoing improvements in manufacturing efficiencies, and a lower effective tax rate in 2005.

The increase in our equity earnings from Samsung Corning Precision for the periods presented was largely driven by the same market factors identified for our wholly-owned business. During the third quarter of 2005, Samsung Corning Precision's earnings were negatively impacted by approximately 13% from movements in exchange rates. As a result, the 68% year over year increase in equity earnings was less than the sales volume growth of 83% would have indicated. Equity earnings from Samsung Corning Precision, denominated in Korean won, are susceptible to movements in the exchange rate between the Korean won and the U.S. dollar.

The Display Technologies segment has a concentrated customer base comprised of LCD panel and color filter 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., Dai Nippon Printing Co., Ltd., Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. These customers accounted for 72% and 73% of the Display Technologies segment sales for the three and nine months ended September 30, 2005, respectively. In addition, Samsung Corning Precision's sales are concentrated across a small number of its customers. For the three and nine months ended September 30, 2005, sales to LCD panel makers located in Korea (Samsung Electronics Co., Ltd., LG Philips LCD Co., and BOE Hydys Technology Co., Ltd.) accounted for 89% and 88% of total Samsung Corning Precision sales, respectively.

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 agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the first nine months of 2005, we received a total of \$389 million of deposits against orders. Subsequent to September 30, 2005, we received an additional \$13 million of deposits.

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.



Edgar Filing: CORNING INC /NY - Form 10-Q/A

In October 2005, Corning announced a \$425 million expansion of our LCD manufacturing facility in Taichung, Taiwan. This investment will be used to fund the third phase of the Taichung facility with the majority of the spending planned for 2006 and 2007. The initial manufacturing from this phase will begin in late 2006, with production continuing to come online in 2007.

Outlook:

-----  
 We expect to see a continuation of the overall industry growth and the trend toward large-size substrates. We have added capacity to meet volume growth in the LCD market, which is anticipated to be more than 50% in 2005. 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 and color filter manufacturers in Japan, Taiwan, and China while customers in Korea are serviced by Samsung Corning Precision. The actual growth rates in these markets will impact our sales and earnings performance.

For the fourth quarter of 2005, we expect volumes for our wholly-owned business and Samsung Corning Precision may be up 3% to 10% in the aggregate, compared to the third quarter of 2005. Pricing in the fourth quarter is expected to be down slightly. In the third quarter of 2005, we began production at our new Taichung, Taiwan manufacturing facility. The ramp of production and our ability to efficiently start up operations may impact profitability in the fourth quarter of 2005. In addition, we are beginning to see increased amounts of larger-sized glass in the marketplace from competitors. 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 sales and profitability of this segment. Current exchange rates in October are unfavorable compared to average exchange rates in the third quarter of 2005.

Telecommunications

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

	Three months ended September 30,		% Change 05 vs. 04	en 20
	2005	2004		
Net sales:				
Optical fiber and cable	\$ 216	\$ 202	7%	\$
Hardware and equipment	182	210	(13)%	
	-----	-----		---
Total net sales	\$ 398	\$ 412	(3)%	\$ 1
	=====	=====		====
Net loss	\$ (30)	\$ (1,820)	(98)%	\$

For the third quarter of 2005, fiber volumes increased 9% while prices declined 5% compared to the third quarter of 2004. The increase in fiber volumes was largely driven by sales in North America, Europe, and Japan. The decline in hardware and equipment sales was driven by lower sales primarily to Verizon Communications Inc. (Verizon) compared to the third quarter of 2004. Volumes were negatively impacted as Verizon continued to reduce inventory levels of its fiber-to-the-premises products. The comparison of sales of the Telecommunications segment between the third quarter of 2005 and 2004 was affected by the 2004 sale of our frequency controls business. During the third quarter of 2004, the frequency controls business recorded sales of \$12 million. Excluding the impact of this divestiture, net sales for the Telecommunications segment in the third quarter of 2005 were comparable to the same period in 2004. Movements in foreign exchange rates, primarily the Euro and Japanese yen, did not have a significant impact on sales for the third quarter of 2005 compared to the third quarter of 2004.

For the nine months ended September 30, 2005, the net sales increase was largely driven by sales in North America and Europe. Stronger North American volumes and sales of the hardware and equipment business were largely the result of sales to Verizon to support their fiber-to-the premises project. Excluding the cumulative impact of the divestiture of our frequency controls business, net sales for the Telecommunications segment increased 17% for the nine months ended September 30, 2005 compared to the prior year period. For the comparable nine month periods, fiber volumes increased 22% and prices declined 6%. Movements in exchange rates did not significantly impact sales for the comparable nine month periods.

For the Telecommunications segment, losses in both periods of 2005 and 2004 were impacted by restructuring, impairment, and other charges and (credits). Refer to Results of Continuing Operations for a detailed discussion of these charges.

The Telecommunications segment continues to have a concentrated customer base. For the three and nine months ended September 30, 2005, 10 customers accounted for 48% and 51% of total segment net sales, respectively. For the same periods, Verizon accounted for 11% and 15% of total segment net sales, respectively.

#### Outlook:

-----  
For the fourth quarter of 2005, we expect net sales to be down between 4% and 7% compared to the third quarter of 2005. Fiber and cable sales are expected to be down 10% to 15% from the third quarter and hardware and equipment sales are expected to be even with the third quarter. Segment net sales will continue to benefit from Verizon's fiber-to-the-premises project. Fourth quarter sales volumes of fiber-to-the-premises products are expected to increase when compared to the third quarter. Fiber-to-the-premises sales to Verizon in the fourth quarter are dependent on Verizon's planned targets for homes passed and connected in 2006. Changes in the expected Verizon deployment plan, or additional reductions in their inventory levels 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):

Edgar Filing: CORNING INC /NY - Form 10-Q/A

	Three months ended September 30,		% Change 05 vs. 04	end 20
	2005	2004		
Net sales:				
Automotive	\$ 121	\$ 120	1%	\$
Diesel	23	16	44%	
	-----	-----		----
Total net sales	\$ 144	\$ 136	6%	\$
	=====	=====		=====
Net (loss) income	\$ (5)	\$ 0		\$

The increase in net sales for the three and nine months ended September 30, 2005, versus the same periods in 2004, was the result of continued growth in diesel products sales. Diesel products sales growth continues to be driven by demand from retrofit markets, particularly in Asia. In the first half of 2005, we received letters of intent and other expressions of intent from diesel engine manufacturers to supply filters for their 2007 model year platforms. We are continuing to negotiate with several diesel engine manufacturers to develop supply agreements. Negotiations are likely to continue through the next several quarters. For automotive products, sales in the third quarter of 2005 were flat when compared to the same period last year. A portion of this segment's sales is susceptible to movements in the U.S. dollar - Euro exchange rate. Movements in exchange rates did not have a significant impact on sales for the third quarter of 2005 compared to the third quarter of 2004.

For the three and nine months ended September 30, 2005, the decline in net income compared to the respective 2004 periods 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 for the comparable periods.

Outlook:

For the fourth quarter of 2005, we expect net sales to be comparable to those of the third quarter. We expect a seasonal decline in automotive products to be offset by a growth in diesel product sales which are expected to grow slightly as demand from the retrofit market is anticipated to remain stable. The retrofit market is volatile, and any unanticipated declines in demand could adversely impact sales.

Life Sciences

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

	Three months ended September 30,		% Change 05 vs. 04	end 20
	2005	2004		
Net sales	\$ 70	\$ 75	(7)%	\$
Net (loss) income	\$ (7)	\$ 2	(450)%	\$

The decrease in net sales for the three and nine months ended September 30, 2005, when compared to the same periods in 2004, 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.

For the three and nine months ended September 30, 2005, the 2005 net loss compared to income in the respective 2004 periods is largely attributable to the gross margin impact from the lower sales volumes. Additionally, the Life Sciences segment incurred higher operating expenses for both the three and nine month periods ended September 30, 2005 compared to their respective 2004 periods to implement the change in distribution channels and to support new product development efforts.

Outlook:

-----

For the fourth quarter of 2005, we expect net sales to be comparable to those of the third quarter of 2005. We remain encouraged by the results of our efforts to alter our distribution channel in response to one of our 2004 primary distributors changing its business strategy. However, it is unlikely that we will be successful in migrating all of our 2004 sales made through this distributor to our existing primary distributor and other channels. For the full year, we expect sales may be negatively impacted between 5% and 10% 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 reduced for future product purchases, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods. During the first nine months of 2005, we received a total of \$389 million of deposits against orders. Subsequent to September 30, 2005, we received an additional \$13 million of deposits.

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

	2004	Nine months ended September 30, 2005	Remainder of 2005
Customer deposits received	\$204	\$389	\$93

The majority of customer deposits will be received through 2006. For the three and nine months ended September 30, 2005, we issued \$11 million and \$13 million

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

in credit memoranda, respectively. These credit amounts are not included in the above amounts, and were applied against customer receivables.

### Financing Structure

#### Third Quarter

-----

In the third quarter of 2005, we completed the following debt and common stock transactions:

- .. Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we issued 31 million shares of Corning common stock resulting in an increase to equity of \$62 million.
- .. Prior to the September 6, 2005 redemption date, substantially all holders of our \$96 million outstanding Oak 4 7/8% convertible subordinated notes, due March 1, 2008, elected to convert their notes into Corning common stock. The conversion ratio was 64.4138 shares of Corning common stock for each 1,000 principal amount of notes. Upon the conversion of the notes, we issued 6 million shares of Corning common stock resulting in an increase to equity of \$95 million.

On October 4, 2005, we issued and contributed 5 million shares of Corning common stock, with a value of approximately \$97 million, to our domestic pension plan. We plan to contribute an additional 5 million shares of Corning common stock to our domestic pension plan by December 31, 2005.

In the second quarter of 2005, we completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million. The net proceeds from this stock offering are intended to be used primarily to repurchase Corning's remaining zero coupon convertible debentures due on November 8, 2015. At September 30, 2005, these debentures had a carrying value of \$276 million. On October 6, 2005, we notified current holders of our election to repurchase any debentures tendered by holders on November 8, 2005.

#### Second Quarter

-----

In the second quarter of 2005, we completed the following debt and common stock transactions:

- .. We issued \$100 million of 6.05% senior unsecured notes for net proceeds of approximately \$99 million. The notes mature on June 15, 2015. We may call the debentures at any time on or after June 15, 2010.
- .. We redeemed for cash the \$100 million principal amount of our 7% debentures due March 15, 2007, which at the time had a book value of \$88 million. We recognized a loss of \$12 million upon the early redemption of these debentures.
- .. We redeemed the remaining \$191 million of our outstanding 3.50% convertible debentures due November 1, 2008. The bondholders elected to convert substantially all of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture. We issued 20 million shares upon the conversion of the debentures, resulting in an increase to equity of \$191 million.
- .. We completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million.

Both the \$100 million of 6.05% debentures and the 20 million shares of common

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

stock were issued under our existing \$5 billion universal shelf registration statement. At September 30, 2005, our remaining capacity under the shelf registration is approximately \$2.1 billion.

### First Quarter

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 due November 1, 2008. 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.
- .. 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 entered a written agreement 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 and an interest coverage ratio, both of which we are in compliance. 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 \$1,076 million and \$556 million during the nine months ended September 30, 2005 and 2004, respectively. Our 2005 forecasted consolidated capital spending remains at \$1.5 billion. Of this amount, approximately \$1.1 billion to \$1.2 billion will be directed toward expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and approximately \$160 million will be directed toward our Environmental Technologies segment.

### Key Balance Sheet Data

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

	As of September 30, ----- 2005 (Restated)	As of December 31, ----- 2004 (Restated)
Working capital	\$ 1,518	\$ 804
Working capital, excluding cash and short-term investments	\$ (900)	\$ (1,077)
Current ratio	1.6:1	1.3:1
Trade accounts receivable, net of allowances	\$ 631	\$ 585
Days sales outstanding	48	52
Inventories	\$ 559	\$ 535
Inventory turns	4.7	4.9

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Days payable outstanding	77	67
Long-term debt	\$ 1,804	\$ 2,214
Total debt to total capital	29%	42%

Credit Rating

Our credit ratings were updated from those disclosed in our 2004 Annual Report on Form 10-K as follows:

RATING AGENCY Last Update	Rating Long-Term Debt	Outlook Last Update
Fitch April 27, 2005	BBB-	Stable April 27, 2005
Standard & Poor's April 27, 2005	BBB-	Stable April 27, 2005
Moody's September 20, 2005	Baa3	Stable September 20, 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, the asbestos settlement, research and development, capital expenditures and scheduled debt repayments.

Contractual Obligations

Other than the early debt repayments described in Note 5 (Debt) to the consolidated financial statements, and mandatory conversion of our 7.00% Series C Mandatory Convertible Preferred Stock into Common Stock on August 16, 2005, described in Note 7, 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 third quarter of 2005.

NEW ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS 123 and supercedes APB 25. SFAS 123(R) 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 adoption dates of SFAS 123(R). Under SFAS 123(R), Corning must determine the appropriate fair value model to be used for valuing share-based payments, the attribution method for compensation cost, and the transition method to be used

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

at date of adoption. We will implement the provisions of SFAS 123(R) on January 1, 2006 following the "prospective adoption" transition method. This adoption method requires Corning to begin expensing share-based payments effective January 1, 2006. Prior periods will not be restated.

Corning grants restricted shares and stock options that are subject to specific vesting conditions (e.g., three-year cliff vesting). The awards specify that the employee will continue to vest in the award after retirement without providing any additional service. Corning accounts for this type of arrangement by recognizing compensation cost over the nominal vesting period (i.e., over the three-year vesting period) and, if the employee retires before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement (the "nominal vesting period approach").

SFAS 123(R) specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). That would be the case for Corning awards that vest when employees retire and are granted to retirement eligible employees. Accordingly, related compensation cost must be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

We will continue to follow the nominal vesting period approach for (1) any new share-based awards granted prior to adopting SFAS 123(R) and (2) the remaining portion of unvested outstanding awards after adopting SFAS 123(R). Upon adoption of SFAS 123(R), we will apply the non-substantive vesting period approach to new grants that have retirement eligibility provisions. Had we applied the non-substantive vesting period approach versus the nominal vesting period approach, stock-based compensation cost would have been \$11 million and \$5 million higher for the nine months ended September 30, 2005 and 2004, respectively, for stock options and restricted share awards.

Our current estimate is that our incremental pretax and after-tax share-based compensation expense will increase by \$60 million to \$70 million in 2006 and beyond. This amount includes approximately \$15 million related to the impact of applying the non-substantive vesting period approach.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4" (SFAS 151). SFAS 151 amends ARB No. 43, Chapter 4, "Inventory Pricing," to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. Additionally, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Corning is required to adopt SFAS 151 effective January 1, 2006. Corning does not expect the adoption of SFAS 151 to have a material impact on its consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges in Nonmonetary Assets - an amendment of APB Opinion No. 29" (SFAS 153) which became effective in July 2005. This Statement amends APB No. 29, "Accounting for Nonmonetary Transactions," by eliminating an exception for nonmonetary exchanges of similar productive assets and replacing it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Corning adopted SFAS 153 prospectively, on July 1, 2005, as required. The impact of SFAS 153 was not material to Corning's consolidated results of operations and financial condition.



## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Corning will apply the standard's guidance to changes in accounting methods as required. At this time, Corning does not expect the adoption of SFAS 154 will have a material impact on its consolidated results of operations and financial condition.

### ENVIRONMENT

We have been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 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 analysis and continual monitoring by both internal and external consultants. We have accrued \$13 million for the estimated liability for environmental cleanup and related litigation at September 30, 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/A 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;

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

- 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.;
- movements in foreign exchange rates, primarily the Japanese yen, Euro and Korean won; and
- other risks detailed in Corning's Securities and Exchange Commission filings.

### Risk factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q/A and in other documents we file with the SEC are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements or other projections contained in this Report. In addition, future results could be materially affected by general industry and market conditions, changes in laws or accounting rules, general U.S. and non-U.S. economic and political conditions, including a global economic slowdown, fluctuation of interest rates or currency exchange rates, terrorism, political unrest or international conflicts, political instability or major health concerns, natural disasters or other disruptions of expected economic and business conditions. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Quarterly Report on Form 10-Q/A, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties. Our separate statement labeled Forward-Looking Statements should be considered in addition to the statements below.

Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Our customer base is relatively concentrated with 10 or fewer significant customers accounting for a high percentage (greater than 50%) of net sales in most of our businesses. Corning's twelve largest customers account for about 50% of our sales. However, no individual customer accounts for more than 10% of consolidated sales.

Our Display Technologies, Telecommunications, Environmental Technologies, and Life Sciences segments have concentrated customer bases. If we lose a significant customer in any of these businesses, or if one or more significant customers reduce orders, our sales could be negatively impacted. Corning's Display Technologies segment manufactures and sells glass substrates to a concentrated customer base comprised of LCD panel and color filter 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., Dai Nippon Printing Co., Ltd., Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. For the nine months ended September 30, 2005, these LCD customers accounted for 73% of the Display Technologies segment sales. In addition, Samsung Corning Precision's sales were also concentrated, with three LCD panel makers in Korea (Samsung Electronics Co., Ltd., LG Philips LCD Co., and BOE Hydis Technology Co., Ltd.) accounting for 88% of sales for the nine months ended September 30, 2005.

Although the sale of LCD glass substrates has increased from quarter to quarter in 2005, there can be no assurance that this positive trend will continue. Our customers are LCD panel and color filter makers, and as they switch to larger size glass, the pace of their orders may be uneven while they adjust their manufacturing processes and facilities. Additionally, consumer preferences for panels of differing sizes, or price or other factors, may lead to pauses in market growth from time to time. There is further risk that our customers may not be able to maintain profitable operations or access sufficient capital to fund ongoing expansions, which may limit their pace of orders to us.

Our Telecommunications segment customers' purchases of our products are affected by their capital expansion plans, general market and economic uncertainty and regulatory changes, including broadband policy. For the nine months ended September 30, 2005, one customer accounted for 15% of our Telecommunications segment sales, and 10 customers accounted for 51% of total segment sales. Sales in the Telecommunications segment continue to be impacted by Verizon's fiber-to-the-premises project. Fiber-to-the-premises sales to Verizon are dependent on Verizon's planned targets for homes passed and connected. Changes in Verizon's deployment plan, or additional reductions in their inventory levels of fiber-to-the-premises products, could adversely affect future sales.

In the Environmental Technologies segment, sales of our ceramic substrate and filter products for automotive and diesel emissions and pollution control fluctuate with production and sales of automobiles and other vehicles, as well as changes in governmental laws and regulations for air quality and emission controls. Sales in our Environmental Technologies segment are primarily to four manufacturers of emission control systems who then sell to automotive and diesel engine manufacturers. A portion of our automotive products are sold to U.S. engine manufacturers, and as a result, our future sales could be adversely impacted by slowdowns in automotive production by these manufacturers.

Sales in our Life Sciences segment in 2004 were primarily through two large distributors to government entities, pharmaceutical and biotechnology companies, hospitals, universities and other research facilities. One of Life Sciences

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

primary distributors changed its business strategy, and Corning notified this distributor that it would not renew its existing distribution agreement, which expired in April 2005. We are actively working to transition the sales through this distributor to our remaining primary distributor and other existing and developing channels. However, this change will likely adversely impact sales volumes in the short term. For the full year, sales may be adversely impacted by approximately 10% as a result of this change in our distribution channel. For the nine months ended September 30, 2005, our remaining primary distributor accounted for 50% of total segment sales.

If we do not successfully adjust our manufacturing volumes and fixed cost structure, or achieve manufacturing yields or sufficient product reliability, our operating results could suffer, and we may not achieve profitability levels anticipated

We are investing heavily in additional manufacturing capacity of certain businesses, including forecasted 2005 capital spending of \$1.1 billion to \$1.2 billion to expand our liquid crystal display glass facilities in response to anticipated increases in customer demand and approximately \$160 million in anticipation of the emerging market for diesel emission control systems. The speed of constructing the new facilities presents challenges. We may face technical and process issues in moving to commercial production. There can be no assurance that Corning will be able to pace its capacity expansion to the actual demand. While the LCD industry has grown rapidly, it is possible that glass manufacturing capacity may exceed customer demand during certain periods.

The manufacturing of our products involves highly complex and precise processes, requiring production in highly controlled and clean environments. Changes in our manufacturing processes or those of our suppliers could significantly reduce our manufacturing yields and product reliability. In some cases, existing manufacturing may be insufficient to achieve the volume or requirements of our customers. We will need to develop new manufacturing processes and techniques to achieve targeted volume, pricing and cost levels that will permit profitable operations. While we continue to fund projects to improve our manufacturing techniques and processes, we may not achieve satisfactory cost levels in our manufacturing activities that will fully satisfy our yield and margin targets.

Our future operating results depend on our ability to purchase a sufficient amount of materials, parts and components to meet the demands of our customers

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of materials, parts and components from our suppliers and our internal manufacturing capacity. We may experience shortages that could adversely affect our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Furthermore, certain of our components are available only from a single source or limited sources. We may not be able to find alternate sources in a timely manner. A reduction or interruption in supplies, or a significant increase in the price of supplies could have a material adverse effect on our businesses.

During the third quarter of 2005, certain suppliers suffered disruptions from hurricanes in the southern United States. Although we have not encountered any significant supply shortages, we cannot guarantee we will not in the future.

We have incurred, and may in the future incur, restructuring and other charges, the amounts of which are difficult to predict accurately

We have recorded several charges for restructuring, impairment of assets, and the write-off of cost and equity based investments. It is possible we may record additional charges for restructuring or other asset impairments if

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

additional actions become necessary to align costs to a reduced level of demand, or respond to increased competition, regulatory actions, or other factors impacting our businesses.

If the markets for our products do not develop and expand as we anticipate, demand for our products may decline, which would negatively impact our results of operations and financial performance

The markets for our products are characterized by rapidly changing technologies, evolving industry government standards and frequent new product introductions. Our success is expected to depend, in substantial part, on the timely and successful introduction of new products, upgrades of current products to comply with emerging industry government standards, and our ability to compete with new technologies and products of other suppliers. In addition, the following factors related to our products and the markets for them, if not achieved, could have an adverse impact on our results of operations:

- . our ability to introduce leading products such as glass substrates for liquid crystal displays, optical fiber and cable and hardware and equipment, and environmental substrate products that can command competitive prices in the marketplace;
- . our ability to maintain or achieve a favorable sales mix of large generation sizes of liquid crystal display glass;
- . our ability to anticipate technological and market trends;
- . our ability to develop new products in response to favorable government regulations and laws, particularly environmental substrate diesel filter products in the Environmental Technologies segment;
- . continued strong demand for notebook computers;
- . the rate of substitution by end-users purchasing LCD monitors to replace cathode ray tube monitors;
- . the rate of growth in purchases of LCD televisions to replace other technologies;
- . the rate of growth of the fiber-to-the-premises build-out in North America.

We face pricing pressures in each of our leading businesses that could adversely affect our results of operations and financial performance

We periodically face pricing pressures in each of our leading businesses as a result of intense competition, emerging new technologies, or over-capacity. While we will work toward reducing our costs to respond to the pricing pressures that may continue, we may not be able to achieve proportionate reductions in costs. As a result of overcapacity and the current economic and industry downturn in the Telecommunications segment, pricing pressures continued in 2005, particularly in our optical fiber and cable products. We anticipate pricing pressures will continue into 2006 and beyond. Increased pricing pressure may develop in our Display Technologies segment as our customers strive to reduce their costs and our competitors strive to expand production.

We have incurred, and may in the future incur, goodwill and other intangible asset impairment charges

At September 30, 2005, Corning had goodwill of \$277 million and other intangible assets of \$103 million. While we believe the estimates and judgments about future cash flows used in the goodwill impairment tests are reasonable, we cannot provide assurance that future impairment charges will not be required if the expected cash flow estimates as projected by management do not occur or

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

change based on market conditions.

We may be limited in our ability to obtain additional capital on commercially reasonable terms

Although we believe existing cash, short-term investments and borrowing capacity, collectively, provide adequate resources to fund ongoing operating requirements, we may be required to seek additional financing to compete effectively in our markets. Our public debt ratings affect our ability to raise capital and the cost of such capital. Our ratings as of October 28, 2005 were BBB- from both Fitch, Inc. and Standard & Poor's, a division of the McGraw-Hill Companies, Inc. and Baa3 from Moody's Investors Service, a subsidiary of Moody's Corporation. Any downgrades may increase our borrowing costs and affect our ability to access the debt capital markets.

We are subject under our revolving credit facility to financial covenants that require us to maintain a ratio of total debt to capital and interest coverage ratio, as defined under the revolving credit facility. These covenants may limit our ability to borrow funds. Future losses or significant charges could materially affect these ratios, which may reduce the amounts we are able to borrow under our revolving credit facility.

If our products or materials purchased from our suppliers experience performance issues, our business will suffer

Our business depends on the production of excellent products of consistently high quality. To this end, our products, including materials purchased from our suppliers, are tested for quality both by us and our customers. Nevertheless, our products are highly complex, and our customers' testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios. For various reasons (including, among others, the occurrence of performance problems unforeseeable in testing), our products and materials purchased from our suppliers may fail to perform as expected. In some cases, product redesigns or additional capital equipment may be required to correct a defect. In addition, any significant or systemic product failure could result in customer relations problems, lost sales, and financial damages.

We face intense competition in most of our businesses

We expect that we will face additional competition from existing competitors, low cost manufacturers and new entrants. Because some of the markets in which we compete have been historically characterized by rapid growth and technology changes, smaller niche and start-up companies, or companies with lower operating costs may become our principal competitors in the future. We must invest in research and development, expand our engineering, manufacturing and marketing capabilities, and continue to improve customer service and support in order to remain competitive. We cannot provide assurance that we will be able to maintain or improve our competitive position.

We may experience difficulties in enforcing our intellectual property rights and we may be subject to claims of infringement of the intellectual property rights of others

We may encounter difficulties in protecting our intellectual property rights or obtaining rights to additional intellectual property necessary to permit us to continue or expand our businesses. We cannot assure you that the patents that we hold or may obtain will provide meaningful protection against

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

our competitors or competitive technologies. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets and to determine the validity and scope of our proprietary rights. Litigation is inherently uncertain and the outcome is often unpredictable. Other companies hold patents on technologies used in our industries and are aggressively seeking to expand, enforce and license their patent portfolios.

The intellectual property rights of others could inhibit our ability to introduce new products. We are, and may in the future be, subject to claims of intellectual property infringement or misappropriation that may result in loss of revenue or require us to incur substantial costs. We cannot assure you as to the outcome of such claims.

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 and the final approval of the tentative settlement is subject to a number of uncertainties. 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 \$804 million have been incurred through September 30, 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.

We face risks related to our international operations and sales

We have customers and significant operations, including manufacturing and sales, located outside the U.S. We have large manufacturing operations for liquid crystal display glass substrates in the Asia-Pacific region, including equity investments in companies operating in South Korea that make liquid crystal display glass and in China that make telecommunications products, and several significant customers are located in this region. As a result of these and other international operations, we face a number of risks, including:

- . geographical concentration of our factories and operations;
- . major health concerns such as Severe Acute Respiratory Syndrome (SARS) or avian flu;
- . difficulty of effectively managing our diverse global operations;
- . change in regulatory requirements;
- . tariffs, duties and other trade barriers including anti-dumping duties;
- . undeveloped legal systems; and
- . political and economic instability in foreign markets.

Any of these items could cause our sales and/or profitability to be significantly reduced.

We face risks through our equity method investments in companies that we do not control

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Corning's net income includes significant equity in earnings of associated companies. For the nine months ended September 30, 2005, we have recognized \$422 million of equity earnings, of which \$482 million came from our two largest investments; Dow Corning Corporation (which makes silicone products) and Samsung Corning Precision Glass Co., Ltd. (which makes liquid crystal display glass). Samsung Corning Precision is located in the Asia-Pacific region and, as such, is subject to those geographic risks referred to above. With 50% or lower ownership, we do not control such equity companies nor their management and operations. Performance of our equity investments may not continue at the same levels in the future. In the third quarter of 2005, we recognized charges associated with Samsung Corning Co., Ltd. (our 50% equity method investment that makes glass panels and funnels for conventional televisions), which recorded significant fixed asset impairment charges. As the conventional television market will be negatively impacted by strong growth in the LCD glass market, it is reasonably possible that Samsung Corning Co., Ltd. may incur additional restructuring or impairment charges or net operating losses in the future.

We face risks due to foreign currency fluctuations

Because we have significant customers and operations outside the U.S., fluctuations in foreign currencies, especially the Japanese yen and Euro, affect our sales and profit levels. Foreign exchange rates may make our products less competitive in countries where local currencies decline in value relative to the dollar. Sales in our Display Technologies segment are denominated in Japanese yen. For the nine months ended September 30, 2005, the Display Technologies segment represented 36% of Corning's sales. Based on the expected sales growth of the Display Technologies segment, our exposure to currency fluctuations is increasing. Although we hedge significant transaction risk, we do not currently hedge translation risk.

If the financial condition of our customers declines, our credit risks could increase

We have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable, as well as the loss of such customer's ongoing business. If our customers fail to meet their payment obligations to us, including deposits due under long-term purchase and supply agreements in our Display Technologies segment, we could experience reduced cash flows and losses in excess of amounts reserved. As of September 30, 2005, reserves for trade receivables totaled approximately \$28 million.

We may not have adequate insurance coverage for claims against us

We face the risk of loss resulting from, and adverse publicity associated with, product liability, securities, fiduciary liability, intellectual property, antitrust, contractual, warranty, fraud and other lawsuits, whether or not such claims are valid. In addition, our product liability, fiduciary, directors and officers, property and comprehensive general liability insurance may not be adequate to cover such claims or may not be available to the extent we expect. Our insurance costs have increased and may increase further. We may not be able to get adequate insurance coverage in the future at acceptable costs. A successful claim that exceeds or is not covered by our policies could require us to pay substantial sums. Some of the carriers in our excess insurance programs are in liquidation and may not be able to respond if we should have claims reaching into excess layers. The financial health of other insurers may deteriorate and these insurers may not be able to respond if we should have



## Edgar Filing: CORNING INC /NY - Form 10-Q/A

claims reaching into excess layers. In addition, we may not be able to insure against certain risks or obtain some types of insurance, such as political risks, terrorism or war insurance.

### 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 nine 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.
- .. 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

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 September 30, 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 September 30, 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 September 30, 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 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 the Company's annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 September 30, 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 (the 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

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 \$13 million for its estimated liability for environmental cleanup and litigation at September 30, 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. All Schwinger and Stevens related cases have been resolved without monetary contribution by Corning. The complaints in these matters were dismissed with prejudice by a court order dated January 2005.

Dow Corning Bankruptcy. Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning Corporation (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 Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Dow Corning has paid approximately \$1.6 billion (inclusive of insurance) to the Settlement Trust and subject to a number of conditions, may 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. The appeal was argued on July 27, 2005. 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 \$15 million in dividends from Dow Corning in the second quarter of 2005.

Pittsburgh Corning Corporation. Corning and PPG Industries, Inc. (PPG) each own

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

50% of the capital stock of Pittsburgh Corning Corporation (PCC). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. 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 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 11,500 other cases (approximately 44,000 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 in April 2000, PCC 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 (the 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, Corning announced that it 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 September 30, 2005, Corning recorded total net charges of \$804 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.

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

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.

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. 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.

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. Briefing will be completed in the fourth quarter of 2005. A hearing for oral argument should set in the first half of 2006. 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 requested 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 denied the allegation of infringement and asserted that the patent is invalid. On October 29, 2004, the Tokyo District Court issued its ruling in favor of CCS International on both non-infringement and patent invalidity. Furukawa appealed from this ruling to the Tokyo Court of Appeals. In the third quarter of 2005,

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

Furukawa and CCS International reached a settlement upon mutually acceptable terms, including cross licenses of certain patents relating to optical fiber cable products. This settlement will have no material adverse impact to Corning's financial results.

PicVue Electronics Ltd., PicVue OptoElectronics International, Inc., and Eglasstrek GmbH. In June 2002, Corning brought an action in the U.S. District Court for the Western District of New York to restrain the use of its trade secrets relating to certain machinery used for liquid crystal display glass melting. In July 2003, the District Court granted a preliminary injunction in favor of Corning, subject to Corning's posting a bond. PicVue, a Taiwanese company, filed a counterclaim alleging violations of the antitrust laws and appealed from the granting of the preliminary injunction. The U.S. Court of Appeals affirmed and remanded the case to the District Court to clarify its injunction and to determine the amount of the bond. In early July 2005, Corning reached a settlement with the two PicVue entities resolving Corning's trade secret claim and dismissing PicVue's counterclaim. Corning and Eglasstrek have also reached a settlement. As a result, agreed judgments with respect to both PicVue and Eglasstrek have been entered by the District Court. In October 2005, PicVue and Corning announced they had amicably resolved and settled the litigation, and the U.S. Attorney's Office announced arrest of a suspect accused of misappropriating Corning proprietary information. This settlement will have no material adverse impact to Corning's financial results.

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, unenforceable and not infringed by CCS. The patent generally relates to a type of connector for optical fiber cables. Tyco filed an answer and counterclaim alleging patent infringement by CCS of the same patent and seeking unspecified monetary damages and an injunction. In September 2005, the parties amicably resolved the matter by signing a settlement agreement, without material impact on Corning's financial statements.

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 third quarter of 2005:

## Edgar Filing: CORNING INC /NY - Form 10-Q/A

### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (a)	Total Number of Shares Purchased a Part of Publicly Announced Plan (b)
July 1-31, 2005	29,872	\$17.99	0
August 1-31, 2005	305,210	\$19.46	0
September 1-30, 2005	7,132	\$20.76	0
<b>Total</b>	<b>342,214</b>	<b>\$19.36</b>	<b>0</b>

- (a) This column reflects the following transactions during the fiscal third quarter of 2005: (i) the deemed surrender to us of 339,758 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 2,456 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.
- (b) During the period ended September 30, 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.

### ITEM 6. EXHIBITS

#### (a) Exhibits

Exhibit Number	Exhibit Name
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Exchange Act
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Exchange Act
32	Certification Pursuant to 18 U.S.C. Section 1350



Edgar Filing: CORNING INC /NY - Form 10-Q/A

SIGNATURES  
-----

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 - Finance  
(Principal Accounting Officer)

EXHIBIT INDEX  
-----

Exhibit Number -----	Exhibit Name -----
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Exchange Act
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Exchange Act

Edgar Filing: CORNING INC /NY - Form 10-Q/A

32

Certification Pursuant to 18 U.S.C. Section 1350

Exhibit 12

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

	Nine months ended September 30, 2005 (Restated)
	-----
Income before income taxes	\$ 295
Adjustments:	
Distributed income of equity investees	216
Fixed charges net of capitalized interest	104
	-----
Income before taxes and fixed charges, as adjusted	\$ 615
	=====
Fixed charges:	
Interest expense (a)	\$ 84
Portion of rent expense which represents an appropriate interest factor (b)	20
Capitalized interest	21
	-----
Total fixed charges	125
Capitalized interest	(21)
	-----
Total fixed charges, net of capitalized interest	\$ 104
	=====
Ratio of earnings to fixed charges	4.9x
	=====

- (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:

- I have reviewed this amendment to quarterly report on Form 10-Q/A of Corning Incorporated;

Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 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)

# Edgar Filing: CORNING INC /NY - Form 10-Q/A

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 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.

Edgar Filing: CORNING INC /NY - Form 10-Q/A

Date: May 9, 2006

/s/ James B. Flaws  
-----  
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 of Corning Incorporated on Form 10-Q/A for the three-month period ended September 30, 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  
-----  
Wendell P. Weeks  
President and Chief Executive Officer

/s/ James B. Flaws  
-----  
James B. Flaws  
Vice Chairman and Chief Financial Officer