

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

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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.

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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)	