CORNING INC /NY
Form 10-Q
July 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer	¨	Smaller reporting company	¨

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

Yes ¨ No x

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

Class	Outstanding as of July 15, 2014
Corning's Common Stock, $0.50 par value per share	1,291,027,400 shares

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net sales	$ 2,482	$ 1,982	$ 4,771	$ 3,796
Cost of sales	1,450	1,099	2,804	2,143
Gross margin	1,032	883	1,967	1,653
Operating expenses:				
Selling, general and administrative expenses	318	266	713	525
Research, development and engineering expenses	208	179	406	357
Amortization of purchased intangibles	8	8	16	15
Restructuring, impairment and other charges (Note 2)	34		51	
Asbestos litigation charge	4	6	6	8
Operating income	460	424	775	748
Equity in earnings of affiliated companies (Note 9)	62	166	148	339
Interest income	4	2	16	4
Interest expense	(30)	(28)	(60)	(64)
Transaction-related gain, net (Note 10)			74	
Other (expense) income, net (Note 1)	(155)	265	(131)	330
Income before income taxes	341	829	822	1,357
Provision for income taxes (Note 5)	(172)	(191)	(352)	(225)
Net income attributable to Corning Incorporated	$ 169	$ 638	$ 470	$ 1,132
Earnings per common share attributable to Corning Incorporated:				
Basic (Note 6)	$ 0.11	$ 0.43	$ 0.32	$ 0.77
Diluted (Note 6)	$ 0.11	$ 0.43	$ 0.32	$ 0.76
Dividends declared per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.19

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in millions)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income attributable to Corning Incorporated	$ 169	$ 638	$ 470	$ 1,132
Foreign currency translation gain (loss)	269	(296)	137	(801)
Net unrealized (losses) gains on investments	(9)	3	4	2
Unamortized (losses) gains and prior service costs for postretirement benefit plans	(6)	23	3	30
Net unrealized gains (losses) on designated hedges	1	14	(3)	25
Other comprehensive income (loss), net of tax (Note 16)	255	(256)	141	(744)
Comprehensive income attributable to Corning Incorporated	$ 424	$ 382	$ 611	$ 388

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

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 5,118	$ 4,704
Short-term investments, at fair value (Note 7)	768	531
Total cash, cash equivalents and short-term investments	5,886	5,235
Trade accounts receivable, net of doubtful accounts and allowances - $31 and $28	1,645	1,253
Inventories (Note 8)	1,380	1,270
Deferred income taxes (Note 5)	349	278
Other current assets	604	855
Total current assets	9,864	8,891
Investments (Note 9)	2,013	5,537
Property, net of accumulated depreciation - $8,456 and $7,865 (Note 11)	13,523	9,801
Goodwill and other intangible assets, net (Note 12)	1,682	1,542
Deferred income taxes (Note 5)	2,084	2,234
Other assets	666	473
Total Assets	$ 29,832	$ 28,478
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Note 4)	$ 450	$ 21
Accounts payable	777	771
Other accrued liabilities (Note 3)	950	954
Total current liabilities	2,177	1,746
Long-term debt (Note 4)	3,238	3,272
Postretirement benefits other than pensions	751	766
Other liabilities (Note 3)	1,834	1,483
Total liabilities	8,000	7,267
Commitments and contingencies (Note 3)		
Shareholders' equity (Note 16):		
Convertible preferred stock, Series A – Par value $100 per share; Shares authorized 3,100; Shares issued: 2,300	2,300	
Common stock – Par value $0.50 per share; Shares authorized 3.8 billion; Shares issued: 1,669 million and 1,661 million	835	831
Additional paid-in capital – common stock	13,305	13,066
Retained earnings	11,478	11,320
Treasury stock, at cost; Shares held: 379 million and 262 million	(6,340)	(4,099)

Accumulated other comprehensive income	185	44
Total Corning Incorporated shareholders’ equity	21,763	21,162
Noncontrolling interests	69	49
Total equity	21,832	21,211
Total Liabilities and Equity	$ 29,832	$ 28,478

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)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash Flows from Operating Activities:		
Net income	$ 470	$ 1,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	583	490
Amortization of purchased intangibles	16	15
Restructuring, impairment and other charges	51	
Stock compensation charges	28	25
Equity in earnings of affiliated companies	(148)	(339)
Dividends received from affiliated companies	1,641	182
Deferred tax provision	103	119
Restructuring payments	(17)	(24)
Employee benefit payments (in excess of) less than expense	(28)	26
Losses (gains) on translated earnings contracts	139	(251)
Changes in certain working capital items:		
Trade accounts receivable	(11)	(56)
Inventories	13	(211)
Other current assets	28	(3)
Accounts payable and other current liabilities	(384)	(241)
Other, net	(4)	148
Net cash provided by operating activities	2,480	1,012
Cash Flows from Investing Activities:		
Capital expenditures	(478)	(438)
Acquisitions of business, net of cash received	66	(66)
Investment in unconsolidated entities	(109)	(15)
Proceeds from loan repayments from unconsolidated entities	11	6
Short-term investments – acquisitions	(803)	(737)
Short-term investments – liquidations	574	1,020
Premium on purchased collars		(107)
Realized gains on translated earnings contracts	152	3
Other, net	4	(1)
Net cash used in investing activities	(583)	(335)
Cash Flows from Financing Activities:		
Retirement of long-term debt		(498)
Net repayments of short-term borrowings and current portion of long-term debt	(42)	(11)
Principal payments under capital lease obligations	(1)	(2)
Proceeds from issuance of short-term debt	17	
Proceeds from issuance of commercial paper, net	416	
Proceeds from issuance of preferred stock (1)	400	

Payments to acquire noncontrolling interest		(9)
Proceeds from the exercise of stock options	84	39
Repurchases of common stock for treasury	(2,076)	(232)
Dividends paid	(287)	(280)
Net cash used in by financing activities	(1,489)	(993)
Effect of exchange rates on cash	6	(71)
Net increase (decrease) in cash and cash equivalents	414	(387)
Cash and cash equivalents at beginning of period	4,704	4,988
Cash and cash equivalents at end of period	$ 5,118	$ 4,601

(1) In the first quarter of 2014, Corning issued 1,900 shares of Preferred Stock to Samsung Display Co., Ltd. in connection with the acquisition of their equity interests in Samsung Corning Precision Materials Co., Ltd. (Note 10). Corning also issued to Samsung Display an additional amount of Preferred Stock at closing, for an aggregate issue price of $400 million in cash (Note 16).

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

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

1. Significant Accounting Policies

Basis of Presentation

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

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 U.S. GAAP for interim financial information. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. 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, 2013 (“2013 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.

Samsung Corning Precision Materials Co., Ltd. (“Samsung Corning Precision Materials”)

As further discussed in Note 10 (Acquisition), on January 15, 2014, Corning completed a series of strategic and financial agreements to acquire the common shares of Samsung Corning Precision Materials (“Acquisition”) previously held by Samsung Display Co., Ltd. (“Samsung Display”). As a result of these transactions, Corning is now the owner of 100% of the common shares of Samsung Corning Precision Materials, which we have consolidated into our results beginning in the first quarter of 2014. Operating under the name of Corning Precision Materials Co., Ltd. (“Corning Precision Materials”), the former Samsung Corning Precision Materials organization and operations were integrated into the Display Technologies segment in the first quarter of 2014.

Other (Expense) Income, Net

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Royalty income from Samsung Corning Precision Materials		$ 14		$ 29
Foreign currency exchange and hedge (loss) gain, net	$ (142)	251	$ (148)	282
Net (gain) loss attributable to noncontrolling interests	(1)	1	2	2
Other, net	(12)	(1)	15	17
Total	$ (155)	$ 265	$ (131)	$ 330

Beginning in the first quarter of 2014, due to the Acquisition and subsequent consolidation of Samsung Corning Precision Materials (now Corning Precision Materials), royalty income from Corning Precision Materials is no longer recognized in Corning's consolidated statement of income.

Included in the line item Foreign currency exchange and hedge (loss) gain, net, for the three and six months ended June 30, 2014 and 2013 is the impact of purchased collars and average forward contracts which hedge our exposure to movements in the Japanese yen and its impact on our net earnings. In the three and six months ended June 30, 2013, we recorded a net gain in the amounts of $229 million and $252 million, respectively, driven by the significant depreciation in the 2013 exchange rates for the Japanese yen. In the three and six months ended June 30, 2014, the exchange rates for the Japanese yen rebounded slightly, resulting in a net loss of $145 million and $143 million, respectively, driven by the mark-to-market of our yen-denominated purchased collars and average forward contracts. The gross notional value outstanding for purchase collars and average rate forwards which hedge our exposure to the Japanese yen at June 30, 2014 and December 31, 2013 was $12.5 billion and $6.8 billion, respectively.

In the second quarter of 2014, following the Acquisition, we entered into a portfolio of zero cost collars to hedge our exposure to movements in the Korean won and its impact on our net earnings. These zero cost collars had a gross notional value outstanding at June 30, 2014 of $2.9 billion, and will settle quarterly beginning in the third quarter of 2014 and concluding at the end of 2015. The gain on the mark-to-market of these zero cost collars, which is also included in the line item Foreign currency exchange and hedge (loss) gain, net, was not material for the period ended June 30, 2014.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification (“ASC”) Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. We are currently assessing the potential impact of adopting this ASU on our financial statements and related disclosures.

2. Restructuring, Impairment and Other Charges

2014 Activity

For the six months ended June 30, 2014, we recorded charges of $51 million, pre-tax, for workforce reductions, asset disposals and write-offs, and exit costs for restructuring activities in the Display Technologies, Optical Communications and Specialty Materials segments, with total cash expenditures estimated to be $14 million. Annualized savings from these actions are anticipated to be approximately $75 million and will be reflected primarily in gross margin.

In the fourth quarter of 2013, Corning implemented a global restructuring plan within several of our segments to better align our cost position. These actions consisted of workforce reductions, asset disposals and write-offs, and exit costs. We recorded charges of $67 million associated with these actions, with total cash expenditures expected to be approximately $40 million. Annualized savings from these actions are estimated to be approximately $40 million and will be reflected largely in selling, general and administrative expenses.

The following table summarizes the restructuring, impairment and other charges for the six months ended June 30, 2014 (in millions):

	Reserve at January 1, 2014	Net charges/ reversals	Cash payments	Reserve at June 30, 2014
Restructuring:				
Employee related costs	$ 36	$ 32	$ (17)	$ 51
Other charges	8	5		13
Total restructuring activity	$ 44	$ 37	$ (17)	$ 64
Impairment charges and disposal of long-lived assets		$ 14		
Total restructuring, impairment and other charges		$ 51		

Cash payments for employee-related costs related to the 2014 and 2013 restructuring actions are expected to be substantially completed in 2015.

2013 Activity

The following table summarizes the restructuring reserve activity for the six months ended June 30, 2013 (in millions):

	Reserve at January 1, 2013	Net charges/ reversals	Cash payments	Reserve at June 30, 2013
Restructuring:				
Employee-related costs	$ 38	$ (1)	$ (22)	$ 15
Other charges (credits)	4		(2)	2
Total restructuring activity	$ 42	$ (1)	$ (24)	$ 17

Cash payments for the above restructuring activities were substantially completed in 2013.

3. Commitments, Contingencies and Guarantees

Dow Corning Corporation

Corning and The Dow Chemical Company (“Dow”) each own 50% of the common stock of Dow Corning Corporation (“Dow Corning”). In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from 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 included releases for Corning and Dow as shareholders in exchange for contributions to the Plan.

Under 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 $1.8 billion to the Settlement Trust. As of June 30, 2014, Dow Corning had recorded a reserve for breast implant litigation of $1.6 billion.

As a separate matter arising from its bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. As of June 30, 2014, Dow Corning has estimated the potential liability to these creditors to be within the range of $97 million to $317 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 $97 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.

Pittsburgh Corning Corporation and Other Asbestos Litigation

Corning and PPG Industries, Inc. ("PPG") each own 50% of the capital stock of Pittsburgh Corning Corporation ("PCC"). Over a period of more than two decades, PCC and several other defendants were named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. At the time PCC filed for bankruptcy protection, there were approximately 11,800 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC's asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC's asbestos products.

PCC Plan of Reorganization

Corning, with other relevant parties, has been involved in ongoing efforts to develop a Plan of Reorganization that would resolve the concerns and objections of the relevant courts and parties. On November 12, 2013, the Bankruptcy Court issued a decision finally confirming an Amended PCC Plan of Reorganization (the "Amended PCC Plan").

The Bankruptcy Court's confirmation of the Amended PCC Plan must be affirmed by the District Court, and one objector to the Amended PCC Plan continues to appeal the Bankruptcy Court's confirmation of the Amended PCC Plan to the District Court. Assuming the District Court affirms the confirmation, that decision may be appealed. If that occurs, it could take many months for the confirmation of the Amended PCC Plan to be finally affirmed.

Under the Amended PCC Plan, Corning is required to contribute its equity interests in PCC and Pittsburgh Corning Europe N.V. ("PCE"), a Belgian corporation, and to contribute $290 million in a fixed series of payments, recorded at present value. Corning has the option to use its shares rather than cash to make these payments, but the liability is fixed by dollar value and not the number of shares. The Amended PCC Plan requires Corning to make: (1) one payment of $70 million one year from the date the Amended PCC Plan becomes effective and certain conditions are met; and (2) five additional payments of $35 million, $50 million, $35 million, $50 million, and $50 million, respectively, on each of the five subsequent anniversaries of the first payment, the final payment of which is subject to reduction based on the application of credits under certain circumstances.

Other Asbestos Litigation

In addition to the claims against Corning related to its ownership interest in PCC, Corning is also the defendant in approximately 9,700 other cases (approximately 37,400 claims) alleging injuries from asbestos related to its Corhart business and similar amounts of monetary damages per case. When PCC filed for bankruptcy protection, the Court granted a preliminary injunction to suspend all asbestos cases against PCC, PPG and Corning – including these non-PCC asbestos cases (the "stay"). The stay remains in place as of the date of this filing. Under the Bankruptcy Court's order confirming the Amended PCC Plan, the stay will remain in place until the Amended PCC Plan is finally affirmed. These non-PCC asbestos cases have been covered by insurance without material impact to Corning to date. As of June 30, 2014, Corning had received for these cases approximately $19 million in insurance payments related to those claims. If and when the Bankruptcy Court's confirmation of the Amended PCC Plan is affirmed, these non-PCC asbestos claims would be allowed to proceed against Corning. Corning has recorded in its estimated asbestos litigation liability an additional $150 million for these and any future non-PCC asbestos cases.

Total Estimated Liability for the Amended PCC Plan and the Other Asbestos Litigation

The liability for the Amended PCC Plan and the other asbestos litigation was estimated to be $695 million at June 30, 2014, compared with an estimate of liability of $690 million at December 31, 2013. This $695 million liability is comprised of $255 million of the fair value of PCE, $290 million for the fixed series of payments, and $150 million for the non-PCC asbestos litigation, all referenced in the preceding paragraphs. With respect to the PCE liability, at June 30, 2014 and December 31, 2013, the fair value of $255 million of our interest in PCE significantly exceeded its carrying value of $171 million and $167 million, respectively. There have been no impairment indicators for our investment in PCE and we continue to recognize equity earnings of this affiliate. At the time Corning recorded this liability, it determined it lacked the ability to recover the carrying amount of its investment in PCC and its investment was other than temporarily impaired. As a result, we reduced our investment in PCC to zero. As the fair value in PCE is significantly higher than book value, management believes that the risk of an additional loss in an amount materially higher than the fair value of the liability is remote. With respect to the liability for other asbestos litigation, the liability for non-PCC claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the injunction issued by the Bankruptcy Court. The estimated liability represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more data becomes available; however, we cannot estimate any additional losses at this time. The entire obligation is classified as a non-current liability as installment payments for the cash portion of the obligation under the Amended PCC Plan are not scheduled to commence until more than 12 months after the Plan becomes effective and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning's investment in PCE (currently recorded as a non-current other equity method investment).

Non-PCC Asbestos Cases Insurance Litigation

Several of Corning's insurers have commenced litigation in state courts for a declaration of the rights and obligations of the parties under insurance policies affecting the non-PCC asbestos cases, including rights that may be affected by the potential resolutions described above. Corning is vigorously contesting these cases, and management is unable to predict the outcome of the litigation.

Other Commitments and Contingencies

We are required, at the time a guarantee is issued, to recognize a liability for the fair value or market value of the obligation it assumes. In the normal course of our business, we do not routinely provide significant third-party guarantees. Generally, any third-party guarantees provided by Corning are limited to certain financial guarantees including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones. When provided, these guarantees have various terms, and none of these guarantees are individually significant.

As of June 30, 2014 and December 31, 2013, contingent guarantees totaled a notional value of $150 million and $152 million, respectively. We believe a significant majority of these contingent guarantees will expire without being funded. We also were contingently liable for purchase obligations of $296 million and $126 million, at June 30, 2014 and December 31, 2013, respectively. The increase in purchase obligations from December 31, 2013 to June 30, 2014, was attributable to the acquisition of the remaining interests of Samsung Corning Precision Materials, which increased the amount of obligations at June 30, 2014 by $180 million.

Product warranty liability accruals were considered insignificant at June 30, 2014 and December 31, 2013.

Corning is a defendant in various lawsuits, including environmental litigation, product-related suits, the Dow Corning and PCC matters, 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. Other than certain asbestos related claims, there are no other material loss contingencies related to 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 for 16 hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning’s policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At June 30, 2014 and December 31, 2013, Corning had accrued approximately $30 million (undiscounted) and $15 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company’s liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

4. Debt

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was $3.6 billion at June 30, 2014 and $3.5 billion at December 31, 2013, compared to recorded book values of $3.2 billion at June 30, 2014 and $3.3 billion at December 31, 2013. The Company measures the fair value of its long-term debt using Level 2 inputs based primarily on current market yields for its existing debt traded in the secondary market.

2014

At June 30, 2014, Corning had $416 million in outstanding commercial paper as part of the Company’s commercial paper program established in the second quarter of 2013. The estimated fair value of this commercial paper approximates its carrying value due to the short-term maturities.

2013

In the second quarter of 2013, the Company established a commercial paper program on a private placement basis, pursuant to which we may issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding at any time of $1 billion. Under this program, the Company may issue the notes from time to time and will use the proceeds for general corporate purposes. The maturities of the notes will vary, but may not exceed 390 days from the date of issue. The interest rates will vary based on market conditions and the ratings assigned to the notes by credit rating agencies at the time of issuance. The Company’s $1 billion revolving credit facility is available to support obligations under the commercial paper program, if needed.

In the first quarter of 2013, we amended and restated our existing revolving credit facility. The amended facility provides a $1 billion unsecured multi-currency line of credit that expires in March 2018. The facility includes a leverage test (debt to capital ratio) financial covenant. As of June 30, 2014, we were in compliance with this covenant.

In the first quarter of 2013, Corning repaid the aggregate principal amount and accrued interest outstanding on the credit facility entered into in the second quarter of 2011 that allowed Corning to borrow up to Chinese Renminbi (RMB) 4.0 billion. The total amount repaid was approximately $500 million. Upon repayment, this facility was terminated.

5. Income Taxes

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Provision for income taxes	$ (172)	$ (191)	$ (352)	$ (225)
Effective tax rate	50.4%	23.0%	42.8%	16.6%

For the three and six months ended June 30, 2014, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

- Rate differences on income (loss) of consolidated foreign companies, including the benefit of excess foreign tax credits attributable to a deemed distribution to the U.S. of a portion of foreign current year earnings;
- Equity in earnings of nonconsolidated affiliates reported in the financials, net of tax; and
- Tax incentives in foreign jurisdictions, primarily Taiwan.

These benefits were more than offset by discrete tax charges of $102 million related to South Korean withholding tax on a dividend paid by Samsung Corning Precision Materials to Corning wholly owned foreign subsidiaries for the six months ended June 30, 2014, and $135 million and $146 million attributable to a change in judgment on the realizability of certain foreign deferred taxes assets for the three and six months ended June 30, 2014, respectively.

For the three and six months ended June 30, 2013, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

- Rate differences on income (loss) of consolidated foreign companies;
- Equity in earnings of nonconsolidated affiliates reported in the financials, net of tax; and
- Tax incentives in foreign jurisdictions, primarily Taiwan.

In addition to the items noted above, the tax provision for the six months ended June 30, 2013, reflects a $54 million tax benefit to record the impact of the American Taxpayer Relief Act enacted on January 3, 2013 and made retroactive to 2012.

Corning's subsidiary in Taiwan is operating under tax holiday arrangements. The benefit of the arrangement phases out through 2018. The impact of the tax holiday on our effective tax rate is a reduction in the rate of 1.4 and 0.9 percentage points for the three months ended June 30, 2014 and 2013, respectively. The impact of the tax holiday on our effective tax rate is a reduction in the rate of 1.3 and 1.0 percentage points for the six months ended June 30, 2014 and 2013, respectively.

In April 2011, South Korean tax authorities completed a tax audit of Samsung Corning Precision Materials. As a result, the tax authorities issued a pre-assessment of approximately $46 million for an asserted underpayment of withholding tax on dividends paid from September 2006 through March 2009. Our first level of appeal was denied on

October 5, 2011 and a formal assessment was issued. The assessment was paid in full in the fourth quarter of 2011, allowing us to continue the appeal process. On May 30, 2014, the Korean Tax Tribunal issued a ruling partially in favor of Samsung Corning Precision Materials, resulting in an $18 million dollar refund to Corning. Samsung Corning Precision Materials and Corning continue to appeal the remainder of the assessment and believe we will prevail when all available appeal remedies have been exhausted.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of approximately $9 million of current earnings in 2014 that have very low or no tax cost associated with their repatriation. Our current analysis indicates that we have sufficient U.S. liquidity, including borrowing capacity, to fund foreseeable U.S. cash needs without requiring the repatriation of foreign cash. One time or unusual items that may impact our ability or intent to keep our foreign earnings and cash indefinitely reinvested include significant U.S. acquisitions, stock repurchases, shareholder dividends, changes in tax laws or the development of tax planning ideas that allow us to repatriate earnings at little or no tax cost, and/or a change in our circumstances or economic conditions that negatively impact our ability to borrow or otherwise fund U.S. needs from existing U.S. sources. While it remains impracticable to calculate the tax cost of repatriating our total unremitted foreign earnings, such cost could be material to the results of operations of Corning in a particular period.

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

6. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income attributable to Corning Incorporated	$ 169	$ 638	$ 470	$ 1,132
Less: Series A convertible preferred stock dividend	24		45	
Net income available to common stockholders - basic	145	638	425	1,132
Net income available to common stockholders - diluted	$ 145	$ 638	$ 425	$ 1,132
Weighted-average common shares outstanding - basic	1,302	1,469	1,331	1,471
Effect of dilutive securities:				
Stock options and other dilutive securities	13	9	12	9
Weighted-average common shares outstanding - diluted	1,315	1,478	1,343	1,480
Basic earnings per common share	$ 0.11	$ 0.43	$ 0.32	$ 0.77
Diluted earnings per common share	$ 0.11	$ 0.43	$ 0.32	$ 0.76
Anti-dilutive potential shares excluded from diluted earnings per common share:				
Series A convertible preferred stock	115		106	
Employee stock options and awards	20	38	24	43
Accelerated share repurchase forward contract			6	
Total	135	38	136	43

7. Available-for-Sale Investments

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

	Amortized cost		Fair value	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Bonds, notes and other securities:				
U.S. government and agencies	$ 758	$ 530	$ 759	$ 531
Equity securities	$ 6		$ 9	
Total short-term investments	$ 764	$ 530	$ 768	$ 531
Asset-backed securities	$ 44	$ 46	$ 39	$ 38
Total long-term investments	$ 44	$ 46	$ 39	$ 38

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

The following table summarizes the contractual maturities of available-for-sale securities at June 30, 2014 (in millions):

Less than one year	$524
Due in 1-5 years	235
Due in 5-10 years	0
Due after 10 years (1)	39
Total	$798

(1) Includes $39 million of asset-based securities that mature over time and are being reported at their final maturity dates.

Unrealized gains and losses, net of tax, are computed on a specific identification basis and are reported as a separate component of accumulated other comprehensive income in shareholders' equity until realized.

The following tables provide the fair value and gross unrealized losses of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013 (dollars in millions):

	June 30, 2014				
		12 months or greater		Total	
	Number of securities in a loss position	Fair value	Unrealized losses (1)	Fair value	Unrealized losses
Asset-backed securities	21	$ 39	$ (5)	$ 39	$ (5)
Total long-term investments	21	$ 39	$ (5)	$ 39	$ (5)

(1) Unrealized losses in securities less than 12 months were not significant.

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	December 31, 2013				
		12 months or greater		Total	
	Number of securities in a loss position	Fair value	Unrealized losses (1)	Fair value	Unrealized losses
Asset-backed securities	20	$ 38	$ (8)	$ 38	$ (8)
Total long-term investments	20	$ 38	$ (8)	$ 38	$ (8)

(1) Unrealized losses in securities less than 12 months were not significant.

As of June 30, 2014 and December 31, 2013, for securities that have credit losses, an unrealized loss on other than temporary impaired securities of $4 million and $6 million, respectively, is recognized in accumulated other comprehensive income.

Proceeds from sales and maturities of short-term investments totaled approximately $0.6 billion and $1.0 billion for the six months ended June 30, 2014 and 2013, respectively.

8. Inventories

Inventories comprise the following (in millions):

	June 30, 2014	December 31, 2013
Finished goods	$ 500	$ 486
Work in process	250	234
Raw materials and accessories	323	311
Supplies and packing materials	307	239
Total inventories	$ 1,380	$ 1,270

9. Investments

Samsung Corning Precision Materials

Prior to December 2013, Corning owned 50% of its equity affiliate, Samsung Corning Precision Materials, Samsung Display owned 42.5% and three shareholders owned the remaining 7%. In the fourth quarter of 2013, in connection with a series of agreements with Samsung Display announced in October 2013, Corning acquired the minority interests of three shareholders in Samsung Corning Precision Materials for $506 million, which included payment for the transfer of non-operating assets and the pro-rata portion of cash on the Samsung Corning Precision Materials balance sheet at September 30, 2013. The resulting transfer of shares to Corning increased Corning's ownership percentage of Samsung Corning Precision Materials from 50% to 57%. Because this transaction did not result in a change in control based on the governing documents of this entity, Corning did not consolidate this entity as of December 31, 2013.

As further discussed in Note 10 (Acquisition), on January 15, 2014, Corning completed the acquisition of the common shares of Samsung Corning Precision Materials previously held by Samsung Display. As a result of these transactions, Corning became the owner of 100% of the common shares of Samsung Corning Precision Materials, which were consolidated into our results beginning in the first quarter of 2014. Operating under the name of Corning Precision Materials, the former Samsung Corning Precision Materials organization and operations were integrated into the Display Technologies segment in the first quarter of 2014.

Dow Corning Corporation ("Dow Corning")

Summarized income statement information for Dow Corning is as follows for the three and six months ended June 30, 2014 and prior year comparative periods: net sales $1,501 million and $3,025 million (2013: $1,430 million and $2,694 million), gross profit(1) $349 million and $720 million (2013: $385 million and $602 million) and net income attributable to Dow Corning $109 million and $300 million (2013: $87 million and $149 million). Dow Corning's net income in the three and six months ended June 30, 2014 includes a pre-tax gain on a derivative instrument of $25 million and $114 million, respectively (after tax and non-controlling interests, Corning's share was approximately $8 million and $40 million).
(1)Gross profit for the three months ended June 30, 2014 includes R&D costs of $70 million (2013: $62 million) and selling expense of $3 million (2013: $2 million). Gross profit for the six months ended June 30, 2014 includes R&D cost of $137 million (2013: $127 million) and selling expenses of $6 million (2013: $6 million).

10. Acquisition

On January 15, 2014, Corning consummated a series of strategic and financial agreements pursuant to the Framework Agreement with Samsung Display, previously announced on October 22, 2013, to acquire the remaining common shares of Samsung Corning Precision Materials. The transaction is expected to strengthen product and technology collaborations between the two companies and allow Corning to extend its leadership in specialty glass and drive earnings growth.

The Acquisition was accounted for under the purchase method of accounting in accordance with business combination accounting guidance. Accordingly, the preliminary purchase price was allocated to the assets acquired and liabilities assumed based on their fair value on the date of Acquisition. The fair value was determined based on the fair value of consideration transferred for the 42.5% of Samsung Display's shares. Corning recognized a gain in the amount of $394 million in current period earnings, which was calculated from the pre-acquisition fair value of its previously held equity investment.

The following table summarizes the consideration transferred to acquire Samsung Corning Precision Materials, as well as the fair value of the non-controlling interest in Samsung Corning Precision Materials at the acquisition date.

Fair Value of Samsung Corning Precision Materials on Acquisition Date (in millions):

Corning Preferred Shares	$ 1,911
Settlement of pre-existing contract	(136)
Contingent consideration	(196)
Total consideration transferred	1,579
Fair value of equity investment	2,139
Total	$ 3,718

In connection with the purchase of Samsung Display's equity interest in Samsung Corning Precision Materials pursuant to the Framework Agreement, the Company designated a new series of its preferred stock as Fixed Rate Cumulative Convertible Preferred Stock, Series A, par value $100 per share ("Preferred Stock"). As contemplated by the Framework Agreement, Samsung Display became the owner of 2,300 shares of Preferred Stock (with an issue price of $1 million per share), of which 1,900 shares were issued in connection with the Acquisition and 400 shares were issued for cash.

Corning issued 1,900 Preferred Shares as consideration in the Acquisition of Samsung Corning Precision Materials which had a fair value of $1.9 billion on the acquisition date. The fair value was determined using an option pricing model based on the features of the instrument. That measure is based on Level 2 inputs observable in the market such as Corning's common stock price and dividend yield.

At Acquisition, in addition to the $394 million gain on our previously held equity investment, the Company also recorded the effective settlement of a pre-existing contract with Samsung Corning Precision Materials related to a technology license agreement. The contract was valued using the Income Approach, specifically a relief from royalty method. As a result, a loss of $320 million was recorded in the first quarter of 2014.

The Acquisition also includes a contingent consideration arrangement that potentially requires additional consideration to be paid between the parties in 2018: one based on projections of future revenues generated by the business of Corning Precision Materials for the period between acquisition date and December 31, 2017, which is subject to a cap of $665 million; and another based on the volumes of certain sales during the same period, which is subject to a separate cap of $100 million. The fair value of the potential receipt of the contingent consideration in 2018 in the amount of $196 million recognized on the acquisition date was estimated by applying an option pricing model using the Company's projections of future revenues generated by Corning Precision Materials.

As of June 30, 2014, there were no significant changes in the recognized amounts or range of outcomes for the contingent consideration recognized as a result of the Acquisition of Samsung Corning Precision Materials.

The following table summarizes the amounts of identified assets acquired and liabilities assumed at acquisition date. Corning has not completed its accounting for the Acquisition and its review of deferred taxes; therefore, amounts are subject to change.

Recognized amounts of identified assets acquired and liabilities assumed (in millions):

Cash and cash equivalents (1)(3)	$	133
Trade receivables		353
Inventory		119
Property, plant and equipment (3)		3,601
Other current and non-current assets (3)		78
Debt – current		(32)
Accounts payable and accrued expenses		(343)
Other current and non-current liabilities (3)		(299)
Total identified net assets (3)		3,610
Non-controlling interests		15
Fair value of Samsung Corning Precision Materials on acquisition date		(3,718)
Goodwill (2)(3)	$	93

(1) Cash and cash equivalents are presented net of the 2014 dividend distributed subsequent to the Acquisition, in the amount of $2.8 billion.
(2) The goodwill recognized is not deductible for U.S. income tax purposes. The goodwill was allocated to the Display Technologies segment.
(3) In the second quarter of 2014, the company recorded measurement period adjustments of $25 million for the Acquisition of Corning Precision Materials.

The goodwill is primarily attributable to the workforce of the acquired business and the synergies expected to result from the integration of Corning Precision Materials. Acquisition-related costs of $2 million and $92 million in the three and six months ended June 30, 2014, respectively, included costs for post-Acquisition compensation expense, legal, accounting, valuation and other professional services and were included in selling, general and administrative expenses in the Consolidated Statements of Income. Since the date of acquisition, the consolidation of Corning Precision Materials added $868 million to Net sales. The impact to Net income of the consolidation of Corning Precision Materials is impracticable to calculate due to the level of integration within the Display Technologies segment and the significant amount of estimates that would be required.

Unaudited Pro Forma Financial Information

The unaudited pro forma combined consolidated statement of income for the three and six months ended June 30, 2013, was derived from the unaudited financial statements of Corning and Samsung Corning Precision Materials for the three and six months ended June 30, 2013, and is presented to show how Corning might have looked had the Acquisition occurred as of January 1, 2013.

The unaudited pro forma combined consolidated financial information was prepared pursuant to the rules and regulations of the SEC. The unaudited pro forma adjustments reflecting the Acquisition have been prepared in accordance with the business combination accounting guidance and reflect the preliminary allocation of the purchase price to the acquired assets and liabilities based upon the preliminary estimate of fair values, using the assumptions set forth above.

Unaudited Pro Forma Financial Information (in millions, except per share data):

	Three months ended June 30, 2013	Six months ended June 30, 2013
Net sales	$ 2,489	$ 4,877
Net income from continuing operations - basic	$ 737	$ 1,357
Net income from continuing operations - diluted	$ 761	$ 1,405
Earnings per common share attributable to common shareholders		
Basic	$ 0.50	$ 0.92
Diluted	$ 0.48	$ 0.88
Shares used in computing per share amounts		
Basic	$ 1,469	$ 1,471
Diluted	$ 1,593	$ 1,595

There were no other significant acquisitions for the six months ended June 30, 2014, and for the year ended December 31, 2013.

11. Property, Net of Accumulated Depreciation

Property, net of accumulated depreciation follows (in millions):

	June 30, 2014	December 31, 2013
Land	$ 494	$ 121
Buildings	5,812	4,175
Equipment	14,379	12,286
Construction in progress	1,294	1,084
	21,979	17,666
Accumulated depreciation	(8,456)	(7,865)
Total	$ 13,523	$ 9,801

The increase in Property, net of accumulated depreciation in 2014 is primarily driven by the Acquisition of Samsung Corning Precision Materials, which added $3.6 billion to this balance at acquisition.

In the three months ended June 30, 2014 and 2013, interest costs capitalized as part of Property, net of accumulated depreciation were $11 million and $8 million, respectively. In the six months ended June 30, 2014 and 2013, interest costs capitalized as part of Property, net of accumulated depreciation, were $22 million and $17 million, respectively.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. At June 30, 2014 and December 31, 2013, the recorded value of precious metals totaled $3.4 billion and $2.2 billion, respectively. Depletion expense for precious metals in the three months ended June 30, 2014 and 2013 was $5 million in both periods. Depletion expense for precious metals in the six months ended June 30, 2014 and 2013 totaled $13 million and $11 million, respectively. The consolidation of Corning Precision Materials added approximately $1.1 billion in precious metals and approximately $2 million of depletion expense for the six months ended June 30, 2014.

12. Goodwill and Other Intangible Assets

The carrying amount of goodwill by segment for the periods ended June 30, 2014 and December 31, 2013 is as follows (in millions):

	Display Technologies	Optical Communications	Specialty Materials	Life Sciences	Total
Balance at December 31, 2013	$ 9	$ 240	$ 150	$ 603	$ 1,002
Goodwill (1)	68		54		122
Measurement period adjustment (2)	25				25
Foreign currency translation adjustment	1				1
Balance at June 30, 2014	$ 103	$ 240	$ 204	$ 603	$ 1,150

(1) The Company recorded the Acquisition of Samsung Corning Precision Materials and a small acquisition in the Specialty Materials segment in the first quarter of 2014. Refer to Note 10 (Acquisition) to the Consolidated Financial Statements for additional information on the Acquisition of Samsung Corning Precision Materials.
(2) In the second quarter of 2014, the company recorded measurement period adjustments of $25 million for the Acquisition of Samsung Corning Precision Materials.

Corning's gross goodwill balances for the periods ended June 30, 2014 and December 31, 2013 were $7.6 billion and $7.5 billion, respectively. Accumulated impairment losses were $6.5 billion for the periods ended June 30, 2014 and December 31, 2013, and were generated entirely through goodwill impairments related to the Optical Communications segment recorded primarily in 2001.

Other intangible assets are as follows (in millions):

	June 30, 2014			December 31, 2013		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Amortized intangible assets:						
Patents, trademarks, and trade names	$ 307	$ 144	$ 163	$ 290	$ 138	$ 152
Customer lists and other	427	58	369	436	48	388
Total	$ 734	$ 202	$ 532	$ 726	$ 186	$ 540

Corning's amortized intangible assets are primarily related to the Optical Communications and Life Sciences segments. The net carrying amount of intangible assets decreased during the first six months of 2014, primarily due to amortization of $16 million, offset by a small acquisition and foreign currency translation adjustments.

Amortization expense related to these intangible assets is estimated to be $34 million for 2014, $33 million for 2015 and $32 million annually from 2016 to 2019.

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				Postretirement benefits			
	Three months ended June 30,		Six months ended June 30,		Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	$ 16	$ 18	$ 32	$ 37	$ 2	$ 3	$ 5	$ 7
Interest cost	38	32	76	66	9	9	18	19
Expected return on plan assets	(43)	(42)	(86)	(84)				
Amortization of net loss						4		8
Amortization of prior service cost (credit)	1	1	3	2	(1)	(1)	(2)	(3)
Recognition of actuarial gain		(41)		(41)				
Total pension and postretirement benefit expense (credit)	$ 12	$ (32)	$ 25	$ (20)	$ 10	$ 15	$ 21	$ 31

14. Hedging Activities

Undesignated Hedges

The table below includes a total gross notional value for the translated earnings contracts of $15.4 billion at June 30, 2014 (at December 31, 2013: $6.8 billion), including purchased and zero cost collars of $5.9 billion (at December 31, 2013: $5.9 billion) and average rate forwards of $9.5 billion (at December 31, 2013: $0.9 billion). With respect to the purchased collars and zero cost collars, the gross notional amount includes the value of both the put and call options. However, due to the nature of the purchased and zero cost collars, either the put or the call option can be exercised at maturity. As of June 30, 2014, the total net notional value of the purchased collars and zero cost collars was $3.1 billion (at December 31, 2013: $3 billion).

The following tables summarize the gross notional amounts and respective fair values of Corning's derivative financial instruments on a gross basis for June 30, 2014 and December 31, 2013 (in millions):

	U.S. Dollar Gross notional amount		Asset derivatives			Liability derivatives		
			Balance sheet location	Fair value		Balance sheet location	Fair value	
	2014	2013		2014	2013		2014	2013
Derivatives designated as hedging instruments								
Foreign exchange contracts	$ 271	$ 433	Other current assets	$ 2	$ 8	Other accrued liabilities	$ (2)	$ (3)
Interest rate contracts	550	550				Other liabilities	(15)	(28)
Derivatives not designated as hedging instruments								
Foreign exchange contracts	1,049	804	Other current assets	5	20	Other accrued liabilities	(6)	(3)
Translated earnings contracts	15,407	6,826	Other current assets	162	344	Other accrued liabilities	(7)	(3)
			Other assets	40	90	Other liabilities	(32)	
Total derivatives	$17,277	$ 8,613		$ 209	$ 462		$ (62)	$ (37)

The following table summarizes the effect of derivative financial instruments on Corning's consolidated financial statements for the three months ended June 30, 2014 and 2013 (in millions):

	Effect of derivative instruments on the consolidated financial statements for the three months ended June 30				
Derivatives in hedging relationships	Gain recognized in other comprehensive income (OCI)		Location of gain reclassified from accumulated OCI into income (effective)	Gain reclassified from accumulated OCI into income (effective) (1)	
	2014	2013		2014	2013
Interest rate contracts		$ 37	Cost of sales	$ 0	$ 11
Foreign exchange contracts	$ 2	15	Other (expense) income, net		18

Total cash flow hedges	$ 2	$ 52	$ 0	$ 29

(1) The amount of hedge ineffectiveness for the three months ended June 30, 2014 and 2013 was insignificant.

The following table summarizes the effect of derivative financial instruments on Corning's consolidated financial statements for the six months ended June 30, 2014 and 2013 (in millions):

Derivatives in hedging relationships	Gain/(loss) recognized in other comprehensive income (OCI) 2014	2013	Location of gain reclassified from accumulated OCI into income (effective)	Gain reclassified from accumulated OCI into income (effective) (1) 2014	2013
	Effect of derivative instruments on the consolidated financial statements for the six months ended June 30				
Interest rate contracts		$ 37	Cost of sales	$ 0	$ 19
Foreign exchange contracts	$ (5)	52	Other (expense) income, net		31
Total cash flow hedges	$ (5)	$ 89		$ 0	$ 50

(1) The amount of hedge ineffectiveness for the six months ended June 30, 2014 and 2013 was insignificant.

The following table summarizes the effect on the consolidated financial statements relating to Corning's derivative financial instruments (in millions):

		Gain/(loss) recognized in income (1)			
		Three months ended June 30,		Six months ended June 30,	
Undesignated derivatives	Location of gain/(loss) recognized in income	2014	2013	2014	2013
Foreign exchange contracts – balance sheet	Other (expense) income, net	$ 7	$ 40	$ (5)	$ 88
Foreign exchange contracts – loans	Other (expense) income, net	(3)	27	1	85
Translated earnings contracts	Other (expense) income, net	(141)	227	(139)	251
Total undesignated		$ (137)	$ 294	$ (143)	$ 424

(1) Certain amounts for prior periods were reclassified to conform to the current year presentation.

15. Fair Value Measurements

Fair value standards under U.S. GAAP define fair value, establish a framework for measuring fair value in applying generally accepted accounting principles, and require disclosures about fair value measurements. The standards also identify two kinds of inputs that are used to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources while unobservable inputs are based on the Company's own market assumptions. Once inputs have been characterized, the inputs are prioritized into one of three broad levels (provided in the table below) used to measure fair value. Fair value standards apply whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement and require the use of observable market data when available.

The following tables provide fair value measurement information for the Company's major categories of financial assets and liabilities measured on a recurring basis (in millions):

		Fair value measurements at reporting date using		
	June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Short-term investments	$ 768	$ 768		
Other current assets (1)	$ 169		$ 169	
Non-current assets:				
Other assets (1)(2)	$ 79		$ 79	
Current liabilities:				
Other accrued liabilities (1)	$ 15		$ 15	
Non-current liabilities:				
Other liabilities (1)	$ 47		$ 47	

(1) Derivative assets and liabilities include foreign exchange contracts, including forwards, zero-cost and purchased collars, together with interest rate swaps which are measured using observable quoted prices for similar assets and liabilities.
(2) Other assets include asset-backed securities which are measured using observable quoted prices for similar assets.

		Fair value measurements at reporting date using		
	December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Short-term investments	$ 531	$ 531		
Other current assets (1)	$ 372		$ 372	
Non-current assets:				
Other assets (1)(2)	$ 128		$ 128	
Current liabilities:				
Other accrued liabilities (1)	$ 9		$ 9	
Non-current liabilities:				
Other liabilities (1)	$ 28		$ 28	

(1) Derivative assets and liabilities include foreign exchange contracts, including forwards and purchased collars, together with interest rate swaps which are measured using observable quoted prices for similar assets and liabilities.
(2) Other assets include asset-backed securities which are measured using observable quoted prices for similar assets.

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As a result of the Acquisition of Samsung Corning Precision Materials, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. This contingent consideration arrangement potentially requires additional consideration to be paid between the parties in 2018: one based on projections of future revenues generated by the business of Corning Precision Materials for the period between the acquisition date and December 31, 2017, which is subject to a cap of $665 million; and another based on the volumes of certain sales during the same period, which is subject to a separate cap of $100 million. The fair value of the potential receipt of the contingent consideration in 2018 in the amount of $196 million recognized on the acquisition date was estimated by applying an option pricing model using the Company's projection of future revenues generated by Corning Precision Materials. Changes in the fair value of the contingent consideration in future periods will be valued using an option pricing model and will be recorded in Corning's results in the period of the change. As of June 30, 2014, there were no significant changes in the recognized amounts or range of outcomes for the contingent consideration recognized as a result of the Acquisition of Samsung Corning Precision Materials. As of December 31, 2013, the Company did not have any financial assets or liabilities that were measured on a recurring basis using unobservable (or Level 3) inputs.

16. Shareholders' Equity

Fixed Rate Cumulative Convertible Preferred Stock, Series A

On January 15, 2014, Corning designated a new series of its preferred stock as Fixed Rate Cumulative Convertible Preferred Stock, Series A, par value $100 per share, and issued 1,900 shares of Preferred Stock at an issue price of $1 million per share, for an aggregate issue price of $1.9 billion, to Samsung Display in connection with the Acquisition of its equity interests in Samsung Corning Precision Materials. Corning also issued to Samsung Display an additional amount of Preferred Stock at closing, for an aggregate issue price of $400 million in cash.

Dividends on the Preferred Stock are cumulative and accrue at the annual rate of 4.25% on the per share issue price of $1 million. The dividends are payable quarterly as and when declared by the Company's board of directors. The Preferred Stock ranks senior to our common stock with respect to payment of dividends and rights upon liquidation. The Preferred Stock is not redeemable except in the case of a certain deemed liquidation event, the occurrence of which is under the control of the Company. The Preferred Stock is convertible at the option of the holder and the Company upon certain events, at a conversion rate of 50,000 shares of Corning's common stock per one share of Preferred Stock, subject to certain anti-dilution provisions. Following the seventh anniversary of the closing of the Acquisition, the Preferred Stock will be convertible, in whole or in part, at the option of the holder. The Company has the right, at its option, to cause some or all of the shares of Preferred Stock to be converted into Common Stock, if, for 25 trading days (whether or not consecutive) within any period of 40 consecutive trading days, the closing price of Common Stock exceeds $35 per share. If the aforementioned right becomes exercisable before the seventh anniversary of the closing, the Company must first obtain the written approval of the holders of a majority of the Preferred Stock before exercising its conversion right. The Preferred Stock does not have any voting rights except as may be required by law.

Share Repurchases

On October 31, 2013, as part of the share repurchase program announced on April 24, 2013 (the "2013 Repurchase Program"), Corning entered into an accelerated share repurchase ("ASR") agreement with JP Morgan Chase Bank, National Association, London Branch ("JPMC"). Under the ASR agreement with JPMC, Corning agreed to purchase $1 billion of its common stock, in total, with an initial delivery by JPMC of 47.1 million shares based on the current market price, and payment of $1 billion made by Corning to JPMC. The payment to JPMC was recorded as a reduction to shareholders' equity, consisting of an $800 million increase in treasury stock, which reflects the value of the initial 47.1 million shares received upon execution, and a $200 million decrease in other-paid-in capital, which reflects the value of the stock held back by JPMC pending final settlement. On January 28, 2014, the ASR agreement with JPMC was completed. Corning received an additional 10.5 million shares on January 31, 2014 to settle the ASR agreement. In total, Corning purchased 57.6 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with JPMC, less a discount. Additionally, in the first quarter of 2014, we repurchased 26.7 million shares of common stock on the open market for approximately $484 million as part of the 2013 Repurchase Program. The 2013 Repurchase Program was completed in the first quarter of 2014.

On March 3, 2014, as part of the $2.0 billion share repurchase program announced on October 22, 2013 and made effective concurrent with the closing of Corning's Acquisition of Samsung Corning Precision Materials on January 15, 2014, Corning entered into an ASR agreement with Citibank N.A. ("Citi"). Under the ASR agreement with Citi, Corning agreed to purchase $1.25 billion of its common stock, with an initial delivery by Citi of 52.5 million shares based on the current market price, and payment of $1.25 billion made by Corning to Citi. On May 28, 2014, the ASR agreement with Citi was completed, and Corning received an additional 8.7 million shares to settle the ASR agreement. In total, Corning purchased 61.2 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with Citi, less a discount.

In addition to the shares repurchased through the ASR agreement, in the three and six months ended June 30, 2014, we repurchased 9.3 million and 18 million shares of common stock on the open market for approximately $200 million and $367 million, respectively, as part of the share repurchase program made effective on January 15, 2014.

Accumulated Other Comprehensive Income

In the six months ended June 30, 2014 and 2013, the primary changes in accumulated other comprehensive income ("AOCI") were related to the foreign currency translation component. A summary of changes in the foreign currency translation adjustment component of AOCI is as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Beginning balance	$ 360	$ 669	$ 492	$ 1,174
Other comprehensive income (loss)	262	(224)	287	(553)
Equity method affiliates	7	(72)	(150)	(248)
Net current-period other comprehensive income (loss)	269	(296)	137	(801)
Ending balance	$ 629	$ 373	$ 629	$ 373

In the first three months of 2014 a $136 million cumulative foreign currency translation gain was released to income as a result of the step acquisition of Corning Precision Materials and included in the gain on previously held equity investment.

There were no material tax effects related to foreign currency translation gains and losses.

17. Share-based Compensation

Stock Compensation Plans

The Company measures and recognizes compensation cost for all share-based payment awards made to employees and directors based on estimated fair values. Fair values for stock options were estimated using a multiple-point Black-Scholes valuation model. Share-based compensation cost was approximately $13 million and $14 million for the three months ended June 30, 2014 and 2013, respectively, and approximately $28 million and $25 million for the six months ended June 30, 2014 and 2013, respectively. Amounts for all periods presented included compensation expense for employee stock options and time-based restricted stock and restricted stock units.

Stock Options

Corning's stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued shares, 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 a stock option is 10 years from the grant date.

The following table summarizes information concerning stock options outstanding including the related transactions under the stock option plans for the six months ended June 30, 2014:

	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, 2013	57,139	$17.83		
Granted	1,555	21.00		
Exercised	(6,958)	12.25		
Forfeited and Expired	(535)	16.81		
Options Outstanding as of June 30, 2014	51,201	18.69	4.88	$219,022
Options Expected to Vest as of June 30, 2014	51,077	18.70	4.88	217,932
Options Exercisable as of June 30, 2014	37,903	20.20	3.71	117,980

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 June 30, 2014, which would have been received by the option holders had all option holders exercised their "in-the-money" options as of that date.

As of June 30, 2014, there was approximately $20 million of unrecognized compensation cost related to stock options granted under the plans. The cost is expected to be recognized over a weighted-average period of 1.5 years. Compensation cost related to stock options was approximately $5 million and $6 million for the three months ended June 30, 2014 and 2013, respectively, and approximately $11 million for each of the six month periods ended June 30, 2014 and 2013.

Proceeds received from the exercise of stock options were $84 million and $39 million for the six months ended June 30, 2014 and 2013, respectively. Proceeds received from the exercise of stock options were included in financing activities on the Company's Consolidated Statements of Cash Flows. The total intrinsic value of options exercised for the six months ended June 30, 2014 and 2013 was approximately $51 million and $30 million, respectively, which is currently deductible for tax purposes. However, these tax benefits were not fully recognized due to net operating loss and credit carryforwards available to the Company. Refer to Note 5 (Income Taxes) to the consolidated financial statements.

The following range of inputs were used for the valuation of option grants under our Stock Option Plans:

	Three months ended June 30, 2014			Three months ended June 30, 2013			Six months ended June 30, 2014			Six months ended June 30, 2013		
Expected volatility	45.8	-	45.8%	46.9	-	47.1%	45.8	-	46.2%	46.9	-	47.4%
Weighted-average volatility	45.8	-	45.8%	47.1	-	47.1%	45.8	-	46.2%	47.1	-	47.3%
Expected dividends	1.90	-	1.90%	2.79	-	2.79%	1.90	-	2.09%	2.79	-	3.02%
Risk-free rate	2.2	-	2.2%	0.8	-	1.1%	2.2	-	2.2%	0.8	-	1.5%
Average risk-free rate	2.2	-	2.2%	1.1	-	1.1%	2.2	-	2.2%	1.1	-	1.4%
Expected term (in years)	7.2	-	7.2	5.8	-	7.2	7.2	-	7.2	5.8	-	7.2
Pre-vesting departure rate	0.5	-	0.5%	0.4	-	4.1%	0.5	-	0.5%	0.4	-	4.1%

Expected volatility is based on a blended approach defined as the weighted average of the short-term implied volatility, the most recent volatility for the period equal to the expected term, and the most recent 15-year historical volatility. The expected term assumption is the period of time the options are expected to be outstanding, and is calculated using a combination of historical exercise experience adjusted to reflect the current vesting period of options being valued, and partial life cycles of outstanding options. The risk-free rate assumption is the implied rate for a zero-coupon U.S. Treasury bond with a term equal to the option's expected term. The ranges in the table above reflect results from separate groups of employees exhibiting different exercise behavior.

Incentive Stock Plans

The Corning Incentive Stock Plan permits restricted stock and restricted stock unit grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration. Restricted stock and restricted stock units under the Incentive Stock Plan are granted at the closing market price on the grant date, contingently vest over a period of generally one to ten years, and generally have contractual lives of one to ten years. The fair value of each restricted stock grant or restricted stock unit awarded under the Incentive Stock Plan was estimated on the date of grant.

Time-Based Restricted Stock and Restricted Stock Units:

Time-based restricted stock and restricted stock units are issued by the Company on a discretionary basis, and are payable in shares of the Company's common stock upon vesting. The fair value is based on the closing 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.

The following table represents a summary of the status of the Company's non-vested time-based restricted stock and restricted stock units as of December 31, 2013, and changes which occurred during the six months ended June 30, 2014:

	Shares (000's)	Weighted Average Grant-Date Fair Value
Non-vested shares and share units at December 31, 2013	6,108	$ 14.58
Granted	1,362	20.33
Vested	(1,270)	17.95
Forfeited	(105)	14.35
Non-vested shares and share units at June 30, 2014	6,095	$ 15.16

As of June 30, 2014, there was approximately $36 million of unrecognized compensation cost related to non-vested time-based restricted stock and restricted stock units compensation arrangements granted under the Incentive Stock Plan. The cost is expected to be recognized over a weighted-average period of 1.8 years. Compensation cost related to time-based restricted stock and restricted stock units was approximately $8 million and $8 million for the three months ended June 30, 2014 and 2013, respectively, and approximately $17 million and $14 million for the six months ended June 30, 2014 and 2013, respectively.

18. Significant Customers

For the three and six months ended June 30, 2014, Corning had one customer that individually accounted for 10% or more of the Company's consolidated net sales. For the three and six months ended June 30, 2013, Corning had no customers that individually accounted for 10% or more of the Company's consolidated net sales.

19. Reportable Segments

Our reportable segments are as follows:

- Display Technologies – manufactures liquid crystal display ("LCD") glass for flat panel displays.
- Optical Communications – manufactures carrier network and enterprise network components for the telecommunications industry.
- Environmental Technologies – manufactures ceramic substrates and filters for automotive and diesel applications.
- Specialty Materials – manufactures products that provide more than 150 material formulations for glass, glass ceramics and fluoride crystals to meet demand for unique customer needs.
- Life Sciences – manufactures glass and plastic labware, equipment, media and reagents to provide workflow solutions for scientific applications.

All other reportable segments that do not meet the quantitative threshold for separate reporting are grouped as "All Other." This group is primarily comprised of development projects and results for new product lines.

We prepared the financial results for our reportable segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We included the earnings of equity affiliates that are closely associated with our reportable segments in the respective segment's net income. We have allocated certain common expenses among segments differently than we would for stand-alone financial information prepared in accordance with U.S. GAAP. Segment net income may not be consistent with measures used by other companies. The accounting policies of our reportable segments are the same as those applied in the consolidated financial statements.

Reportable Segments (in millions)

	Display Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
Three months ended June 30, 2014							