CORNING INC /NY
Form 10-Q
May 01, 2015

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 March 31, 2015

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 April 15, 2015
Corning's Common Stock, $0.50 par value per share	1,258,553,209 shares

INDEX

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Net sales	$ 2,265	$ 2,289
Cost of sales	1,336	1,354
Gross margin	929	935
Operating expenses:		
Selling, general and administrative expenses	316	397
Research, development and engineering expenses	189	198
Amortization of purchased intangibles	12	8
Restructuring, impairment and other charges		17
Operating income	412	315
Equity in earnings of affiliated companies	94	86
Interest income	5	12
Interest expense	(30)	(30)
Transaction-related gain, net		74
Foreign currency transaction and hedge gain (loss), net	33	(6)
Other (expense) income, net (Note 1)	(21)	30
Income before income taxes	493	481
Provision for income taxes (Note 4)	(86)	(180)
Net income attributable to Corning Incorporated	$ 407	$ 301
Earnings per common share attributable to Corning Incorporated:		
Basic (Note 5)	$ 0.30	$ 0.21
Diluted (Note 5)	$ 0.29	$ 0.20
Dividends declared per common share (1)	$ 0.00	$ 0.10

(1) The first quarter 2015 dividend was declared on December 3, 2014.

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

3

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Net income attributable to Corning Incorporated	$ 407	$ 301
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments and other	(256)	(132)
Net unrealized gains on investments	1	13
Unamortized gains (losses) and prior service credits (costs) for postretirement benefit plans	1	9
Net unrealized gains (losses) on designated hedges	5	(4)
	(249)	(114)
Comprehensive income attributable to Corning Incorporated	$ 158	$ 187

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)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 4,304	$ 5,309
Short-term investments, at fair value (Note 6)	763	759
Total cash, cash equivalents and short-term investments	5,067	6,068
Trade accounts receivable, net of doubtful accounts and allowances - $46 and $47	1,487	1,501
Inventories, net of inventory reserves - $100 and $127 (Note 7)	1,331	1,322
Deferred income taxes (Note 4)	262	248
Other current assets	1,091	1,099
Total current assets	9,238	10,238
Investments (Note 8)	1,764	1,801
Property, plant and equipment, net of accumulated depreciation - $8,591 and $8,332 (Note 10)	12,708	12,766
Goodwill, net (Note 11)	1,343	1,150
Other intangible assets, net (Note 11)	702	497
Deferred income taxes (Note 4)	1,883	1,889
Other assets	1,685	1,722
Total Assets	$ 29,323	$ 30,063
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Note 3)	$ 106	$ 36
Accounts payable	872	997
Other accrued liabilities (Note 2)	917	1,291
Total current liabilities	1,895	2,324
Long-term debt (Note 3)	3,165	3,227
Postretirement benefits other than pensions (Note 12)	810	814
Other liabilities (Note 2)	2,081	2,046
Total liabilities	7,951	8,411
Commitments and contingencies (Note 2)		
Shareholders' equity (Note 15):		
Convertible preferred stock, Series A – Par value $100 per share; Shares authorized 3,100; Shares issued: 2,300	2,300	2,300
Common stock – Par value $0.50 per share; Shares authorized 3.8 billion; Shares issued: 1,679 million and 1,672 million	840	836
Additional paid-in capital – common stock	13,552	13,456

Retained earnings	13,405	13,021
Treasury stock, at cost; Shares held: 420 million and 398 million	(7,243)	(6,727)
Accumulated other comprehensive loss	(1,556)	(1,307)
Total Corning Incorporated shareholders' equity	21,298	21,579
Noncontrolling interests	74	73
Total equity	21,372	21,652
Total Liabilities and Equity	$ 29,323	$ 30,063

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, 2015	Three months ended March 31, 2014
Cash Flows from Operating Activities:		
Net income	$ 407	$ 301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	279	289
Amortization of purchased intangibles	12	8
Restructuring, impairment and other charges		17
Stock compensation charges	10	15
Equity in earnings of affiliated companies	(94)	(86)
Dividends received from affiliated companies	48	1,610
Deferred tax (benefit) expense provision	(5)	22
Restructuring payments	(13)	(11)
Employee benefit payments in excess of expense	(6)	(17)
Gains on translated earnings contracts	(29)	(2)
Unrealized translation losses (gains) on transactions	298	(16)
Changes in certain working capital items:		
Trade accounts receivable	35	21
Inventories	(1)	(3)
Other current assets	(13)	28
Accounts payable and other current liabilities	(314)	(413)
Other, net	(13)	(26)
Net cash provided by operating activities	601	1,737
Cash Flows from Investing Activities:		
Capital expenditures	(333)	(246)
Acquisitions of business, net of cash (paid) received	(531)	66
Investment in unconsolidated entities		(109)
Proceeds from loan repayments from unconsolidated entities	4	5
Short-term investments – acquisitions	(284)	(445)
Short-term investments – liquidations	282	338
Realized gains on translated earnings contracts	149	89
Other, net		1
Net cash used in investing activities	(713)	(301)
Cash Flows from Financing Activities:		
Net repayments of short-term borrowings and current portion of long-term debt		(8)
Proceeds from issuance of commercial paper		418
Proceeds from issuance of preferred stock (1)		400
Payments from settlement of interest rate swap arrangements	(9)	
Proceeds from the exercise of stock options	89	50
Repurchases of common stock for treasury	(477)	(1,901)

Dividends paid	(177)	(136)
Net cash used in financing activities	(574)	(1,177)
Effect of exchange rates on cash	(319)	5
Net (decrease) increase in cash and cash equivalents	(1,005)	264
Cash and cash equivalents at beginning of period	5,309	4,704
Cash and cash equivalents at end of period	$ 4,304	$ 4,968

(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. ("Samsung Corning Precision Materials"). Corning also issued to Samsung Display an additional 400 shares of Preferred Stock at closing, for an issue price of $400 million in cash.

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. Generally Accepted Accounting Principles ("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, 2014 ("2014 Form 10-K").

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

Certain prior year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on our results of operations, financial position, or changes in shareholders' equity.

Other (Expense) Income, Net

"Other (expense) income, net" in Corning's consolidated statements of income includes the following (in millions):

	Three months ended March 31,	
	2015	2014
Net (gain) loss attributable to noncontrolling interests	$ (2)	$ 3
Other, net	(19)	27
Total	$ (21)	$ 30

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 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. On April 1, 2015, the FASB voted to propose a one-year deferral of the effective date of ASU 2014-09. If finalized, we could elect to adopt the provisions of ASU 2014-09 for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Under this proposal, early adoption for annual periods beginning after

December 15, 2016, including interim periods within that reporting period, would also be permissible. We are currently assessing the potential impact of adopting this ASU on our financial statements and related disclosures.

2. 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").

Dow Corning Breast Implant Litigation

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 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 $1.8 billion to the Settlement Trust. At March 31, 2015 and December 31, 2014, Dow Corning had recorded a reserve for breast implant litigation of $363 million and $364 million, respectively.

Other Dow Corning Claims Arising From Bankruptcy Proceedings

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. As of March 31, 2015, Dow Corning has estimated the liability to commercial creditors to be within the range of $100 million to $328 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 $100 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. The remaining tort claims against Dow Corning are expected to be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

Pittsburgh Corning Corporation and 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" or the "Plan"). On September 30, 2014, the United States District Court for the Western District of Pennsylvania (the "District Court") affirmed the Bankruptcy Court's decision confirming the Amended PCC Plan. On October 30, 2014, one of the objectors to the Plan appealed the District Court's affirmation of the Plan to the United States Court of Appeals for the Third Circuit (the "Third Circuit Court of Appeals"). It will likely take many months for the Third Circuit Court of Appeals to render its decision.

Under the Plan as affirmed by the Bankruptcy Court and affirmed by the District Court, 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 Plan requires Corning to make: (1) one payment of $70 million one year from the date the 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.

Non-PCC 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 37,300 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 by the District Court and the Third Circuit Court of Appeals. These non-PCC asbestos cases have been covered by insurance without material impact to Corning to date. As of March 31, 2015, 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 finally affirmed, these non-PCC asbestos claims would be allowed to proceed against Corning. In prior periods, Corning 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 Non-PCC Asbestos Claims

The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be $682 million at March 31, 2015, compared with an estimate of liability of $681 million at December 31, 2014. The $682 million liability is comprised of $242 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 March 31, 2015 and December 31, 2014, the fair value of $242 million and $241 million of our interest in PCE significantly exceeded its carrying value of $145 million and $162 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. For the three months ended March 31, 2015 and 2014, Corning recorded asbestos litigation expense of $1 million and $2 million, respectively. The entire obligation is classified as a non-current liability, as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC 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 March 31, 2015 and December 31, 2014, contingent guarantees totaled a notional value of $178 million and $150 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 $300 million and $287 million, at March 31, 2015 and December 31, 2014, respectively.

Product warranty liability accruals were considered insignificant at March 31, 2015 and December 31, 2014.

Corning is a defendant in various lawsuits, including environmental, product-related suits, the Dow Corning and PCC matters, and is subject to various claims that 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 15 active 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 March 31, 2015 and December 31, 2014, Corning had accrued approximately $41 million (undiscounted) and $43 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.

The ability of certain subsidiaries and affiliated companies to transfer funds is limited by provisions of foreign government regulations, affiliate agreements and certain loan agreements. At March 31, 2015, the amount of equity subject to such restrictions for consolidated subsidiaries and affiliated companies was not significant. While this amount is legally restricted, it does not result in operational difficulties since we have generally permitted subsidiaries to retain a majority of equity to support their growth programs.

10

3. 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 March 31, 2015 and December 31, 2014, compared to recorded book values of $3.2 billion at March 31, 2015 and December 31, 2014. 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.

4. Income Taxes

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

	Three months ended March 31,	
	2015	2014
Provision for income taxes	$ (86)	$ (180)
Effective tax rate	17.4%	37.4%

For the three months ended March 31, 2015, 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 resulting from a taxable intercompany loan made to the U.S. and the repatriation of a small portion of high-tax foreign current year earnings; and
- The impact of equity in earnings of nonconsolidated affiliates reported in the financials net of tax.

These benefits were partially offset by a discrete tax charge of $11 million to restate deferred tax assets due to a law change enacted in Japan.

For the three months ended March 31, 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 taxable intercompany loan made to the U.S.;
- The impact of 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 principally by a discrete tax charge in the first quarter of 2014 in the amount of $102 million related to South Korean withholding tax on a dividend paid by Samsung Corning Precision Materials to Corning wholly owned foreign subsidiaries.

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 0.3 and 1.2 percentage points for the three months ended March 31, 2015 and 2014, respectively.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of approximately $6 million of current earnings in 2015 that have a net tax benefit 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 or with a tax benefit, 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.

5. 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 March 31, 2015	Three months ended March 31, 2014
Net income attributable to Corning Incorporated	$ 407	$ 301
Less: Series A convertible preferred stock dividend	(24)	(21)
Net income available to common stockholders - basic	383	280
Plus: Series A convertible preferred stock dividend	24	
Net income available to common stockholders - diluted	$ 407	$ 280
Weighted-average common shares outstanding - basic	1,266	1,359
Effect of dilutive securities:		
Stock options and other dilutive securities	13	11
Series A convertible preferred stock dividend	115	
Weighted-average common shares outstanding - diluted	1,394	1,370
Basic earnings per common share	$ 0.30	$ 0.21
Diluted earnings per common share	$ 0.29	$ 0.20
Antidilutive potential shares excluded from diluted earnings per common share:		
Series A convertible preferred stock		97
Employee stock options and awards	14	29
Accelerated share repurchase forward contract		12
Total	14	138

6. Available-for-Sale Investments

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

	Amortized cost		Fair value	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Bonds, notes and other securities:				
U.S. government and agencies	$ 761	$ 759	$ 763	$ 759
Total short-term investments	$ 761	$ 759	$ 763	$ 759
Asset-backed securities	$ 41	$ 42	$ 37	$ 38
Total long-term investments	$ 41	$ 42	$ 37	$ 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 March 31, 2015 (in millions):

Less than one year	$535
Due in 1-5 years	228
Due in 5-10 years	
Due after 10 years (1)	37
Total	$800

(1) Includes $37 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 (loss) 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 March 31, 2015 and December 31, 2014 (dollars in millions):

	March 31, 2015				
		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	$ 37	$ (4)	$ 37	$ (4)
Total long-term investments	21	$ 37	$ (4)	$ 37	$ (4)

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

13

	December 31, 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	$ 37	$ (4)	$ 37	$ (4)
Total long-term investments	21	$ 37	$ (4)	$ 37	$ (4)

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

As of March 31, 2015 and December 31, 2014, for securities that have credit losses, an other than temporary impairment loss of $4 million in both periods is recognized in accumulated other comprehensive (loss) income.

For the three months ended March 31, 2015 and 2014, proceeds from sales and maturities of short-term investments totaled approximately $300 million in both periods.

7. Inventories, net of inventory reserves

Inventories, net of inventory reserves comprise the following (in millions):

	March 31, 2015	December 31, 2014
Finished goods	$ 527	$ 486
Work in process	257	255
Raw materials and accessories	268	302
Supplies and packing materials	279	279
Total inventories, net of inventory reserves	$ 1,331	$ 1,322

8. Investments

Dow Corning Corporation ("Dow Corning")

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

	Three months ended March 31,	
	2015	2014
Statement of Operations:		
Net sales	$ 1,364	$ 1,524
Gross profit (1)	$ 358	$ 483
Net income attributable to Dow Corning	$ 185	$ 191
Corning's equity in earnings of Dow Corning	$ 92	$ 92

(1) Gross profit for the three months ended March 31, 2015 includes research and development costs of $62 million (2014: $67 million).

Dow Corning's net income in the first quarters of 2015 and 2014 includes pre-tax gains on settlements of long-term sales agreements in the amounts of $178 million and $32 million, respectively, and a pre-tax loss of $27 million and a pre-tax gain of $99 million, respectively, on a derivative instrument.

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9. Acquisitions

Corning completed four acquisitions during the first quarter of 2015. A summary of the preliminary allocation of the total purchase consideration for the four acquisitions is as follows (in millions):

Cash and cash equivalents	$ 2
Trade receivables	49
Inventory	28
Property, plant and equipment	37
Other intangible assets	233
Other current and non-current assets	32
Current and non-current liabilities	(54)
Total identified net assets	327
Purchase consideration	(547)
Goodwill (1)	$ 220

(1) The goodwill was allocated to the Optical Communications segment.

The total consideration related to the acquisitions in the first quarter of 2015 primarily consisted of cash and, in two of the acquisitions, contingent consideration. The contingent consideration arrangements may require additional amounts to be paid in 2016 and 2017 based on projections of future revenues. The combined potential additional consideration is capped at $28 million. The total fair value of the contingent consideration for the two acquisitions was fair valued at $13 million as of the acquisition date of each acquisition.

The goodwill generated from these acquisitions is primarily related to the value of the product portfolio and customer/distribution networks acquired, combined with Corning's existing business segments, as well as market participant synergies and other intangibles that do not qualify for separate recognition. The goodwill is partially deductible for income tax purposes.

For the acquisitions completed during the three months ended March 31, 2015, amortized intangible assets have a weighted-average useful life of approximately 10 years.

Acquisition-related costs of $9 million included in selling, general and administrative expense in the Consolidated Statements of Income for the three months ended March 31, 2015 included costs for legal, accounting, valuation and other professional services. The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations for the acquisitions completed during the quarter ended March 31, 2015 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to Corning's financial results.

10. Property, Plant and Equipment, Net of Accumulated Depreciation

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

	March 31, 2015	December 31, 2014
Land	$ 452	$ 458
Buildings	5,472	5,470
Equipment	13,956	13,848
Construction in progress	1,419	1,322
	21,299	21,098

Accumulated depreciation		(8,591)		(8,332)
Total	$	12,708	$	12,766

In the three months ended March 31, 2015 and 2014, interest costs capitalized as part of Property, plant and equipment, net of accumulated depreciation, were $10 million in both periods.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. At March 31, 2015 and December 31, 2014, the recorded value of precious metals totaled $3.1 billion in both periods. Depletion expense for precious metals in the three months ended March 31, 2015 and 2014 totaled $7 million and $8 million, respectively.

11. Goodwill and Other Intangible Assets

The carrying amount of goodwill by segment for the periods ended March 31, 2015 and December 31, 2014 is as follows (in millions):

	Optical Communications	Display Technologies	Specialty Materials	Life Sciences	Total
Balance at December 31, 2014	$ 238	$ 134	$ 198	$ 580	$ 1,150
Acquired goodwill (1)	220				220
Foreign currency translation adjustment	(2)	(1)	(5)	(19)	(27)
Balance at March 31, 2015	$ 456	$ 133	$ 193	$ 561	$ 1,343

(1) The Company completed several acquisitions in the Optical Communications segment during the first quarter of 2015. Refer to Note 9 (Acquisitions) to the Consolidated Financial Statements for additional information on these acquisitions.

Corning's gross goodwill balances for the periods ended March 31, 2015 and December 31, 2014 were $7.8 billion and $7.6 billion, respectively. Accumulated impairment losses were $6.5 billion for the periods ended March 31, 2015 and December 31, 2014, 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):

	March 31, 2015			December 31, 2014		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Amortized intangible assets:						
Patents, trademarks, and trade names	$ 353	$ 152	$ 201	$ 302	$ 149	$ 153
Customer lists and other	575	74	501	411	67	344
Total	$ 928	$ 226	$ 702	$ 713	$ 216	$ 497

Corning's amortized intangible assets are primarily related to the Optical Communications and Life Sciences segments. The net carrying amount of intangible assets increased during the first three months of 2015, primarily due to acquisitions of $233 million in other intangible assets offset by amortization of $12 million and foreign currency translation adjustments of $16 million.

Amortization expense related to these intangible assets is estimated to be $57 million for 2015, $55 million annually from 2016 to 2019, and $50 million for 2020.

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 March 31,		Postretirement benefits Three months ended March 31,	
	2015	2014	2015	2014
Service cost	$ 23	$ 16	$ 3	$ 3
Interest cost	36	38	8	9
Expected return on plan assets	(45)	(43)		
Amortization of net loss			1	
Amortization of prior service cost (credit)	2	2	(1)	(1)
Total pension and postretirement benefit expense	$ 16	$ 13	$ 11	$ 11

13. Hedging Activities

Undesignated Hedges

The table below includes a total gross notional value for the translated earnings contracts of $14.7 billion at March 31, 2015 (at December 31, 2014: $12.1 billion), including purchased and zero-cost collars of $5.8 billion (at December 31, 2014: $2.3 billion) and average rate forwards of $8.9 billion (at December 31, 2014: $9.8 billion). With respect to the purchased 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 March 31, 2015, the total net notional value of the purchased and zero-cost collars was $3 billion (at December 31, 2014: $1.2 billion).

The following tables summarize the notional amounts and respective fair values of Corning's derivative financial instruments on a gross basis for March 31, 2015 and December 31, 2014 (in millions):

	U.S. Dollar Gross notional amount		Asset derivatives			Liability derivatives		
			Balance sheet location	Fair value		Balance sheet location	Fair value	
	March 31, 2015	December 31, 2014		March 31, 2015	December 31, 2014		March 31, 2015	December 31, 2014
Derivatives designated as hedging instruments								
Foreign exchange contracts	$ 742	$ 487	Other current assets	$ 34	$ 22	Other accrued liabilities	$ (6)	$ (6)
			Other assets	8				
Interest rate contracts	1,300	1,300	Other assets		1	Other liabilities	(10)	(15)
Derivatives not designated as hedging instruments								
Foreign exchange contracts	564	1,285	Other current assets	14	17	Other accrued liabilities	(5)	(5)
Translated earnings contracts	14,664	12,126	Other current assets	618	649	Other accrued liabilities	(32)	(33)
			Other assets	811	846	Other liabilities	(55)	
Total derivatives	$17,270	$15,198		$1,485	$1,535		$(108)	$(59)

The following tables summarize the effect of derivative financial instruments on Corning's consolidated financial statements for the three months ended March 31, 2015 and 2014 (in millions):

	Effect of derivative instruments on the consolidated financial statements for the quarter ended March 31				
	Gain/(loss) recognized in other comprehensive income (OCI)		Location of gain/(loss) reclassified from accumulated OCI into income (effective)	Gain reclassified from accumulated OCI into income (effective) (1)	
Derivatives in hedging relationships	2015	2014		2015	2014
Interest rate hedges	$(13)		Sales	$5	
			Cost of sales	2	
Foreign exchange contracts	27	$(7)			
Total cash flow hedges	$ 14	$(7)		$7	

(1) The amount of hedge ineffectiveness at March 31, 2015