CORNING INC /NY
Form 10-Q
October 26, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from To

Commission file number: 1-3247

CORNING INCORPORATED

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	16-0393470 (I.R.S. Employer Identification No.)
One Riverfront Plaza, Corning, New York (Address of principal executive offices)	14831 (Zip Code)

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 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 No

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

Large accelerated filer	Accelerated filer
Non accelerated filer	(Do not check if a smaller reporting company)
Smaller reporting company	Emerging growth company

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Yes No

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

Yes No

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 October 13, 2017
Corning's Common Stock, $0.50 par value per share	869,057,436 shares

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	$ 2,607	$ 2,507	$ 7,479	$ 6,914
Cost of sales	1,551	1,466	4,481	4,158
Gross margin	1,056	1,041	2,998	2,756
Operating expenses:				
Selling, general and administrative expenses	372	302	1,067	1,104
Research, development and engineering expenses	213	187	620	569
Amortization of purchased intangibles	18	17	53	46
Restructuring, impairment and other charges				78
Operating income	453	535	1,258	959
Equity in earnings of affiliated companies	31	19	148	119
Interest income	10	9	33	21
Interest expense	(37)	(41)	(112)	(122)
Translated earnings contract gain (loss), net	26	(237)	(193)	(2,295)
Gain on realignment of equity investment				2,676
Other expense, net	(4)	(28)	(43)	(70)
Income before income taxes	479	257	1,091	1,288
(Provision) benefit for income taxes (Note 4)	(89)	27	(176)	835
Net income attributable to Corning Incorporated	$ 390	$ 284	$ 915	$ 2,123
Earnings per common share attributable to Corning Incorporated:				
Basic (Note 5)	$ 0.41	$ 0.27	$ 0.93	$ 1.96
Diluted (Note 5)	$ 0.39	$ 0.26	$ 0.89	$ 1.81

Dividends declared per common share	$ 0.155	$ 0.135	$ 0.465	$ 0.405

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to Corning Incorporated	$ 390	$ 284	$ 915	$ 2,123
Foreign currency translation adjustments and other	53	245	457	869
Net unrealized (losses) gains on investments	(2)		14	(3)
Unamortized (losses) gains and prior service credits for postretirement benefit plans		(5)	17	260
Net unrealized gains (losses) on designated hedges	4	11	42	(30)
Other comprehensive income, net of tax (Note 13)	55	251	530	1,096
Comprehensive income attributable to Corning Incorporated	$ 445	$ 535	$ 1,445	$ 3,219

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except share and per share amounts)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 3,865	$ 5,291
Trade accounts receivable, net of doubtful accounts and allowances - $63 and $59	1,748	1,481
Inventories, net of inventory reserves - $162 and $151 (Note 6)	1,693	1,471
Other current assets	948	805
Total current assets	8,254	9,048
Investments (Note 7)	352	336
Property, plant and equipment, net of accumulated depreciation - $10,684 and $9,884	13,344	12,546
Goodwill, net (Note 8)	1,684	1,577
Other intangible assets, net (Note 8)	891	796
Deferred income taxes (Note 4)	2,641	2,325
Other assets	928	1,271
Total Assets	$ 28,094	$ 27,899
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt and short-term borrowings (Note 3)	$ 631	$ 256
Accounts payable	1,179	1,079
Other accrued liabilities (Note 2 and Note 10)	1,255	1,416
Total current liabilities	3,065	2,751
Long-term debt	3,994	3,646
Postretirement benefits other than pensions (Note 9)	712	737
Other liabilities (Note 2 and Note 10)	2,940	2,805
Total liabilities	10,711	9,939
Commitments, contingencies and guarantees (Note 2)		
Shareholders’ equity (Note 13):		

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: 1,706 million and 1,691 million	853	846
Additional paid-in capital – common stock	14,013	13,695
Retained earnings	17,533	16,880
Treasury stock, at cost; Shares held: 837 million and 765 million	(16,236)	(14,152)
Accumulated other comprehensive loss	(1,146)	(1,676)
Total Corning Incorporated shareholders' equity	17,317	17,893
Noncontrolling interests	66	67
Total equity	17,383	17,960
Total Liabilities and Equity	$ 28,094	$ 27,899

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	$ 915	$ 2,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	799	844
Amortization of purchased intangibles	53	46
Restructuring, impairment and other charges		78
Equity in earnings of affiliated companies	(148)	(119)
Dividends received from affiliated companies	101	20
Deferred tax benefit	(62)	(1,047)
Translated earnings contract loss	193	2,295
Unrealized translation gains on transactions	(264)	(177)
Gain on realignment of equity investment		(2,676)
Changes in certain working capital items:		
Trade accounts receivable	(190)	(184)
Inventories	(166)	(69)
Other current assets	(109)	(42)
Accounts payable and other current liabilities	(123)	28
Other, net	117	(11)
Net cash provided by operating activities	1,116	1,109
Cash Flows from Investing Activities:		
Capital expenditures	(1,247)	(815)
Acquisition of business, net of cash received	(171)	(279)
Cash received on realignment of equity investment		4,818
Short-term investments – acquisitions		(20)
Short-term investments – liquidations	29	121
Realized gains on translated earnings contracts	199	146
Other, net	(28)	(15)
Net cash (used in) provided by investing activities	(1,218)	3,956
Cash Flows from Financing Activities:		
Net repayments of short-term borrowings and current portion of long-term debt		(85)

Proceeds from issuance of long-term debt, net	702	
Principal payments under capital lease obligations	(1)	(1)
Payments of employee withholding tax on stock awards	(14)	(14)
Proceeds from issuance of commercial paper		(481)
Proceeds from the exercise of stock options	275	86
Repurchases of common stock for treasury	(2,064)	(3,884)
Dividends paid	(493)	(493)
Net cash used in financing activities	(1,595)	(4,872)
Effect of exchange rates on cash	271	128
Net (decrease) increase in cash and cash equivalents	(1,426)	321
Cash and cash equivalents at beginning of period	5,291	4,500
Cash and cash equivalents at end of period	$ 3,865	$ 4,821

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

In these notes, the terms “Corning,” “Company,” “we,” “us,” or “our” mean Corning Incorporated and its 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, 2016 (“2016 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.

On January 1, 2017, Corning adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, the impacts of which include the recording of cumulative tax benefits of $233 million in beginning retained earnings and cash flow reclassifications that were not significant.

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.

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 relates to revenue from contracts with customers, which, along with amendments issued in 2015 and 2016, will supersede nearly all current U.S. GAAP guidance on this topic and eliminate industry-specific guidance. The underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Corning has evaluated its material contracts, and has concluded that the impact of adopting the standard on its financial statements and related disclosure will not be material. The standard, as amended, will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. We will adopt the standard on a modified retrospective basis in 2018.

Corning's equity affiliates are currently evaluating their material contracts, and have not concluded on the potential impact of adopting ASU 2014-09 on their financial statements and related disclosure.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. We are currently assessing the potential impact of adopting ASU 2016-02 on our financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 refines how companies classify certain aspects of the cash flow statement in regards to debt prepayment, settlement of debt instruments, contingent consideration payments, proceeds from insurance claims and life insurance policies, distribution from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and for interim periods within those fiscal years. We are currently assessing the potential impact of adopting ASU 2016-15 on our financial statements and related disclosures, but the effect is not expected to be material.

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In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, earlier adoption should be in the first interim period if an entity issues interim financial statements. We are currently evaluating the impact of ASU 2016-16 on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). ASU 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the ASU on January 1, 2017.

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendment should be applied retrospectively for the presentation of the service cost component and prospectively for the capitalization of the service cost component. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted at the beginning of any annual period for which an entity's financial statements have not been issued or made available for issuance. We are currently evaluating the impact of ASU 2017-07 on our consolidated financial statements and related disclosures, but the impact is not expected to be material.

2. Commitments, Contingencies and Guarantees

Asbestos Claims

Corning and PPG Industries, Inc. each owned 50% of the capital stock of Pittsburgh Corning Corporation ("PCC"). PCC filed for Chapter 11 reorganization in 2000 and the Modified Third Amended Plan of Reorganization for PCC (the "Plan") became effective in April 2016. At December 31, 2016, this estimated liability was $290 million, due to the Company's contribution, in the second quarter of 2016, of its equity interests in PCC and Pittsburgh Corning Europe N.V. ("PCE") in the total amount of $238 million, as required by the Plan. A payment for $70 million was made in June 2017. At September 30, 2017, the total amount of payments due in years 2018 through 2022 is $220 million. A $35 million payment is due in the second quarter of 2018 and is classified as a current liability. The remaining $185 million is classified as a non-current liability.

Non-PCC Asbestos Claims Insurance Litigation

Corning is a defendant in certain cases alleging injuries from asbestos unrelated to PCC (the "non-PCC asbestos claims") which had been stayed pending the confirmation of the Plan. The stay was lifted on August 25, 2016. Corning previously established a $150 million reserve for these non-PCC asbestos claims. The estimated reserve 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 lesser or greater liabilities at this time. At September 30, 2017 and December 31, 2016, the amount of the reserve for these non-PCC asbestos claims was $148 million and $149 million, respectively.

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 related to Corning's asbestos claims. Corning has resolved these issues with a majority of its relevant insurers, and is vigorously contesting these cases with the remaining relevant insurers. Management is unable to predict the outcome of the litigation with these remaining insurers.

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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 September 30, 2017 and December 31, 2016, contingent guarantees totaled a notional value of $317 million and $267 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 $230 million and $231 million, at September 30, 2017 and December 31, 2016, respectively.

Product warranty liability accruals were considered insignificant at September 30, 2017 and December 31, 2016.

Corning is a defendant in various lawsuits, including environmental and product-related suits, 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 16 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 September 30, 2017 and December 31, 2016, Corning had accrued approximately $40 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 September 30, 2017, 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.

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 $4.4 billion and $3.9 billion at September 30, 2017 and December 31, 2016, respectively, compared to recorded book values of $4.0 billion at September 30, 2017 and $3.6 billion at December 31, 2016. 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.

Corning did not have outstanding commercial paper at September 30, 2017 and December 31, 2016.

Debt Issuances

2017

In the third quarter of 2017, Corning issued three Japanese yen-denominated debt securities (the “Notes”), as follows:

- ¥21 billion 0.698% senior unsecured long term notes with a maturity of 7 years;
- ¥47 billion 0.992% senior unsecured long term notes with a maturity of 10 years; and
- ¥10 billion 1.583% senior unsecured long term notes with a maturity of 20 years.

The proceeds from these Notes were received in Japanese yen and converted to U.S. dollars on the date of issuance. The net proceeds received in U.S. dollars, after deducting offering expenses, was approximately $700 million. Payments of principle and interest on the Notes will be in Japanese yen, or should yen be unavailable due to circumstances beyond Corning’s control, a U.S. dollar equivalent.

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On a quarterly basis, Corning will recognize the transaction gains and losses resulting from changes in the JPY/USD exchange rate in the Other expense, net line of the Consolidated Statements of Income. Cash proceeds from the offerings and payments for debt issuance costs are disclosed as financing activities, and cash payments to bondholders for interest will be disclosed as operating activities, in the Consolidated Statements of Cash Flows.

4. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(Provision) benefit for income taxes	$ (89)	$ 27	$ (176)	$ 835
Effective tax rate	18.6%	(10.5%)	16.1%	(64.8%)

For the three months ended September 30, 2017, 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; and
· The benefit of excess foreign tax credits resulting from the inclusion of foreign earnings in U.S. income.

For the nine months ended September 30, 2017, 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;
· The benefit of excess foreign tax credits resulting from the inclusion of foreign earnings in U.S. income; and
· Discrete tax items.

For the three months ended September 30, 2016, the effective income tax benefit differed from the U.S. statutory rate of 35% primarily due to the following benefit:

- Rate differences on income (loss) of consolidated foreign companies; and
- The benefit of excess foreign tax credits resulting from the inclusion of foreign earnings in U.S. income.

For the nine months ended September 30, 2016, the effective income tax benefit 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 the inclusion of foreign earnings in U.S. income;
- The impact of equity in earnings of nonconsolidated affiliates reported in the financial statements, net of tax; and
- The tax-free nature of the realignment of our equity interests in Dow Corning during the period, as well as the release of the deferred tax liability related to Corning's tax on Dow Corning's undistributed earnings as of the date of the transaction.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of an immaterial amount of current earnings 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 may impact our ability or intent to keep our foreign earnings and cash indefinitely reinvested. 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.

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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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to Corning Incorporated	$ 390	$ 284	$ 915	$ 2,123
Less: Series A convertible preferred stock dividend	24	24	73	73
Net income available to common stockholders – basic	366	260	842	2,050
Plus: Series A convertible preferred stock dividend	24	24	73	73
Net income available to common stockholders – diluted	$ 390	$ 284	$ 915	$ 2,123
Weighted-average common shares outstanding – basic	883	978	905	1,046
Effect of dilutive securities:				
Stock options and other dilutive securities	11	9	11	9
Series A convertible preferred stock	115	115	115	115
Weighted-average common shares outstanding – diluted	1,009	1,102	1,031	1,170
Basic earnings per common share	$ 0.41	$ 0.27	$ 0.93	$ 1.96
Diluted earnings per common share	$ 0.39	$ 0.26	$ 0.89	$ 1.81
Antidilutive potential shares excluded from diluted earnings per common share:				
Series A convertible preferred stock				
Employee stock options and awards	1	13	2	18
Accelerated share repurchase forward contract		14		14
Total	1	27	2	32

6. Inventories, Net of Inventory Reserves

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

	September 30, 2017	December 31, 2016
Finished goods	$ 720	$ 606
Work in process	328	303
Raw materials and accessories	314	270
Supplies and packing materials	331	292
Total inventories, net of inventory reserves	$ 1,693	$ 1,471

7. Investments

On May 31, 2016, Corning completed the strategic realignment of its equity investment in Dow Corning Corporation ("Dow Corning") pursuant to the Transaction Agreement announced in December 2015. Under the terms of the Transaction Agreement, Corning exchanged with Dow Corning its 50% stock interest in Dow Corning for 100% of the stock of a newly formed entity, which holds an equity interest in Hemlock Semiconductor Group ("HSG") and approximately $4.8 billion in cash.

Prior to realignment, HSG, a wholly-owned and consolidated subsidiary of Dow Corning, was an indirect equity investment of Corning. Upon completion of the exchange, Corning now has a direct equity investment in HSG. Because our ownership percentage in HSG did not change as a result of the realignment, the investment in HSG is recorded at its carrying value, which had a negative carrying value of $383 million at the transaction date. The negative carrying value resulted from a one-time charge to this entity in 2014 for the permanent abandonment of certain assets. Excluding this charge, the entity is profitable and is expected to recover its equity in the near term.

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Corning's financial statements as of June 30, 2016 include the positive impact of the release of a deferred tax liability of $105 million related to Corning's tax on Dow Corning's earnings that were not distributed as of the date of the transaction and a non-taxable gain of $2,676 million on the realignment. Details of the gain are illustrated below (in millions):

Cash	$ 4,818
Carrying Value of Dow Corning Equity Investment	(1,560)
Carrying Value of HSG Equity Investment	(383)
Other (1)	(199)
Gain	$ 2,676

(1) Primarily consists of the release of accumulated other comprehensive loss items related to unamortized actuarial losses related to Dow Corning's pension plan and foreign currency translation gains in the amounts of $260 million and $45 million, respectively.

Investments comprise the following (in millions):

	Ownership interest	September 30, 2017	December 31, 2016
Affiliated companies accounted for by the equity method (1)	20% to 50%	$ 284	$ 269
Other investments		68	67
Subtotal Investment Assets		$ 352	$ 336
Affiliated companies accounted for by the equity method			
HSG (1)(2)	50%	$ 202	$ 241
Subtotal Investment Liabilities		$ 202	$ 241

(1) Amounts reflect Corning's direct ownership interests in the respective affiliated companies at September 30, 2017 and December 31, 2016. Corning does not control any of such entities.
(2) HSG indirectly holds an 80.5% interest in a HSG operating partnership. The negative carrying value of the investment in HSG is recorded in Other Liabilities.

Hemlock Semiconductor Group

HSG's results of operations follow (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017 (1)	2016 (2)
Statement of Operations:				
Net sales	$ 286	$ 217	$ 887	$ 397
Gross profit	$ 72	$ 61	$ 180	$ 113
Net income attributable to HSG	$ 59	$ 44	$ 285	$ 87

(1) HSG's net income in the nine months ended September 30, 2017 includes pre-tax gains on settlements of long-term sales agreements in the amount of $151 million (after tax and non-controlling interests, Corning's share was approximately $75 million).
(2) Amounts reflect HSG's results of operations for the month of June 1, 2016 through September 30, 2016.

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8. Goodwill and Other Intangible Assets

The carrying amount of goodwill by segment for the periods ended September 30, 2017 and December 31, 2016 is as follows (in millions):

	Display Technologies	Optical Communications	Specialty Materials	Life Sciences	All Other	Total
Balance at December 31, 2016	$ 126	$ 645	$ 150	$ 558	$ 98	$ 1,577
Acquired goodwill (1)		22		43	34	99
Measurement period adjustment (2)					(28)	(28)
Foreign currency translation adjustment	4	7		18	7	36
Balance at September 30, 2017	$ 130	$ 674	$ 150	$ 619	$ 111	$ 1,684

(1) The Company completed two small acquisitions in the third quarter of 2017 which are being reported in the Optical Communications and Life Sciences segment and one small acquisition in the first quarter of 2017 which is reported in All Other.
(2) In the second quarter of 2017, the Company recorded measurement period adjustments of $28 million related to an acquisition completed in a previous period.

Corning's gross goodwill balances for the periods ended September 30, 2017 and December 31, 2016 each were $8.2 billion and $8.1 billion, respectively. Accumulated impairment losses were $6.5 billion for the periods ended September 30, 2017 and December 31, 2016, and were generated primarily through goodwill impairments related to the Optical Communications segment.

Other intangible assets are as follows (in millions):

	September 30, 2017			December 31, 2016		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Amortized intangible assets:						
Patents, trademarks, and trade names	$ 382	$ 192	$ 190	$ 360	$ 176	$ 184
Customer lists and other	892	191	701	761	149	612
Total	$ 1,274	$ 383	$ 891	$ 1,121	$ 325	$ 796

Corning's amortized intangible assets are primarily related to the Optical Communications and Life Sciences segments. The net carrying amount of intangible assets increased in the first nine months of 2017, primarily due to acquisitions of $132 million of other intangible assets and foreign currency translation adjustments of $16 million, offset by amortization of $53 million.

Amortization expense related to these intangible assets is estimated to be $71 million for 2017, $74 million annually for 2018 and 2019, and $70 million annually from 2020 to 2022.

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9. 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 September 30,		Nine months ended September 30,		Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
Service cost	$ 22	$ 22	$ 69	$ 65	$ 2	$ 3	$ 7	$ 7
Interest cost	32	31	94	93	7	6	20	19
Expected return on plan assets	(43)	(41)	(130)	(124)				
Amortization of net loss								(1)
Amortization of prior service cost (credit)	1	1	4	4	(1)	(1)	(2)	(3)
Recognition of actuarial loss		26	15	60				
Total pension and postretirement benefit expense	$ 12	$ 39	$ 52	$ 98	$ 8	$ 8	$ 25	$ 22

The impact of the finalization of our 2016 benefit plan valuations resulted in a charge of $15 million in the nine months ended September 30, 2017. The recognition of actuarial loss of $26 million in the three months ended September 30, 2016 resulted from small settlements in several of our benefit plans which triggered plan remeasurements. In addition to the settlements occurring in the third quarter of 2016, results in the nine months ended September 30, 2016 also included the impact of the finalization of our 2015 benefit plan valuations.

10. Other Liabilities

Other liabilities follow (in millions):

	September 30, 2017	December 31, 2016
Current liabilities:		
Wages and employee benefits	$ 513	$ 487

Income taxes	135	150
Derivative instruments	58	88
Asbestos and other litigation	39	70
Other current liabilities	510	621
Other accrued liabilities	$ 1,255	$ 1,416
Non-current liabilities:		
Defined benefit pension plan liabilities	$ 743	$ 692
Derivative instruments	343	282
Asbestos and other litigation	342	369
Investment in Hemlock Semiconductor Group (1)	202	241
Other non-current liabilities	1,310	1,221
Other liabilities	$ 2,940	$ 2,805

(1) The negative carrying value resulted from a one-time charge to this entity in 2014 for the permanent abandonment of certain assets.

Asbestos Claims

Corning and PPG each owned 50% of the capital stock of 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. Refer to Note 2 (Commitments, Contingencies and Guarantees) to the consolidated financial statements for additional information on the asbestos claims.

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11. Hedging Activities

Undesignated Hedges

The table below includes a total gross notional value for translated earnings contracts of $15.2 billion and $16.7 billion at September 30, 2017 and December 31, 2016, respectively. The translated earnings contracts include average rate forwards of $14.1 billion and $14.7 billion and zero-cost collars of $1.1 billion and $2.0 billion at September 30, 2017 and December 31, 2016, respectively. The majority of the average rate forward contracts hedge a significant portion of the Company's exposure to the Japanese yen with maturities spanning the years 2017-2022 and with gross notional values of $12.4 billion and $13.6 billion at September 30, 2017 and December 31, 2016, respectively. The average rate forward contracts also partially hedge the impacts of the South Korean won, New Taiwan dollar, Chinese yuan, Euro and British pound translation on the Company's projected net income. With respect to the zero-cost collars, the gross notional amount includes the value of both the put and call options. However, due to the nature of the zero-cost collars, either the put or the call option can be exercised at maturity. The total net notional value of the zero-cost collars was $0.7 billion and $1.0 billion at September 30, 2017 and December 31, 2016, respectively.

The following tables summarize the notional amounts and respective fair values of Corning's derivative financial instruments on a gross basis for September 30, 2017 and December 31, 2016 (in millions):

	Gross notional amount		Asset derivatives			Liability derivatives		
			Balance	Fair value		Balance	Fair value	
	Sept. 30, 2017	Dec. 31, 2016	sheet location	Sept. 30, 2017	Dec. 31, 2016	sheet location	Sept. 30, 2017	Dec. 31, 2016
Derivatives designated as hedging instruments								
Foreign exchange contracts (1)	$ 381	$ 458	Other current assets	$ 12	$ 1	Other accrued liabilities	$ (3)	$ (29)
			Other assets	8				
Interest rate contracts	550	550				Other liabilities	(5)	(5)

Derivatives not designated as hedging instruments								
Foreign exchange contracts, other	676	890	Other current assets	7	11	Other accrued liabilities	(3)	(7)
Translated earnings contracts	15,211	16,711	Other current assets	175	423	Other accrued liabilities	(52)	(52)
			Other assets	82	146	Other liabilities	(338)	(277)
Total derivatives	$ 16,818	$ 18,609		$ 284	$ 581		$ (401)	$ (370)

(1) Cash flow hedges with a typical duration of 24 months or less.

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The following table summarizes the effect of derivative financial instruments on Corning's consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 (in millions):

	Effect of derivative instruments on the consolidated financial statements for the three months ended September 30,				
Derivatives in hedging relationships	Gain recognized in other comprehensive income (OCI) 2017	2016	Location of gain/(loss) reclassified from accumulated OCI into income (effective)	Gain/(loss) reclassified from accumulated OCI into income (effective) (1) 2017	2016
Foreign exchange contracts	$ 3		Sales		$ 1