

CORNING INC /NY
Form 10-Q
April 27, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended March 31, 2007

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
(State or other jurisdiction of incorporation or organization)

16-0393470
(I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York
(Address of principal executive offices)

14831
(Zip Code)

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

INDEX

PART I FINANCIAL INFORMATION

	<u>Page</u>
Item 1. Financial Statements	
Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2007 and 2006	3
Consolidated Balance Sheets (Unaudited) at March 31, 2007 and December 31, 2006	4
Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2007 and 2006	5
Notes to Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosures About Market Risk	39
Item 4. Controls and Procedures	39

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	40
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 6. Exhibits	45
Signatures	46

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three months ended	
	March 31, 2007	2006
Net sales	\$ 1,307	\$ 1,262
Cost of sales	716	689
Gross margin	591	573
Operating expenses:		
Selling, general and administrative expenses	214	223
Research, development and engineering expenses	130	124
Amortization of purchased intangibles	3	3
Restructuring, impairment and other charges (Note 2)		6
Asbestos settlement (Note 3)	110	185
Operating income	134	32
Interest income	37	24
Interest expense	(21)	(20)
Loss on repurchase of debt	(15)	
Other income, net	32	20
Income before income taxes	167	56
(Provision) benefit for income taxes (Note 5)	(56)	2
Income before minority interests and equity earnings	111	58
Minority interests		(1)
Equity in earnings of affiliated companies, net of impairments (Note 9)	216	200
Net income	\$ 327	\$ 257
Basic earnings per common share (Note 6)	\$ 0.21	\$ 0.17
Diluted earnings per common share (Note 6)	\$ 0.20	\$ 0.16

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)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,123	\$ 1,157
Short-term investments, at fair value	1,765	2,010
Total cash, cash equivalents and short-term investments	2,888	3,167
Trade accounts receivable, net of doubtful accounts and allowances - \$23 and \$21	781	746
Inventories (Note 8)	685	639
Deferred income taxes (Note 5)	38	47
Other current assets	237	199
Total current assets	4,629	4,798
Investments (Note 9)	2,588	2,522
Property, net of accumulated depreciation - \$4,235 and \$4,087	5,281	5,193
Goodwill and other intangible assets, net (Note 10)	314	316
Deferred income taxes (Note 5)	116	114
Other assets	233	122
Total Assets	\$ 13,161	\$ 13,065
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 20	\$ 20
Accounts payable	551	631
Other accrued liabilities (Notes 3 and 11)	1,660	1,668
Total current liabilities	2,231	2,319
Long-term debt (Note 4)	1,466	1,696
Postretirement benefits other than pensions	740	739
Other liabilities (Notes 3 and 11)	1,034	1,020
Total liabilities	5,471	5,774
Commitments and contingencies (Note 3)		
Minority interests	46	45
Shareholders' equity:		
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,586 million and 1,582 million	793	791
Additional paid-in capital	12,071	12,008
Accumulated deficit	(4,668)	(4,992)
Treasury stock, at cost; Shares held: 18 million and 17 million	(222)	(201)
Accumulated other comprehensive loss (Note 15)	(330)	(360)

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Total shareholders' equity	7,644	7,246
Total Liabilities and Shareholders' Equity	\$13,161	\$13,065

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)

	Three months ended	
	March 31, 2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 327	\$ 257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	150	141
Amortization of purchased intangibles	3	3
Asbestos settlement	110	185
Restructuring, impairment and other charges		6
Loss on repurchases of debt	15	
Stock compensation charges	36	32
Undistributed earnings of affiliated companies	(67)	(70)
Deferred tax benefit		(62)
Restructuring payments	(11)	(4)
Customer deposits, net of (credits) issued	(33)	(8)
Employee benefit payments (in excess of) less than expense	(92)	15
Changes in certain working capital items:		
Trade accounts receivable	(28)	(65)
Inventories	(42)	(46)
Other current assets	(57)	(8)
Accounts payable and other current liabilities, net of restructuring payments	(121)	(195)
Other, net	3	
Net cash provided by operating activities	193	181
Cash Flows from Investing Activities:		
Capital expenditures	(262)	(280)
Net increase in long-term investments and other long-term assets		(77)
Short-term investments acquisitions	(553)	(858)
Short-term investments liquidations	798	735
Net cash used in investing activities	(17)	(480)
Cash Flows from Financing Activities:		
Net repayments of short-term borrowings and current portion of long-term debt	(8)	(4)
Retirements of long-term debt	(238)	
Proceeds from issuance of common stock, net	4	6
Proceeds from the exercise of stock options	22	219
Other, net		(2)
Net cash (used in) provided by financing activities	(220)	219
Effect of exchange rates on cash	10	
Net decrease in cash and cash equivalents	(34)	(80)
Cash and cash equivalents at beginning of period	1,157	1,342
Cash and cash equivalents at end of period	\$ 1,123	\$ 1,262

The accompanying notes are an integral part of these statements.

- 5 -

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

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, 2006 (2006 Form 10-K).

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

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Corning is currently evaluating the impact of SFAS 157 on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). This Statement allows all entities a one-time election to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value (the "fair value option"). SFAS 159 is effective for fiscal years beginning after November 15, 2007. Corning is currently evaluating the impact of SFAS 159 on its consolidated results of operations and financial condition.

In March 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-10 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). EITF 06-10 requires that an employer recognize a liability for the postretirement benefit obligation related to a collateral assignment arrangement in accordance with SFAS No. 106 Employers Accounting for Postretirement Benefits Other Than Pensions (SFAS 106) (if deemed part of a postretirement plan) or Accounting Principles Board Opinion 12 Omnibus Opinion-1967 (APB 12) (if not part of a plan). The consensus is applicable if, based on the substantive agreement with the employee, the employer has agreed to (a) maintain a life insurance policy during the postretirement period or (b) provide a death benefit. The EITF also reached a consensus that an employer should recognize and measure the associated asset on the basis of the terms of the collateral assignment arrangement. Corning is required to adopt EITF 06-10 effective January 1, 2008. Corning is currently assessing the impact of this EITF Issue.

2. Restructuring, Impairment, and Other Charges

2007 Actions

In the first quarter of 2007, Corning did not incur any restructuring, impairment, or other charges.

The following table summarizes amounts related to existing restructuring reserves as of and for the three months ended March 31, 2007 (in millions):

	Reserve at January 1, 2007	Cash payments	Reserve at March 31, 2007
Restructuring activity:			
Employee related costs	\$ 40	\$ (8)	\$ 32
Other charges	36	(3)	33
Total restructuring activity	\$ 76	\$ (11)	\$ 65

2006 Actions

In the first quarter of 2006, we recorded a \$7 million charge for a revision to an existing restructuring plan for a German location in our Telecommunications segment.

The following table details the charges, credits, and balances of the restructuring reserves as of and for the three months ended March 31, 2006 (in millions):

	January 1, 2006	Revisions to existing plans	Net charges/ (reversals)	Cash payments in 2006	Reserve at March 31, 2006
Restructuring charges:					
Employee related costs	\$ 36	\$ 7	\$ 7	\$ (2)	\$ 41
Other charges	49	(1)	(1)	(2)	46
Total restructuring charges	\$ 85	\$ 6	\$ 6	\$ (4)	\$ 87

Cash payments for employee-related costs will be substantially completed by the end of 2008, while payments for other charges will be substantially completed by the end of 2010.

3. Commitments and Contingencies

Asbestos Settlement

On March 28, 2003, Corning announced that it had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against it and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations (the PCC Plan). The proposed settlement, if the PCC 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 pay a total of \$140 million in six annual installments (present value \$131 million at March 2003), beginning one year after the PCC Plan becomes effective, with 5.5 percent interest from June 2004, and to assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance at the time of 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. In February 2006, the Bankruptcy Court requested that the PCC Plan proponents delete references to Section 105(a) of the Bankruptcy Code and resubmit the PCC Plan. The final round of oral argument was held on July 21, 2006.

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

If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the PCC Plan are reasonably likely to occur. The outcome of these proceedings is uncertain, and confirmation of the current PCC Plan or any amended PCC Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the components of the settlement, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

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.

In the first quarter of 2007, Corning recorded asbestos settlement expense of \$110 million, including \$101 million reflecting the increase in the value of Corning's common stock from December 31, 2006 to March 31, 2007, and \$9 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

In the first quarter of 2006, Corning recorded asbestos settlement expense of \$185 million, including \$182 million reflecting the increase in the value of Corning's common stock from December 31, 2005 to March 31, 2006, and \$3 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

If the book value of the assets to be contributed in the asbestos settlement remains lower than the carrying value of the settlement liability, a gain would be recognized at the time of settlement.

Since March 28, 2003, we have recorded total net charges of \$927 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, 25 million shares of our common stock and assigned insurance proceeds (in aggregate totaling \$764 million at March 31, 2007) 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 \$163 million at March 31, 2007), 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

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

We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning). The funding of the Dow Corning \$150 million credit facility is subject to events connected to the Dow Corning Bankruptcy Plan. Refer to Note 8 (Investments) to the consolidated financial statements in our 2006 Form 10-K for a discussion of contingent liabilities associated with Dow Corning.

- 8 -

As of March 31, 2007, contingent guarantees totaled a notional value of \$329 million, compared with \$334 million at December 31, 2006. We also were contingently liable for purchase obligations of \$244 million and \$261 million, at March 31, 2007 and December 31, 2006, respectively. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

Product warranty liability accruals for the quarter ended March 31, 2007 and 2006 were \$27 million and \$28 million, respectively, approximately the same balances as the preceding year ends.

Corning is a defendant in various lawsuits, including environmental, product-related suits, the Dow Corning and PCC matters discussed in Note 8 (Investments) to the consolidated financial statements in our 2006 Form 10-K, and is subject to various claims which arise in the normal course of business. In the opinion of management, the likelihood that the ultimate disposition of these matters will have a material adverse effect on Corning's consolidated financial position, liquidity, or results of operations, is remote.

Corning has been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 18 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At March 31, 2007, and December 31, 2006, Corning had accrued approximately \$14 million (undiscounted) and \$16 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

4. Debt

In the first quarter of 2007, we paid \$238 million to redeem \$223 million principal amount of our 6.25% Euro notes due 2010. We recognized a loss of \$15 million upon the early redemption of these notes.

5. Income Taxes

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

	Three months ended March 31,	
	2007	2006
Provision (benefit) for income taxes	\$ 56	\$ (2)
Effective tax (benefit) rate	33.5%	(3.6%)

For the three months ended March 31, 2007, the effective tax rate reflected the following items:

The impact of not recording tax benefits (expenses) on losses (income) generated in the U.S. until an appropriate level of profitability is reached and sustained in the U.S.

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The benefit of tax holidays and investment credits in Taiwan.

The impact of discrete items for which no tax benefit was recorded, including asbestos settlement expense of \$110 million and a loss on the repurchase of debt of \$15 million. Refer to Notes 3 (Commitments and Contingencies) and 4 (Debt) for additional information. Discrete items increased our effective tax rate by 14.3 percentage points.

For the three months ended March 31, 2006, the effective tax rate reflected the following items:

The impact of not recording tax benefits (expenses) on losses (income) generated in the U.S. until an appropriate level of profitability is reached and sustained in the U.S.

The benefit of tax holidays and investment credits in Taiwan and China.

The release of a \$38 million valuation allowance on a portion of our German tax benefits because we achieved an appropriate level of profitability in certain of our German operations leading us to conclude that it is more likely than not that tax benefits are realizable and the impact of discrete items for which no tax benefit was recorded, including asbestos settlement expense of \$185 million. Refer to Note 3 (Commitments and Contingencies) for additional information about this item. The net impact of the release of the valuation allowance and other discrete items reduced our effective tax rate by 18.5 percentage points.

As more fully described in Note 7 (Income Taxes) to the consolidated financial statements in the 2006 Form 10-K, all of our U.S. deferred tax assets had full valuation allowances at December 31, 2006 and this continues to be the case at March 31, 2007. We will maintain this valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that our U.S. deferred tax assets are realizable. Until then, we will not record tax benefits (expenses) on losses (income) generated in the U.S.

Certain foreign subsidiaries in China and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary. The benefits of such arrangements phase out in various years (2006 through 2011) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective tax rate is a reduction in the rate of 8 percentage points and 38 percentage points for the three months ended March 31, 2007 and 2006, respectively.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) effective January 1, 2007. As a result of the implementation of FIN 48, we recognized a \$25 million increase in the liability for unrecognized tax benefits and a decrease to the January 1, 2007 balance of retained earnings of \$4 million. The amount of unrecognized tax benefits at January 1, 2007 is \$56 million of which \$38 million would impact the Company's effective tax rate, if recognized.

We recognized accrued interest and penalties associated with uncertain tax positions as part of tax expense. As of January 1, 2007, we had \$4 million of accrued interest and penalties.

Corning Incorporated as the common parent company and all 80%-or-more-owned U.S. subsidiaries join in the filing of consolidated U.S. federal income tax returns. All such returns for periods ended through December 31, 2004 have been audited by and settled with the Internal Revenue Service (IRS). We expect the IRS to begin the examination of our consolidated U.S. federal income tax returns for the years ended December 31, 2005 and December 31, 2006 in the fourth quarter of 2007.

Corning Incorporated and U.S. subsidiaries file income tax returns on a combined, unitary or stand-alone basis in multiple state and local jurisdictions, which generally have statutes of limitations ranging from 3 to 5 years. Various state income tax returns are currently in the process of examination, administrative appeals or litigation.

Our foreign subsidiaries file income tax returns in the countries in which they have operations. Generally, these countries have statutes of limitations ranging from 3 to 7 years. Years still open to examination by foreign tax authorities in major jurisdictions include Japan (2000

onward), and Taiwan (2005 onward).

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

- 10 -

6. Earnings per Common Share

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

	Three months ended March 31, 2007			2006		
	Net income	Weighted- Average Shares	Per Share Amount	Net Income	Weighted- Average Shares	Per Share Amount
Basic earnings per common share	\$ 327	1,563	\$ 0.21	\$ 257	1,541	\$ 0.17
Effect of dilutive securities: Stock options and other dilutive securities		37			51	
Diluted earnings per common share	\$ 327	1,600	\$ 0.20	\$ 257	1,592	\$ 0.16

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

	Three months ended March 31,	
	2007	2006
Stock options and other dilutive securities excluded from the calculation of diluted earnings per common share	35	27

7. Significant Customer

On October 1, 2006, AU Optronics Corporation (AUO), a customer of the Display Technologies segment, completed its previously announced merger with Quanta Display Inc. (QDI), another customer of Corning's Display Technologies segment. In addition, through two separate transactions, AUO now holds a 49% equity stake in Toppan CFI, a subsidiary of Toppan Printing Co., Ltd., also a customer of the Display Technologies segment.

For the three months ended March 31, 2007 and 2006, Corning's combined sales to AUO, QDI and Toppan represented 10% and 14%, respectively, of the company's consolidated net sales.

8. Inventories

Inventories comprise the following (in millions):

	March 31, 2007	December 31, 2006
Finished goods	\$ 128	\$ 139

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Work in process	265	233
Raw materials and accessories	142	125
Supplies and packing materials	150	142
Total inventories	\$ 685	\$ 639

- 11 -

9. Investments

Investments comprise the following (in millions):

	Ownership	March 31,	December 31,
	Interest	2007	2006
Affiliated companies accounted for by the equity method			
Samsung Corning Precision Glass Co., Ltd.	50%	\$ 1,337	\$ 1,380
Dow Corning Corporation	50%	782	683
Samsung Corning Co., Ltd.	50%	249	254
All other	25%-50% (1)	216	202
		2,584	2,519
Other investments		4	3
Total		\$ 2,588	\$ 2,522

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

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

	Three months ended March 31,	
	2007	2006
Related Party Transactions:		
Corning sales to affiliates	\$ 8	\$ 3
Corning purchases from affiliates	\$ 5	\$ 27
Dividends received from affiliates	\$ 149	\$ 129
Royalty income from affiliates	\$ 31	\$ 19
Corning transfers of assets, at cost, to affiliates	\$ 28	\$ 13
	March 31,	December 31,
	2007	2006
Related Party Amounts:		
Balances due from affiliates	\$ 56	\$ 26
Balances due to affiliates	\$ 3	\$ 8

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

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)

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 March 31,	
	2007	2006
Statement of Operations		
Net sales	\$ 484	\$ 495
Gross profit	\$ 333	\$ 362
Net income	\$ 236	\$ 285
Corning's equity in earnings of Samsung Corning Precision	\$ 113	\$ 140
Related Party Transactions:		
Corning purchases from Samsung Corning Precision	\$ 1	\$ 17
Dividends received from Samsung Corning Precision	\$ 143	\$ 126
Royalty income from Samsung Corning Precision	\$ 29	\$ 19
Corning transfers of machinery and equipment to Samsung Corning Precision at cost (1)	\$ 28	\$ 13

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

Corning and the Samsung Group each own 50% of the common stock of Samsung Corning Precision Glass Co., Ltd.

As of March 31, 2007, balances due to and due from Samsung Corning Precision were \$1 million and \$52 million, respectively. As of December 31, 2006, balances due to and from Samsung Corning Precision were \$2 million and \$19 million, respectively.

As of April 2007, Samsung Corning Precision and Samsung Corning Co., Ltd. are two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and 14 other creditors. Refer to the Samsung Corning Co., Ltd. section of this note for additional information.

In February 2006, Corning made a capital contribution to Samsung Corning Precision in the amount of 75 billion Korean won (approximately \$77 million). Our ownership percentage was not affected by this capital contribution.

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):

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	Three months ended March 31,	
	2007	2006
Statement of Operations		
Net sales	\$ 1,178	\$ 1,027
Gross profit	\$ 431	\$ 352
Net income	\$ 184	\$ 138
Corning's equity in earnings of Dow Corning	\$ 92	\$ 69
Related Party Transactions:		
Corning purchases from Dow Corning	\$ 3	\$ 3

- 13 -

Balances due to Dow Corning were \$1 million as of March 31, 2007 and December 31, 2006.

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

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Inclusive of insurance, Dow Corning has paid approximately \$1.5 billion to the Settlement Trust. As of March 31, 2007, Dow Corning had recorded a reserve for breast implant litigation of \$1.7 billion and anticipates insurance receivables of \$171 million. As a separate matter arising from the bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. On July 26, 2006, the U.S. Court of Appeals vacated the judgment of the District Court fixing the interest component, ruled that default interest and enforcement costs may be awarded subject to equitable factors to be determined, and directed that the matter be remanded for further proceedings. Dow Corning filed a petition for rehearing by the Court of Appeals, which was denied. It has filed a petition of writ of certiorari with the U.S. Supreme Court, which has also been denied. As of March 31, 2007, Dow Corning has estimated the interest payable to commercial creditors to be within the range of \$69 million to \$212 million. As Dow Corning management believes no single amount within the range appears to be a better estimate than any other amount within the range, Dow Corning has recorded the minimum liability within the range. Should Dow Corning not prevail in this matter, Corning's equity earnings would be reduced by its 50% share of the amount in excess of \$69 million, net of applicable tax benefits. There are a number of other claims in the bankruptcy proceedings against Dow Corning awaiting resolution by the U.S. District Court, and it is reasonably possible that Dow Corning may record bankruptcy-related charges in the future. There are no remaining tort claims against Corning, other than those that will be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

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

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.

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

	Three months ended March 31,	
	2007	2006
Statement of Operations		
Net sales	\$ 161	\$ 185
Gross profit	\$ 9	\$ 8
Net loss	\$ (3)	\$ (44)
Corning's equity in losses of Samsung Corning	\$ (1)	\$ (22)
Related Party Transactions:		
Royalty income from Samsung Corning	\$ 2	

Corning and the Samsung Group each own 50% of the common stock of Samsung Corning Co., Ltd.

As of December 31, 2006, the balance due from Samsung Corning was \$4 million.

In the first quarter of 2006, Corning reduced its investment in Samsung Corning by \$21 million due to an impairment of long-lived assets incurred by Samsung Corning. The charge also reduced Corning's equity earnings from Samsung Corning by \$21 million.

In 2003, 2005, and 2006, Samsung Corning recorded significant fixed asset and other impairment charges. As the conventional television glass market will be negatively impacted by strong growth in the LCD glass market, it is reasonably possible that Samsung Corning may incur additional restructuring or impairment charges or operating losses in the foreseeable future. Samsung Corning is currently investing in several developing businesses which Samsung Corning management believes will offset the decline in conventional television glass market over time. Should these new businesses not achieve expected results, additional operating losses, asset impairments and restructuring charges are likely to occur and Samsung Corning's long-term financial viability may come into question. These events could result in Corning incurring an impairment of its investment in Samsung Corning. Corning management believes it is more likely than not that an impairment of our investment will occur in the foreseeable future. Corning's investment in Samsung Corning was \$249 million at March 31, 2007.

Corning reviews the recoverability of all long-lived assets, including equity investments, when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. As a result of the impairment events described above, Corning made an assessment of whether its investment in Samsung Corning had incurred an other-than-temporary impairment in the first quarter of 2007 and concluded that it had not. We will continue to monitor this investment.

Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision) and Samsung Corning Co. Ltd. (Samsung Corning) were two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and thirteen other creditors (SGI and Creditors) for alleged breach of an agreement that approximately thirty affiliates of the Samsung group entered into with SGI and Creditors in September 1999. The lawsuit is pending in the courts of Korea. According to the agreement, the Samsung affiliates agreed to sell 3.5 million shares of Samsung Life Insurance Co., Ltd. (SLI) by December 31, 2000, which were transferred to SGI and Creditors in connection with the petition for court receivership of Samsung Motor Inc. In the lawsuit, SGI and Creditors allege that, in the event that the proceeds of sale of the SLI shares is less than 2.45 trillion Korean won (approximately \$2.6 billion), the Samsung affiliates allegedly agreed to compensate SGI and Creditors for the shortfall, by other means, including the sale of an additional 500,000 SLI shares and Samsung affiliates' purchase of equity or subordinated debentures to be issued by SGI and Creditors. Any excess proceeds from the sale of the SLI shares are to be distributed to the Samsung affiliates. To our knowledge, the SLI shares have not been sold. The suit asks for total damages of 4.73 trillion Korean Won (approximately \$5.0 billion) plus penalty interest. Samsung Corning Precision and Samsung Corning combined guarantees should represent no more than 3.3% of the Samsung affiliates' total financial obligation. Although noting that the outcome of these matters is uncertain, Samsung Corning Precision and Samsung Corning have stated that these matters are not likely to result in a material ultimate loss to their financial statements. No claim in these matters has been asserted against Corning Incorporated or any of its affiliates.

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 million as of March 31, 2007 and December 31, 2006, 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 \$2 million and \$1 million for the three months ended March 31, 2007 and 2006, respectively. Corning's maximum exposure to loss as a result of its involvement with the trusts is estimated at approximately \$15 million at March 31, 2007.

10. Goodwill and Other Intangible Assets

There were no changes in the carrying amount of goodwill for the three months ended March 31, 2007. Balances by segment are as follows (in millions):

	Telecom- munications	Display Technologies	Other (1)	Total
Balance at March 31, 2007	\$ 118	\$ 9	\$ 150	\$ 277

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

Other intangible assets follow (in millions):

	March 31, 2007			December 31, 2006		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortized intangible assets:						
Patents and trademarks	\$ 148	\$ 115	\$ 33	\$ 147	\$ 112	\$ 35
Non-competition agreements	117	117		116	116	
Other	5	1	4	5	1	4
Total	\$ 270	\$ 233	\$ 37	\$ 268	\$ 229	\$ 39

Amortized intangible assets are primarily related to the Telecommunications segment.

Estimated amortization expense related to these intangible assets is \$10 million for 2007, \$11 million in 2008, \$11 million in 2009, and insignificant thereafter.

11. 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 these customers over periods of up to six years. As part of the agreements, these customers agreed to advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the three month period ended March 31, 2007, we had no additional deposit payments against orders. During the three months ended March 31, 2006, we received a total of \$13 million of deposits against orders.

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

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

	2004	2005	2006	Three months ended March 31, 2007	Remainder of 2007	Estimated 2008 and Beyond	Total
Customer deposits received	\$ 204	\$ 457	\$ 171	\$ 0	\$ 105	\$ 0	\$ 937

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In 2006 and 2005, we issued credit memoranda which totaled \$126 million and \$29 million for the years, respectively. During the three months ended March 31, 2007 and 2006, we issued \$33 million and \$21 million, respectively, in credit memoranda. These credits are not included in the above table.

Customer deposit liabilities were \$607 million and \$633 million at March 31, 2007 and December 31, 2006, respectively, of which \$207 million and \$213 million, respectively, were recorded in the current portion of other accrued liabilities in our consolidated balance sheets.

- 17 -

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.

12. 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		Postretirement benefits Three months ended	
	March 31, 2007	2006	March 31, 2007	2006
Service cost	\$ 14	\$ 19	\$ 3	\$ 3
Interest cost	36	33	12	12
Expected return on plan assets	(45)	(41)		
Amortization of net loss	7	9	2	3
Amortization of prior service cost	3	2	(1)	(1)
Total expense	\$ 15	\$ 22	\$ 16	\$ 17

Corning and certain of its domestic subsidiaries 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 and service requirements. In response to rising health care costs, we changed our cost-sharing approach for retiree medical coverage. For current retirees (including surviving spouses) and active employees eligible for the salaried retiree medical program, we placed a cap on the amount we will contribute toward retiree medical coverage in the future. The cap equals 120% of our 2005 contributions toward retiree medical benefits. Once our contributions toward salaried retiree medical costs reach this cap, impacted retirees will have to pay the excess amount in addition to their regular contributions for coverage. Further, employees hired or rehired on or after January 1, 2007 will be eligible for Corning retiree medical upon retirement; however, these employees will pay 100% of the cost.

In the first quarter of 2007, we made a voluntary cash contribution of \$106 million to our domestic defined benefit pension plan.

13. 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.

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Our most significant currency exposures relate to Japanese yen, Korean won, New Taiwanese dollar, and the Euro. We selectively enter into foreign exchange forward and option contracts with durations generally 18 months or less to hedge our exposure to exchange rate risk on foreign source income and purchases. The objective of these contracts is to reduce the impact of exchange rate movements on our operating results.

- 18 -

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 rates 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 March 31, 2007 (in millions):

	Notional	Fair
	Amount	Value
Foreign exchange forward contracts	\$ 902	\$ (2)
Foreign exchange option contracts	\$ 281	\$ 2

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.

Corning uses derivative instruments 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 earnings in the other income, net component, along with the foreign currency gains and losses arising from the underlying monetary assets or liabilities, in the consolidated statement of operations. At March 31, 2007, the notional amount of the undesignated derivatives was \$548 million.

Cash Flow Hedges

Corning has cash flow hedges that are comprised of foreign exchange forward and option contracts. These contracts are designated and qualify as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and are recorded in the consolidated financial statements at fair value. The effective portion of unrealized gain or loss on these contracts is deferred and reported as a component of accumulated other comprehensive income on the consolidated balance sheet, until such time as the hedged item impacts earnings. At that time, Corning reclassifies net gains and losses from cash flow hedges into the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded, typically sales, cost of sales, or royalty income. At March 31, 2007, the amount of net gains expected to be reclassified into earnings within the next 12 months is \$4 million.

Corning reviews its cash flow hedges on a regular basis to ensure that each hedge relationship continues to be highly effective. In circumstances where a hedge becomes ineffective, any deferred gain or loss is immediately reclassified into current earnings. Corning has recorded no ineffectiveness for the quarter ended March 31, 2007.

Fair Value Hedges

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Corning records net gains and losses from fair value hedges into the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded. There were no outstanding fair value hedges as of

March 31, 2007, or December 31, 2006.

Net Investment in Foreign Operations

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 accumulated comprehensive income as part of the foreign currency translation adjustment. Net loss included in the cumulative translation adjustment at March 31, 2007 and December 31, 2006 was \$139 million.

- 19 -

14. Share-based Compensation

Stock Compensation Plans

Effective January 1, 2006, the Company adopted SFAS 123(R). SFAS 123(R) requires the measurement and recognition of compensation cost for all share-based payment awards made to employees and directors, including grants of employee stock options and employee stock purchases related to the Worldwide Employee Share Purchase Plan (WESPP), based on estimated fair values. The Company elected to use the modified prospective transition method upon adoption of SFAS 123(R).

Share-based compensation cost recognized under SFAS 123(R) was approximately \$36 million and \$32 million for the three months ended March 31, 2007 and 2006, respectively, and included (1) employee stock options, (2) time-based restricted stock, (3) performance-based restricted stock, and (4) the WESPP. No tax benefits were attributed to the share-based compensation cost because a valuation allowance was maintained for substantially all net deferred tax assets.

Stock Options

Our stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued or treasury shares at the market price on the grant date and generally become exercisable in installments from one to five years from the grant date. The maximum term of non-qualified and incentive stock options is 10 years from the grant date.

The following table summarizes information concerning options outstanding including the related transactions under the options plans for the three months ended March 31, 2007:

	Number of Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Options Outstanding as of December 31, 2006	95,730	\$ 24.19		
Granted	2,019	\$ 20.01		
Exercised	(3,606)	\$ 6.84		
Forfeited and Expired	(455)	\$ 50.36		
Options Outstanding as of March 31, 2007	93,688	\$ 24.63	5.57	\$ 767,765
Options Exercisable as of March 31, 2007	78,982	\$ 25.59	5.00	\$ 702,132

The aggregate intrinsic value (market value of stock less option exercise price) in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price on March 30, 2007, which would have been received by the option holders had all option holders exercised their options as of that date.

As of March 31, 2007, there was approximately \$47 million of unrecognized compensation cost related to stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.65 years. Compensation cost related to stock options was approximately \$18 million and \$19 million for the three months ended March 31, 2007 and 2006, respectively.

Proceeds received from the exercise of stock options were \$22 million for the three months ended March 31, 2007, and were included in financing activities on the Company's Consolidated Statements of Cash Flows. The total intrinsic value of options exercised for the three months ended March 31, 2007 and 2006 was approximately \$52 million and \$236 million, respectively, which is currently deductible for tax purposes. However, these tax benefits were not realized due to net operating loss carryforwards available to the Company. Refer to Note 5 (Income Taxes).

A lattice-based valuation model is used to estimate the fair values of option and restricted stock grants and incorporates the assumptions (including ranges of assumptions) noted in the table below. Expected volatility is based on the blended short-term volatility (the arithmetic average of the implied volatility and the short-term historical volatility), long-term historical volatility of Corning's stock, and other factors.

Corning also uses historical data to estimate future option exercise and employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected time to exercise of options granted is derived using a regression model and represents the period of time that options granted are expected to be outstanding. The range given below results from certain groups of employees exhibiting different behavior. The risk-free rates used in the lattice model are derived from the U.S. Treasury yield curve in effect from the grant date to the option's expiration date. Since period-by-period calculations are employed in the lattice model, Corning uses risk-free rates that apply from one period to the next, generally quarter to quarter. Such rates are typically referred to as forward rates. Being essentially marginal rates, forward rates both vary during the contractual term of the option and exhibit greater variation than the yield curve from which they are derived.

The following inputs for the lattice-based valuation model were used for option grants under our Stock Option Plans:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Expected volatility	39-54%	38-53%
Weighted-average volatility	51%	50%
Expected dividends	0	0
Risk-free rate	4.6-5.2%	1.0-8.1%
Average risk-free rate	4.8%	4.6%
Expected time to exercise (in years)	2.2-5.4	3.0-3.8
Pre-vesting departure rate	1.6-2.5%	1-4%
Post vesting departure rate	3.8-6.7%	4-7%

Incentive Stock Plans

The Corning Incentive Stock Plan permits stock grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration. Shares under the Incentive Stock Plan are generally granted at-the-money, contingently vest over a period of 1 to 10 years, and have contractual lives of 1 to 10 years.

The fair value of each restricted stock grant under the Incentive Stock Plans was estimated on the date of grant for performance based grants assuming that performance goals will be achieved. The expected term for grants under the Incentive Stock Plans is 1 to 10 years.

Time-Based Restricted Stock:

Time-based restricted stock is issued by the Company on a discretionary basis, and is payable in shares of the Company's common stock upon vesting. The fair value is based on the market price of the Company's stock on the grant date. Compensation cost is recognized over the requisite

vesting period and adjusted for actual forfeitures before vesting.

- 22 -

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The following table represents a summary of the status of the Company's nonvested time-based restricted stock as of December 31, 2006, and changes during the three months ended March 31, 2007:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested shares	(000 s)	
Nonvested shares at December 31, 2006	817	\$ 14.88
Granted	82	22.07
Vested	(15)	19.52
Forfeited	(22)	22.07
Nonvested shares at March 31, 2007	862	\$ 15.30

As of March 31, 2007, there was approximately \$5 million of unrecognized compensation cost related to non-vested time-based restricted stock compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.26 years. Compensation cost related to time-based restricted stock was approximately \$1 million for each of the three months ended March 31, 2007 and 2006.

Performance-Based Restricted Stock:

Performance-based restricted stock is earned upon the achievement of certain targets, and is payable in shares of the Company's common stock upon vesting typically over a three-year period. The fair value is based on the market price of the Company's stock on the grant date and assumes that the target payout level will be achieved. Compensation cost is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting. During the performance period, compensation cost may be adjusted based on changes in the expected outcome of the performance-related target.

The following table represents a summary of the status of the Company's nonvested performance-based restricted stock units as of December 31, 2006, and changes during the three months ended March 31, 2007:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested shares	(000 s)	
Nonvested shares at December 31, 2006	8,729	\$ 15.70
Granted	812	21.08
Vested	(2,083)	11.41
Forfeited	(60)	19.93
Nonvested shares at March 31, 2007	7,398	\$ 17.46

As of March 31, 2007, there was approximately \$85 million of unrecognized compensation cost related to non-vested performance-based restricted stock compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.95 years. Compensation cost related to performance-based restricted stock was approximately \$15 million and \$11 million for the three months ended March 31, 2007 and 2006, respectively.

Worldwide Employee Stock Purchase Plan

In addition to the Stock Option Plan and Incentive Stock Plans, we have a Worldwide Employee Share Purchase Plan (WESPP). Under the WESPP, substantially all employees can elect to have up to 10% of their annual wages withheld to purchase our common stock. The purchase price of the stock was 85% of the lower of the beginning-of-quarter or end-of-quarter closing market price through September 30, 2006. Effective October 1, 2006, the purchase price of the stock is 85% of the end-of-quarter closing market price. Compensation cost related to the WESPP was approximately \$2 million for each of the three months ended March 31, 2007, and 2006. Shares purchased by employees was approximately 0.5 million and 0.4 million for the three months ended March 31, 2007 and 2006, respectively.

15. Comprehensive Income

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

	Three months ended March 31,	
	2007 (a)	2006 (a)
Net income	\$ 327	\$ 257
Other comprehensive income:		
Change in unrealized gain on investments, net		1
Change in unrealized gain on derivative instruments, net	(37)	5
Reclassification adjustment relating to derivatives, net	28	(11)
Foreign currency translation adjustment, net	19	49
Amortization of prior pension costs, net	20	
Change in minimum pension liability		(4)
Total comprehensive income	\$ 357	\$ 297

- (a) Other comprehensive income items for the three months ended March 31, 2007 and 2006 include zero net tax effects. Refer to Note 5 (Income Taxes) for an explanation of Corning's tax paying position.

16. Operating Segments

Our reportable operating segments include Display Technologies, Telecommunications, Environmental Technologies, and Life Sciences. The Environmental Technologies reportable segment is an aggregation of our Automotive and Diesel operating segments, as these two segments share similar economic characteristics, products, customer types, production processes and distribution methods. The following provides a brief description of the products and markets served by each reportable segment:

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 pharmaceutical and scientific applications.

All other operating segments that do not meet the quantitative threshold for separate reporting have been grouped as All Other.

Operating Segments (in millions)

	Display Technologies	Telecom- munications	Environmental Technologies	Life Sciences	All Other	Total
Three months ended March 31, 2007						
Net sales	\$ 524	\$ 439	\$ 179	\$ 76	\$ 89	\$ 1,307
Depreciation (1)	\$ 81	\$ 33	\$ 21	\$ 5	\$ 8	\$ 148
Amortization of purchased intangibles		\$ 3				\$ 3
Research, development and engineering expenses (2)	\$ 27	\$ 19	\$ 30	\$ 12	\$ 9	\$ 97
Income tax provision	\$ (41)	\$ (14)	\$ (4)			\$ (59)
Earnings (loss) before minority interest and equity earnings (3)	\$ 267	\$ 28	\$ 9		\$ (1)	\$ 303
Equity in earnings of affiliated companies	\$ 113	\$ 1			\$ 9	\$ 123
Net income	\$ 380	\$ 29	\$ 9		\$ 8	\$ 426
Three months ended March 31, 2006						
Net sales	\$ 547	\$ 397	\$ 155	\$ 72	\$ 91	\$ 1,262
Depreciation (1)	\$ 62	\$ 42	\$ 20	\$ 5	\$ 10	\$ 139
Amortization of purchased intangibles		\$ 3				\$ 3
Research, development and engineering expenses (2)	\$ 30	\$ 20	\$ 30	\$ 13	\$ 8	\$ 101
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		\$ 6				\$ 6
Income tax provision	\$ (29)	\$ (6)				