CORNING INC /NY
Form 10-K/A
May 09, 2006

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

Form 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

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, NY	14831
(Address of principal executive offices)	(Zip Code)

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

[None]
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.50 par value per share	New York Stock Exchange SWX Swiss Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes X No ____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ___ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment of this Form 10-K/A. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

Yes ___ No X

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $23 billion based on the $16.62 as reported on the New York Stock Exchange.

There were 1,545,982,974 shares of Corning's common stock issued and outstanding as of January 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated February 27, 2006, and filed for the Registrant's 2005 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in Part III.

Explanatory Note

On April 25, 2006, Corning Incorporated (Corning) filed a Current Report on Form 8-K with the Securities and Exchange Commission in which it announced that it was restating its previously issued consolidated financial statements to correct errors in its accounting for Corning's asbestos settlement liability and the accounting for its investment in Pittsburgh Corning Europe from March 31, 2003, through December 31, 2005. Corning also changed the classification of accretion on a portion of the asbestos settlement liability from interest expense to asbestos settlement expense in its statement of operations for the same time period. Corning is filing this Amendment No. 1 on Form 10-K/A to amend its Annual Report on Form 10-K for the year ended December 31, 2005 (the Original Filing), which was originally filed on February 24, 2006.

As more fully described in Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-K/A, the cumulative effect of these adjustments to Corning's December 31, 2005, balance sheet was to increase its investments in affiliate companies by $32 million,

increase other accrued liabilities by $154 million, increase accumulated deficit by $123 million, and increase accumulated other comprehensive income by $1 million.

The restatement adjustments had the following impact on Corning's reported net income and earnings per share as follows (in millions, except per share amounts):

	Year ended December 31, 2005	2004	2003
As reported:			
Net income (loss)	$ 585	$ (2,165)	$ (223)
Basic earnings (loss) per share	$ 0.40	$ (1.56)	$ (0.18)
Diluted earnings (loss) per share	$ 0.38	$ (1.56)	$ (0.18)
As restated:			
Net income (loss)	$ 585	$ (2,231)	$ (280)
Basic earnings (loss) per share	$ 0.40	$ (1.61)	$ (0.22)
Diluted earnings (loss) per share	$ 0.38	$ (1.61)	$ (0.22)
Increase in net loss		$ (66)	$ (57)
Increase in basic loss per share		$ (0.05)	$ (0.04)
Increase in diluted loss per share		$ (0.05)	$ (0.04)

As a result of the restatement, the Company's previously issued consolidated financial statements for the period from March 31, 2003, through December 31, 2005, including those contained in the following filings, should no longer be relied upon: Annual Report on Form 10-K for the fiscal year ended December 31, 2005; Quarterly Reports on Form 10-Q for the quarters ended September 30, 2005, June 30, 2005 and March 31, 2005.

Refer to Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-K/A for additional information.

In connection with the restatement, Corning concluded that certain material weaknesses existed in its internal control over financial reporting. See Part II - Item 9A "Controls and Procedures."

This Form 10-K/A amends and restates only certain information in Items 1 and 3 of Part I, Items 6, 7, and 9A of Part II, and Item 15 of Part IV of the Original Filing. In addition, Item 15 of Part IV of the Original Filing has been amended to include an updated consent of our independent registered public accounting firm and certifications executed as of the date of this Form 10-K/A from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and an updated Computation of Ratio of Earnings to Fixed Charges. Our Computation of Ratio of Earnings to Fixed Charges, consent of our independent registered public accounting firm, and the certifications of the Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as exhibits 12, 23, 31.1, 31.2, and 32.

Except for the amended and restated information, this Form 10-K/A includes all of the information contained in the Original Filing, and no attempt has been made in this Form 10-K/A to modify or update the disclosures presented in the Original Filing, except as required to reflect the effects of the restatement. This Form 10-K/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results, or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Forward looking statements made in the Original Filing have not been revised to reflect

events, results or developments that have become known to us after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context.

PART I

Corning Incorporated and its consolidated subsidiaries are hereinafter sometimes referred to as "the Company," "the Registrant," "Corning," or "we."

This report contains forward-looking statements that involve a number of risks and uncertainties. These statements relate to our future plans, objectives, expectations and estimates and may contain words such as "believes," "expects," "anticipates," "estimates," "forecasts," or similar expressions. Our actual results could differ materially from what is expressed or forecasted in our forward-looking statements. Some of the factors that could contribute to these differences include those discussed under "Forward-Looking Statements," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report.

Item 1. Business

General

Corning traces its origins to a glass business established in 1851. The present corporation was incorporated in the State of New York in December 1936, and its name was changed from Corning Glass Works to Corning Incorporated on April 28, 1989.

Corning is a global, technology-based corporation that operates in four reportable business segments: Display Technologies, Telecommunications, Environmental Technologies and Life Sciences.

Display Technologies Segment

Corning's Display Technologies segment manufactures glass substrates for active matrix liquid crystal displays (LCDs), that are used primarily in notebook computers, flat panel desktop monitors, and LCD televisions. Corning's facilities in Kentucky, Japan and Taiwan and those of Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision, which is 50% owned by Corning) in South Korea develop, manufacture and supply high quality glass substrates using a proprietary fusion manufacturing process and technology expertise. Samsung Electronics Co., Ltd. has a 43% interest in Samsung Corning Precision, which sells glass to LCD panel manufacturers in Korea. Another shareholder owns the remaining 7% interest in Samsung Corning Precision. Panel manufacturers in the other leading LCD-producing areas of the world, Japan, Taiwan, Singapore and China, are supplied by Corning.

Corning has been a leader to market with new large-generation sized glass substrates used by our customers in the production of larger LCDs for monitors and television. We are recognized for providing product innovations that help our customers produce larger, lighter, thinner and higher-resolution displays more affordably. Glass substrates are currently available in sizes up to Generation 6 (1500mm x 1800mm), and Generations 7 (1870mm x 2200mm) and 7.5 (1950mm x 2250mm) were introduced from Samsung Corning Precision in 2005. Large substrates allow LCD manufacturers to produce larger and a greater number of

panels from each substrate. The larger size leads to economies of scale for LCD manufacturers and is expected to help lower display prices for consumers in the future. At the end of 2005, approximately 76% of Corning and Samsung Corning Precision's volume of LCD glass was Generation 5 (1100mm x 1250mm) and higher.

Corning's proprietary fusion manufacturing process was invented by the Company. It is the cornerstone of Corning's technology leadership in the LCD industry. The automated process yields high quality glass substrates with excellent dimensional stability and uniformity - essential attributes for the production of increasingly larger, high performance active matrix LCDs. Corning's fusion process is scalable and has proven to be among the most effective processes in producing large size substrates.

LCD glass manufacturing is a highly capital intensive business. Corning continues to make significant investments to expand its LCD glass facilities in response to anticipated customer demand. The environment is very competitive. Important success attributes include efficient manufacturing, access to capital, technology know-how, and patents.

Patent protection and proprietary trade secrets are important to the segment's operations. The segment has a growing portfolio of patents relating to its products, technologies and manufacturing processes. Reference is made to the material under the heading "Patents and Trademarks" for information relating to patents and trademarks.

The Display Technologies segment represented 38% of Corning's sales for 2005.

Telecommunications Segment

The Telecommunications segment produces optical fiber and cable, and hardware and equipment products for the worldwide telecommunications industry. Corning invented the world's first low-loss optical fiber more than 30 years ago. It offers a range of optical fiber technology products and enhancements for a variety of applications, including premises, fiber-to-the-premises access, metropolitan, long-haul and submarine networks. Corning makes and sells InfiniCor(R) fibers for local area networks, data centers and central offices; NexCor(R) fiber for converged services networks; SMF-28e(R) single mode optical fiber that provides additional transmission wavelengths in metropolitan and access networks; MetroCor(R) fiber products for metropolitan networks; LEAF(R) optical fiber for long-haul, regional and metropolitan networks; and Vascade(R) submarine optical fibers for use in undersea networks. Corning has two large optical fiber manufacturing facilities in North Carolina, as well as a controlling interest in Shanghai Fiber Optics Co., Ltd. in China. As a result of lowered demand for optical fiber products, in 2002 Corning mothballed its optical fiber manufacturing facility in Concord, North Carolina and transferred certain capabilities to its Wilmington, North Carolina facility. Corning believes that the Concord facility can be returned to productive capacity within six to nine months of a decision to reopen.

A significant portion of Corning's optical fiber is sold to subsidiaries such as Corning Cable Systems LLC (Corning Cable Systems), Corning Cable Systems GmbH, and Norddeutsche Seekabelwerke GmbH & Co., KG (NSW). Optical fiber is cabled prior to being sold in cable form. The remaining fiber production is sold directly to end users or third party cablers around the world. Corning's cabling operations include large facilities in North Carolina and Germany and smaller regional locations or equity affiliates.

Corning's hardware and equipment products include cable assemblies, fiber optic hardware, fiber optic connectors, optical components and couplers, closures and pedestals, splice and test equipment and other accessories for optical connectivity. For copper connectivity, Corning's products include subscriber demarcation, connection and protection devices, xDSL (different variations of DSL) passive solutions and outside plant enclosures. Each of the product lines may be combined in Corning's fiber-to-the-premises solutions. Corning has manufacturing operations for hardware and equipment products in North Carolina and Texas, as well as Europe, Mexico, China, and the Caribbean. Corning Gilbert Inc. offers products for the cable television industry, including coaxial connectors and associated tools. Corning Gilbert has manufacturing operations for coaxial connectors and associated assembly tools in Arizona, Mexico and Denmark.

Patent protection is important to the segment's operations. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. The segment licenses certain of its patents to third parties and generates revenue from these licenses, but such royalty revenue is not currently material to the business. Corning is also licensed to use certain patents owned by others, and such licenses are also important to the segment's operations. Reference is made to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Telecommunications segment represented 35% of Corning's sales for 2005.

Environmental Technologies Segment

Corning's environmental products include ceramic technologies and solutions for emissions and pollution control in mobile and stationary applications around the world, including gasoline and diesel substrate and filter products. In response to new and tightening emission control obligations around the world, Corning has continued to develop more efficient substrate products with higher density and greater surface area. Corning manufactures these products in New York, Virginia, China, Germany and South Africa. Cormetech Inc., 50% owned by Corning and 50% owned by Mitsubishi Heavy Industries Ltd. of Japan, manufactures ceramic environmental substrate products at its North Carolina and Tennessee facilities for use in power plants. Corning is investing in new ceramic substrate and filter technologies for diesel emission control device products, with a new production facility in New York to produce such products for diesel vehicles worldwide. Corning sells its ceramic substrate and filter products worldwide to manufacturers of emission control systems who then sell to automotive and diesel engine manufacturers. Although our sales are to the emission control systems manufacturers, the use of Corning substrates and filters is generally required by the specifications of the automotive and diesel engine manufacturers.

Patent protection is important to the segment's operations. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. The segment is also licensed to use certain patents owned by others, and such licenses are also important to the segment's operations. Reference is made to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Environmental Technologies segment represented 13% of Corning's sales for 2005.

Life Sciences Segment

Life Sciences laboratory products include microplate products, coated slides, filter plates for genomics sample preparation, plastic cell culture dishes, flasks, cryogenic vials, roller bottles, mass cell culture products, liquid handling instruments, Pyrex(R) glass beakers, pipettors, serological pipettes, centrifuge tubes and laboratory filtration products. Corning sells products under 3 primary brands: Corning, Costar and Pyrex. Corning manufactures these products in Maine, New York, United Kingdom and Mexico and markets them worldwide, primarily through distributors, to government entities, pharmaceutical and biotechnology companies, hospitals, universities and other research facilities.

Patent protection is important to the segment's operations, particularly for some of its emerging products. The segment has a growing portfolio of patents relating to its products, technologies and manufacturing processes. Brand recognition, through some well known trademarks, is important to the segment. Reference is made to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Life Sciences segment represented approximately 6% of Corning's sales for 2005.

Other Products

Other products made by Corning include semiconductor optics, ophthalmic glass and plastic products, technical products, such as polarizing glass, glass for high temperature applications and machinable glass ceramic products. Semiconductor optics manufactured by Corning include: high-performance optical material products; optical-based metrology instruments; and optical assemblies for applications in the global semiconductor industry. Corning's semiconductor optics products are manufactured in New York. Other specialty glass products include glass lens and window components and assemblies. Other specialty glass products are made in New York, Virginia, United Kingdom and France or sourced from China. Corning's Eurokera and Keraglass equity ventures with Saint Gobain Vitrage S.A. of France manufacture smooth cooktop glass/ceramic products in France, China, and South Carolina.

Corning owns a 50% interest in Samsung Corning Company, Ltd. (Samsung Corning), a producer of glass panels and funnels for cathode ray tubes for televisions and computer monitors, with manufacturing facilities in Korea, Germany, China and Malaysia. Samsung Electronics Company, Ltd. owns the remaining 50% interest in Samsung Corning.

Other products represented approximately 8% of Corning's sales for 2005.

We manufacture and process products at more than 47 plants and 15 countries.

Additional explanation regarding Corning and our four segments is presented in Management's Discussion and Analysis of Financial Condition under Operating Review and Results of Operations and Note 19 (Operating Segments) to the Consolidated Financial Statements.

Corporate Investments

Corning and The Dow Chemical Company (Dow Chemical) each own half of Dow Corning Corporation (Dow Corning), an equity company in Michigan that manufactures silicone products worldwide. Dow Corning emerged from its Chapter 11 bankruptcy proceedings during 2004. Dow Corning's sales were $3.9 billion in 2005. Additional discussion about Dow Corning appears in the Legal Proceedings section and Dow Corning's financial statements are attached in Item 15. Exhibits and Financial Statement Schedules.

Corning and PPG Industries, Inc. each own half of Pittsburgh Corning Corporation

(PCC), an equity company in Pennsylvania that manufactures glass products for architectural and industrial uses. PCC filed for Chapter 11 bankruptcy reorganization in April 2000. Additional discussion about PCC appears in the Legal Proceedings section. Corning also owns half of Pittsburgh Corning Europe N.V., a Belgian corporation that manufactures glass products for industrial uses primarily in Europe.

Additional information about corporate investments is presented in Note 8 (Investments) to the consolidated financial statements.

Competition

Corning competes across all of its product lines with many large and varied manufacturers, both domestic and foreign. Some of these competitors are larger than Corning, and some have broader product lines. Corning strives to maintain its position through technology and product innovation. For the future, Corning believes its competitive advantage lies in its commitment to research and development, and its commitment to quality. There is no assurance that Corning will be able to maintain its market position or competitive advantage.

Display Technologies Segment

Corning is the largest worldwide producer of glass substrates for active matrix LCD displays. That market position remained relatively stable over the past year. Corning believes it has competitive advantages in LCD glass substrate products from investing in new technologies, offering a consistent source of reliable supply and using its proprietary fusion manufacturing process. This process allows us to deliver glass that is larger, thinner and lighter with exceptional surface quality. Asahi Glass, Nippon Electric Glass and NH Techno are Corning's principal competitors in display glass substrates. In addition, new entrants are seeking to expand their presence in this business.

Telecommunications Segment

Competition within the telecommunications equipment industry is intense among several significant companies. Corning is a leading competitor in the segment's principal product lines which include optical fiber and cable and hardware and equipment. Price and new product innovations are significant competitive factors. The competitive landscape has experienced increasing competition based upon pricing in all geographical markets. These competitive conditions are likely to persist.

Corning is the largest producer of optical fiber and cable products, but faces significant competition due to continued excess capacity in the market place, price pressure and new product innovations. Corning believes its large scale manufacturing experience, fiber process, technology leadership and intellectual property assets yield cost advantages relative to several of its competitors. The primary competing producers of optical fiber and cable products are Furukawa OFS, Alcoa, Fujikura, Sumitomo, Prysmian Communications and Draka Comteq.

For hardware and equipment products, significant competitors are 3M Company (3M), Tyco Electronics, Furukawa OFS, CommScope, and ADC Communications.

Environmental Technologies Segment

For worldwide automotive ceramic substrate products, Corning has a leading market position that has remained relatively stable over the past year. Corning

believes its competitive advantage in automotive ceramic substrate products for catalytic converters is based upon global presence, customer service, engineering design services and product innovation. The heavy duty and light duty diesel vehicle market opportunities are still emerging. Corning's Environmental Technologies products face principal competition from NGK, Denso, Ibiden and Emitec.

Life Sciences Segment

Corning is a leading supplier of glass and plastic science laboratory products, with a growing plastics products market presence in North America and Europe, and a solid laboratory glass products market presence. Corning seeks to maintain competitive advantages by emphasizing product quality, product availability, supply chain efficiency, a wide product line and superior product attributes. For laboratory products, Schott Glaswerke, Kimble, Greiner and Becton Dickinson are the principal worldwide competitors. Corning also faces increasing competition from certain distributors that have backward integrated or introduced private label products.

Other Products

Corning is a leading supplier of materials and products for lithography optics in the semiconductor industry and that market position remained relatively stable during the past year. Corning seeks to compete by providing superior optical quality, leading optical designs and a local Corning presence supporting its customers. For Corning's semiconductor optical material products, general specialty glass/glass ceramic products and ophthalmic products, Schott Glaswerke, Shin-Etsu Quartz Products, Hoya and Heraeus are the main competitors.

Samsung Corning is a leading producer of cathode ray tube glass products for conventional televisions. Its relative competitive position has remained stable over the past year, although there has been a significant decline in the industry as end-market customers have turned to flat panel displays or projection technologies. Samsung Corning seeks to maintain its competitive advantage through customer support, logistics expertise and a lower cost manufacturing structure. Nippon Electric Glass, Asahi, and various other Asian manufacturers compete with Samsung Corning. Samsung Corning is also pursuing a diversification strategy to mitigate the impact of the decline in the cathode ray tube glass.

Raw Materials

Corning's production of specialty glasses, ceramics, and related materials requires significant quantities of energy, certain precious metals, and batch materials.

Although energy shortages have not been a problem recently, the cost of energy has increased. Corning has achieved flexibility through important engineering changes to take advantage of low-cost energy sources in most significant processes. Specifically, many of Corning's principal manufacturing processes can now be operated with natural gas, propane, oil or electricity, or a combination of these energy sources.

As to resources (ores, minerals, polymers, and processed chemicals) required in manufacturing operations, availability appears to be adequate. Corning's suppliers from time to time may experience capacity limitations in their own operations, or may eliminate certain product lines; nevertheless, Corning believes it has adequate programs to ensure a reliable supply of batch chemicals and raw materials. For many products, Corning has alternate glass compositions

that would allow operations to continue without interruption in the event of specific materials shortages.

Certain key materials and proprietary equipment used in the manufacturing of products are currently sole sourced or available only from a limited number of suppliers. Any future difficulty in obtaining sufficient and timely delivery of components could result in delays or reductions in product shipments, or reduce Corning's gross margins.

Patents and Trademarks

Inventions by members of Corning's research and engineering staff have been, and continue to be, important to the Company's growth. Patents have been granted on many of these inventions in the United States and other countries. Some of these patents have been licensed to other manufacturers, including companies in which Corning has equity investments. Many of the earlier patents have now expired, but Corning continues to seek and obtain patents protecting its newer innovations. In 2005, Corning was granted over 170 patents in the U.S. and over 325 patents in countries outside the U.S.

Each business segment possesses its own patent portfolio that provides certain competitive advantages in protecting Corning's innovations. Corning has historically enforced, and will continue to enforce, its intellectual property rights. At the end of 2005, Corning and its wholly owned subsidiaries owned over 5,500 unexpired patents in various countries of which about 2,600 were U.S. patents. Between 2006 and 2008, approximately 7% of these patents will expire, while at the same time Corning intends to seek patents protecting its newer innovations. Worldwide, Corning has over 2,600 patent applications in process, with about 900 in process in the U.S. Corning believes that its patent portfolio will continue to provide a competitive advantage in protecting Corning's innovation, although Corning's competitors in each of its businesses are actively seeking patent protection as well.

The Display Technologies segment has over 260 patents in various countries of which over 90 were U.S. patents. No one patent is considered material to this business segment. Some of the important issued U.S. patents in this segment include patents relating to glass compositions and methods for the use and manufacture of glass substrates for display applications. There is no group of important Display Technology segment patents set to expire between 2006 and 2008.

The Telecommunications segment has over 2,300 patents in various countries of which over 1,000 were U.S. patents. No one patent is considered material to this business segment. Some of the important issued U.S. patents in this segment include: (i) patents relating to optical fiber products including dispersion compensating fiber, low loss optical fiber and high data rate optical fiber and processes and equipment for manufacturing optical fiber including methods for making optical fiber preforms and methods for drawing, cooling and winding optical fiber; (ii) patents relating to packaging of lasers and designs for optical switch products; (iii) patents relating to optical fiber ribbons and methods for making such ribbon, fiber optic cable designs and methods for installing optical fiber cable; and (iv) patents relating to optical fiber and electrical connectors and associated methods of manufacture. While a few particular U.S. patents will expire in 2006, there is no group of important Telecommunications segment patents set to expire between 2006 and 2008.

The Environmental Technologies segment has over 575 patents in various countries of which over 270 were U.S. patents. No one patent is considered material to this business segment. Some of the important issued U.S. patents in this segment include patents relating to cellular ceramic honeycomb products, together with ceramic batch and binder system compositions, honeycomb extrusion and firing processes, and honeycomb extrusion dies and equipment for the high-volume,

low-cost manufacture of such products. There is no group of important Environmental segment patents set to expire between 2006 and 2008.

The Life Sciences segment has over 200 patents in various countries of which over 75 were U.S. patents. No one patent is considered material to this business segment. Some of the important issued U.S. patents in this segment include patents relating to methods and apparatus for the manufacture and use of scientific laboratory equipment including nucleic acid arrays, multiwell plates, and cell culture products as well as equipment for label independent drug discovery. There is no group of important Life Sciences segment patents set to expire between 2006 and 2008.

Many of these patents are used in Corning's operations or are licensed for use by others, and Corning is licensed to use patents owned by others. Corning has entered into cross licensing arrangements with some major competitors, but the scope of such licenses has been limited to specific product areas or technologies.

Corning's principal trademarks include the following: Corning, Celcor, Discovering Beyond Imagination, DuraTrap, Eagle2000, Epic, Flame of Discovery Design, HPFS, LEAF, Pyrex, SMF-28e, Steuben, Lanscape and Vycor.

Protection of the Environment

Corning has a program to ensure that its facilities are in compliance with state, federal and foreign pollution-control regulations. This program resulted in capital and operating expenditures during the past several years. In order to maintain compliance with such regulations, capital expenditures for pollution control in continuing operations were approximately $19 million in 2005 and are estimated to be $26 million in 2006.

Corning's 2005 operating results from continuing operations were charged with approximately $42 million for depreciation, maintenance, waste disposal and other operating expenses associated with pollution control. Corning believes that its compliance program will not place it at a competitive disadvantage.

Document Availability

A copy of Corning's 2005 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission is available upon written request to Ms. Denise A. Hauselt, Secretary and Assistant General Counsel, Corning Incorporated, HQ-E2-10, Corning, NY 14831. The Annual Report on Form 10-K/A, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments pursuant to Section 13(a) or 15(d) of the Exchange Act and other filings are available as soon as reasonably practicable after such material is electronically filed or furnished to the SEC, and can be accessed electronically free of charge, through the Investor Relations category of the Corning home page on the Internet at www.corning.com.

Item 1A. Risk Factors

Set forth below are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements contained in this Report. Future results could be materially affected by general industry and market conditions, changes in laws or accounting rules, general economic and political conditions, including a global economic slowdown, fluctuation of interest rates or currency exchange rates, terrorism, political

unrest or international conflicts, political instability or major health concerns, natural disasters or other disruptions of expected business conditions. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Annual Report.

Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products

Corning's ten largest customers account for about 50% of our sales. However, no individual customer accounts for more than 10% of consolidated sales.

A relatively small number of customers accounted for a high percentage of net sales in each of our reportable operating segments. For 2005, five customers of the Display Technologies segment, each of which accounted for more than 10% of segment net sales, accounted for 75% of total segment sales. In the Telecommunications segment, two customers, each of which accounted for more than 10% of this segment's net sales, accounted for 29% of total segment sales in 2005. In the Environmental Technologies segment, three customers, each of which accounted for more than 10% of segment sales, represented 76% of total segment sales for 2005. In the Life Sciences segment, one distributor accounted for 53% of this segment's sales in 2005.

Samsung Corning Precision's sales were also concentrated, with three customers accounting for 98% of sales in 2005.

Although the sale of LCD glass substrates has increased in 2005, there can be no assurance that this positive trend will continue. Our customers are LCD panel and color filter makers. As they switch to larger size glass, the pace of their orders may be uneven while they adjust their manufacturing processes and facilities. Additionally, consumer preferences for panels of differing sizes, price, or other factors, may lead to pauses in market growth from time to time. Our customers may not be able to maintain profitable operations or access sufficient capital to fund ongoing and future planned expansions, which may limit their pace of orders to us. Emerging technologies could replace our glass substrates for certain applications resulting in a decline in demand for our LCD products.

Our Telecommunications segment customers' purchases of our products are affected by their capital expansion plans, general market and economic uncertainty and regulatory changes, including broadband policy. Sales in the Telecommunications segment are expected to be impacted by Verizon Communication Inc. (Verizon) fiber-to-the-premises deployments. Our sales will be dependent on Verizon's planned targets for homes passed and connected. Changes in Verizon's deployment plan could adversely affect future sales.

In the Environmental Technologies segment, sales of our ceramic substrate and filter products for automotive and diesel emissions and pollution control are expected to fluctuate with vehicle production. Changes in governmental laws and regulations for air quality and emission controls may also influence future sales. Sales in our Environmental Technologies segment are to four catalyzers and emission system component manufacturers. Our customers sell these systems to automotive original equipment manufacturers and diesel engine manufacturers.

Sales in our Life Science segment were historically through two large distributors to government entities, pharmaceutical and biotechnology companies, hospitals, universities and other research facilities. During 2005, we did not renew the contract with one large distributor and transitioned the sales through

this distributor to our remaining primary distributor and other existing and developing channels. This change has and may continue to adversely impact sales volumes in the short term. In 2005, our remaining primary distributor accounted for 53% of total segment sales.

If the markets for our products do not develop and expand as we anticipate, demand for our products may decline, which would negatively impact our results of operations and financial performance

The markets for our products are characterized by rapidly changing technologies, evolving industry or government standards and frequent new product introductions. Our success is expected to depend, in substantial part, on the successful introduction of new products, or upgrades of current products, and our ability to compete with new technologies and products of other suppliers. The following factors related to our products and markets, if not achieved, could have an adverse impact on our results of operations:

- our ability to introduce leading products such as glass substrates for liquid crystal displays, optical fiber and cable and hardware and equipment, and environmental substrate products that can command competitive prices in the marketplace;
- our ability to achieve a favorable sales mix of large generation sizes of liquid crystal display glass;
- our ability to develop new products in response to government regulations and laws, particularly diesel filter products in the Environmental Technologies segment;
- continued strong demand for notebook computers and LCD monitors;
- the rate of growth in purchases of LCD televisions to replace other technologies; and
- the rate of growth of the fiber-to-the-premises build-out in North America.

We face pricing pressures in each of our leading businesses that could adversely affect our results of operations and financial performance

We face pricing pressure in each of our leading businesses as a result of intense competition, emerging new technologies, or over-capacity. While we will work toward reducing our costs to offset pricing pressures, we may not be able to achieve proportionate reductions in costs. As a result of overcapacity in the Telecommunications segment, we anticipate pricing pressures will continue into 2006 and beyond. Increased pricing pressure may develop in our Display Technologies segment as our competitors strive to expand production of larger generation substrates.

We face risks related to our international operations and sales

We have customers and significant operations, including manufacturing and sales, located outside the U.S. We have large manufacturing operations for liquid crystal display glass substrates in Taiwan and the Asia-Pacific region, including equity investments in companies operating in South Korea that make glass substrates for the LCD market. All of our Display segment customers are located in the Asia-Pacific region. As a result of these and other international operations, we face a number of risks, including:

- geographical concentration of our factories and operations;
- major health concerns;
- difficulty of managing global operations;
- difficulty in protecting intellectual property;
- tariffs, duties and other trade barriers including anti-dumping duties;
- undeveloped legal systems;
- political and economic instability in foreign markets, and

. foreign currency risk.

Any of these items could cause our sales and/or profitability to be significantly reduced.

We face risks due to foreign currency fluctuations

Because we have significant customers and operations outside the U.S., fluctuations in foreign currencies, especially the Japanese yen, the New Taiwan dollar, the Korean won, and the euro, affect our sales and profit levels. Foreign exchange rates may make our products less competitive in countries where local currencies decline in value relative to the dollar and Japanese yen. Sales in our Display Technologies segment, representing 38% of Corning's sales, are denominated in Japanese yen. The expected sales growth of the Display Technologies segment will increase our exposure to currency fluctuations. Although we hedge significant transaction and balance sheet currency exposures, we do not hedge translation risk and thus changes in exchange rates (especially the yen) may significantly impact our reported revenues and results of operations.

If the financial condition of our customers declines, our credit risks could increase

Although we have a rigorous process to administer credit and believe our reserve is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable. If our customers fail to meet their payment obligations to us, including deposits due under long-term purchase and supply agreements in our Display Technologies segment, we could experience reduced cash flows and losses in excess of amounts reserved. Some customers of our Display Technologies segment are thinly capitalized and/or marginally profitable. In our Environmental products segment, the U.S. auto customers and certain of their suppliers have encountered credit downgrades or, in the case of Delphi Corporation, bankruptcy. These factors may result in an inability to collect receivables or a possible loss in business. As of December 31, 2005, reserves for trade receivables totaled approximately $24 million.

If we do not successfully adjust our manufacturing volumes and fixed cost structure, or achieve manufacturing yields or sufficient product reliability, our operating results could suffer, and we may not achieve profitability levels anticipated

We are investing heavily in additional manufacturing capacity of certain businesses, principally including liquid crystal display glass and diesel emission substrates and filters. The speed of constructing the new facilities presents challenges. We may face technical and process issues in moving to commercial production. There can be no assurance that Corning will be able to pace its capacity expansion to the actual demand. It is possible that manufacturing capacity may exceed customer demand during certain periods.

The manufacturing of our products involves highly complex and precise processes, requiring production in highly controlled and dust-free environments. Changes in our manufacturing processes could significantly reduce our manufacturing yields and product reliability. In some cases, existing manufacturing may be insufficient to achieve the volume or requirements of our customers. We will need to develop new manufacturing processes and techniques to achieve targeted volume, pricing and cost levels that will permit profitable operations. While we continue to fund projects to improve our manufacturing

techniques and processes, we may not achieve satisfactory cost levels in our manufacturing activities that will fully satisfy our margin targets.

Our future operating results depend on our ability to purchase a sufficient amount of materials, parts, and manufacturing equipment components to meet the demands of our customers

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of materials, parts and components from our suppliers. We may experience shortages that could adversely affect our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Furthermore, certain of our components and manufacturing equipment are available only from a single source or limited sources. We may not be able to find alternate sources in a timely manner. A reduction or interruption in supplies, or a significant increase in the price of supplies could have a material adverse effect on our businesses.

We have incurred, and may in the future incur, restructuring and other charges, the amounts of which are difficult to predict accurately

We have recorded several charges for restructuring, impairment of assets, and the write-off of cost and equity based investments. It is possible we may record additional charges for restructuring or other asset impairments if additional actions become necessary to align costs to a reduced level of demand or other factors impacting our businesses.

We have incurred, and may in the future incur, goodwill and other intangible asset impairment charges

At December 31, 2005, Corning had goodwill and other intangible assets of $338 million. While we believe the estimates and judgments about future cash flows used in the goodwill impairment tests are reasonable, we cannot provide assurance that future impairment charges will not be required if the expected cash flow estimates as projected by management do not occur.

We may be limited in our ability to obtain additional capital on commercially reasonable terms

Although we believe existing cash, short-term investments and borrowing capacity, collectively, provide adequate resources to fund ongoing operating requirements, we may be required to seek additional financing to compete effectively in our markets. Our public debt ratings affect our ability to raise capital and the cost of such capital. Our ratings as of February 17, 2006 were BBB- from both Fitch, Inc. and Standard & Poor's, a division of the McGraw-Hill Companies, Inc. and Baa3 from Moody's Investors Service, a subsidiary of Moody's Corporation. Any downgrades may increase our borrowing costs and affect our ability to access the capital markets.

We are subject under our revolving credit facility to financial covenants that require us to maintain two ratios including total debt to capital and interest coverage, as defined under the revolving credit facility. These covenants limit our ability to borrow funds. Future losses or significant charges would materially affect these ratios, and may reduce the amounts we are able to borrow under our revolving credit facility.

If our products or materials purchased from our suppliers experience performance issues, our business will suffer

Our business depends on the production of products of consistently high quality. Our products, components and materials purchased from our suppliers, are typically tested for quality. These testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios. For various reasons, our products, including materials purchased from our suppliers, may fail to perform as expected. In some cases, product redesigns or additional expense may be required to correct a defect. A significant or systemic product failure could result in customer relations problems, lost sales, and financial damages.

We face competition in most of our businesses

We expect that we will face additional competition from existing competitors, low cost manufacturers and new entrants. We must invest in research and development, expand our engineering, manufacturing and marketing capabilities, and continue to improve customer service and support in order to remain competitive. We cannot provide assurance that we will be able to maintain or improve our competitive position.

We may experience difficulties in enforcing our intellectual property rights and we may be subject to claims of infringement of the intellectual property rights of others

We may encounter difficulties in protecting our intellectual property rights or obtaining rights to additional intellectual property necessary to permit us to continue or expand our businesses. We cannot assure you that the patents that we hold or may obtain will provide meaningful protection against our competitors. Litigation may be necessary to enforce our intellectual property rights. Litigation is inherently uncertain and the outcome is often unpredictable. Other companies hold patents on technologies used in our industries and are aggressively seeking to expand, enforce and license their patent portfolios.

The intellectual property rights of others could inhibit our ability to introduce new products. We are, and may in the future be, subject to claims of intellectual property infringement or misappropriation that may result in loss of revenue, require us to incur substantial costs, or lead to monetary damages or injunctive relief against us. We cannot assure you as to the outcome of such claims.

Current or future litigation may harm our financial condition or results of operations

Pending, threatened or future litigation is subject to inherent uncertainties. Our financial condition or results of operations may be adversely affected by unfavorable outcomes, expenses and costs exceeding amounts estimated or insured. In particular, we have been named as a defendant in numerous lawsuits alleging personal injury from exposure to asbestos. As described in Legal Proceedings, our negotiations with the representatives of asbestos claimants have produced a tentative settlement through a PCC Plan of Reorganization, but certain cases may still be litigated. The final approval of the tentative settlement is subject to a number of uncertainties. Final approval of a global settlement through the PCC bankruptcy process may impact the results of operations for the period in which such costs, if any, are recognized. Total charges of $818 million have been incurred through December 31, 2005; however, additional charges are possible due to the potential fluctuation in the price of our common stock, other adjustments in the proposed settlement, and other litigation factors.

We face risks through our equity method investments in companies that we do not control

Corning's net income includes significant equity in earnings of associated companies. For the year ended December 31, 2005, we recognized $611 million of equity earnings, of which $661 million came from our two largest investments: Dow Corning Corporation (which makes silicone products) and Samsung Corning Precision Glass Co., Ltd. (which makes liquid crystal display glass). Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision) is located in the Asia-Pacific region and is subject to political geographic risks mentioned above. Our equity investments may not continue to perform at the same levels as in recent years. In the third quarter of 2005, we recognized equity losses associated with Samsung Corning Co., Ltd. (our 50% equity method investment that makes glass panels and funnels for conventional televisions), which recorded significant fixed asset and other impairment charges. As the conventional television market will be negatively impacted by strong growth in the LCD glass market, it is reasonably possible that Samsung Corning Co., Ltd. may incur additional restructuring or impairment charges or net operating losses in the future.

We may not have adequate insurance coverage for claims against us

We face the risk of loss resulting from product liability, securities, fiduciary liability, intellectual property, antitrust, contractual, warranty, fraud and other lawsuits, whether or not such claims are valid. In addition, our product liability, fiduciary, directors and officers, property, natural catastrophe and comprehensive general liability insurance may not be adequate to cover such claims or may not be available to the extent we expect. Our insurance costs have increased and may increase further. We may not be able to get adequate insurance coverage in the future at acceptable costs. A successful claim that exceeds or is not covered by our policies could require us to pay substantial sums. Some of the carriers in our excess insurance programs are in liquidation and may not be able to respond if we should have claims reaching into excess layers. The financial health of other insurers may deteriorate. In addition, we may not be able to obtain adequate insurance coverage for certain risk such as political risk, terrorism or war.

The Company has material weaknesses in internal control over financial reporting and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in the financial statements.

Management has identified material weaknesses in our internal control over financial reporting that resulted in the restatement of the Company's annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for the three quarterly periods in the years ended December 31, 2005 and 2004. See "Item 9A. Controls and Procedures."

The material weaknesses in the Company's internal control over financial reporting during the periods related to ineffective controls over 1) the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability related to the 2003 Pittsburgh Corning Corporation Asbestos Litigation Bankruptcy Settlement, and 2) the completeness and accuracy of its equity investments.

Additionally, these control deficiencies could result in a misstatement of our investments and equity in earnings of associated companies that would result in a material misstatement to the annual or interim consolidated financial

statements that would not be prevented or detected.

We cannot assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties that may be encountered in their implementation, could result in additional significant deficiencies or material weaknesses, cause the Company to fail to meet its periodic reporting obligations or result in material misstatements in the Company's financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor reports regarding the effectiveness of the Company's internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of material weaknesses could result in errors in our financial statements that could result in a restatement of financial statements.

Other

Additional information in response to Item 1 is found in Note 19 (Operating Segments) to the consolidated financial statements and selected financial data.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate approximately 47 manufacturing plants and processing facilities, of which approximately one half are located in the U.S. We own substantially all of our executive and corporate buildings, which are located in Corning, New York. We also own substantially all of our manufacturing and research and development facilities and more than half of our sales and administrative facilities.

For the years ended 2005, 2004 and 2003, we invested a total of $2.8 billion, primarily in facilities outside the U.S. in our Display Technologies segment. Of the $1.6 billion spent in 2005, $1.3 billion was for facilities outside the U.S.

Manufacturing, sales and administrative, and research and development facilities at consolidated locations have an aggregate floor space of approximately 22 million square feet. Distribution of this total area follows:

(million square feet)	Total	Domestic	Foreign
Manufacturing	17	9	8
Sales and administrative	4	2	2
Research and development	1	1	
Total	22	12	10

Total assets and capital expenditures by operating segment are included in Note 19 (Operating Segments) to the Consolidated Financial Statements. Information

concerning lease commitments is included in Note 14 (Commitments, Contingencies and Guarantees) to the Consolidated Financial Statements.

During 2005, we continued the restructuring program that closed or consolidated certain smaller manufacturing facilities. Throughout 2006 we expect to have excess manufacturing capacity in our Telecommunications segment and will not utilize a portion of space in the facilities listed above. The largest unused portion is our optical fiber manufacturing facility in Concord, North Carolina that has been mothballed until fiber demand rebounds. We believe that the Concord facility can be returned to productive capacity within six to nine months of a decision to do so.

Item 3. Legal Proceedings

Environmental 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 at 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. Corning has accrued $13 million (undiscounted) for its estimated liability for environmental cleanup and litigation at December 31, 2005. 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.

Dow Corning Bankruptcy. Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning Corporation (Dow Corning), which was in reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code between May 1995 and June 2004. Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousand 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 and includes releases for Corning and Dow Chemical as shareholders in exchange for contributions to the Plan.

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Dow Corning has paid approximately $1.6 billion (inclusive of insurance) to the Settlement Trust and subject to a number of conditions, may pay up to an additional $1.6 billion ($710 million after-tax) over 16 years. Certain commercial creditors continue to pursue an appeal to the U.S. Court of Appeals of the Sixth Circuit seeking from Dow Corning an additional sum of approximately $80 million for interest at default rates and enforcement costs. The appeal was argued on July 27, 2005. Corning believes the risk of loss to Dow Corning (net of amounts reserved) is remote.

In addition, Dow Corning has received a statutory notice of deficiency from the United States Internal Revenue Service asserting tax deficiencies totaling approximately $65 million relating to its federal income tax returns for the 1995 and 1996 calendar years. This matter is pending before the U.S. District Court in Michigan. Dow Corning has also received a proposed adjustment from the IRS (approximately $117 million) with respect to its federal income tax returns for the 1997, 1998 and 1999 calendar years. Dow Corning is vigorously contesting these deficiencies and proposed adjustments which it believes are excessive.

In 1995, Corning fully impaired its investment in Dow Corning upon its entry into bankruptcy proceedings and did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that its emergence from bankruptcy protection was probable. Corning considers the difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning's equity to be permanent. This difference is $249 million. Subject to future rulings by the bankruptcy court and potential changes in estimated bankruptcy-related liabilities, it is possible that Dow Corning may record bankruptcy-related charges in the future. Corning received $45 million in dividends from Dow Corning in 2005.

Pittsburgh Corning Corporation. 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 have been 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. As of the bankruptcy filing, PCC had in excess of 140,000 open claims and had insufficient remaining insurance and assets to deal with its alleged current and future liabilities. More than 100,000 additional claims have been filed with PCC after its bankruptcy filing. As a result of PCC's bankruptcy filing, Corning recorded an after-tax charge of $36 million in 2001 to fully impair its investment in PCC and discontinued recognition of equity earnings. At the time PCC filed for bankruptcy protection, there were approximately 12,400 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. Corning is also currently named in approximately 11,000 other cases (approximately 43,500 claims) alleging injuries from asbestos and similar amounts of monetary damages per claim. Those cases have been covered by insurance without material impact to Corning to date. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

In the bankruptcy court in April 2000, PCC obtained a preliminary injunction against the prosecution of asbestos actions arising from PCC's products against its two shareholders to afford the parties a period of time in which to negotiate a plan of reorganization for PCC (the PCC Plan).

On May 14, 2002, PPG announced that it had agreed with certain of its insurance carriers and representatives of current and future asbestos claimants on the terms of a settlement arrangement applicable to claims arising from PCC's products.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of $131 million, in March 2003, over six years from the effective date of the settlement. In addition, Corning will assign policy rights or proceeds under primary insurance from 1962 through 1984, as well as rights to proceeds under

certain excess insurance, most of which falls within the period from 1962 through 1973. In return for these contributions, Corning expects to receive a release and an injunction channeling asbestos claims against it into a settlement trust under the PCC Plan.

Corning recorded an initial charge of $392 million in the period ending March 31, 2003 to reflect the settlement terms. However, the asbestos liability requires adjustment to fair value based upon movements in Corning's common stock price prior to the contribution of the shares to the trust and changes in the estimated fair value of the other components of the settlement offer. Beginning with the first quarter of 2003 and through December 31, 2005, Corning recorded total net charges of $818 million to reflect the initial settlement, the movement in Corning's common stock price since March 31, 2003, and changes in the estimated fair value of the other components of the settlement offer.

Two of Corning's primary insurers and several excess insurers have commenced litigation for a declaration of the rights and obligations of the parties under insurance policies, including rights that may be affected by the settlement arrangement described above. Corning is vigorously contesting these cases. Management is unable to predict the outcome of this insurance litigation.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made final oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

Astrium. In December of 2000, Astrium, SAS and Astrium, Ltd. filed a complaint for negligence in the U.S. District Court for the Central District of California against TRW, Inc., Pilkington Optronics Inc., Corning NetOptix, Inc. (NetOptix), OFC Corporation and Optical Filter Corporation claiming damages in excess of $150 million. The complaint alleges that certain cover glasses for solar arrays used to generate electricity from solar energy on satellites sold by Astrium's corporate successor were negligently coated by NetOptix or its subsidiaries (prior to Corning's acquisition of NetOptix) in such a way that the amount of electricity the satellite can produce and their effective life were materially reduced. NetOptix has denied that the coatings produced by NetOptix or its subsidiaries caused the damage alleged in the complaint, or that it is legally liable for any damages that Astrium may have experienced. In April 2002, the Court granted motions for summary judgment by NetOptix and other defendants to dismiss the negligence claims, but permitted plaintiffs to add fraud and negligent misrepresentation claims against all defendants and a breach of warranty claim against NetOptix and its subsidiaries. In October 2002, the Court again granted defendants' motions for summary judgment and dismissed the negligent misrepresentation and breach of warranty claims. The intentional fraud claims were dismissed against all non-settling defendants on February 25, 2003. On March 19, 2003, Astrium appealed all of the Court's rulings regarding the

various summary judgment motions to the Ninth Circuit Court of Appeals. Briefing is expected to be completed in early 2006. A hearing for oral argument should be set for 2006. Recognizing that the outcome of litigation is uncertain, management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Grand Jury Investigation of Conventional Cathode Ray Television Glass Business. In August 2003, Corning Asahi Video Products Company (CAV) was served with a federal grand jury document subpoena related to pricing, bidding and customer practices involving conventional cathode ray television glass picture tube components. A number of employees or former employees have received a related subpoena. CAV is a general partnership, 51% owned by Corning and 49% owned by Asahi Glass America, Inc. CAV's only manufacturing facility in State College, Pennsylvania closed in the first half of 2003 due to declining sales. CAV is cooperating with the government investigation. Management is not able to estimate the likelihood that any charges will be filed as a result of the investigation.

Tax Matters. Corning has not been required to pay any penalty to the Internal Revenue Service (IRS) for failing to make disclosures required with respect to certain transactions that the IRS has identified as abusive or that have a significant tax avoidance purpose under section 6707A(e) of the Internal Revenue Code.

Seoul Guarantee Insurance Co. and other creditors against Samsung Group and affiliates. As of December 31, 2005, Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision) and Samsung Corning Co. Ltd. (Samsung Corning) were two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and 14 other creditors (SGI and Creditors) for alleged breach of an agreement that approximately thirty affiliates of the Samsung group entered into with SGI and Creditors in September 1999. The lawsuit is pending in the courts of Korea. According to the agreement, the Samsung affiliates agreed to sell 3.5 million shares of Samsung Life Insurance Co., Ltd. (SLI) by December 31, 2000, which were transferred to SGI and Creditors in connection with the petition for court receivership of Samsung Motor Inc. In the lawsuit, SGI and Creditors allege that, in the event that the proceeds of sale of the SLI shares is less than 2.45 trillion Korean won (approximately $2.42 billion), the Samsung affiliates allegedly agreed to compensate SGI and Creditors for the shortfall, by other means, including Samsung affiliates' purchase of equity or subordinated debentures to be issued by SGI and Creditors. Any excess proceeds are to be distributed to the Samsung affiliates. As of December 31, 2005, the shares of Samsung Life Insurance Co., Ltd. have not been sold. The suit asks for damages of approximately $4.68 billion plus penalty interest. Samsung Corning Precision and Samsung Corning combined guarantees should represent no more than 3.1% of the Samsung affiliates' total financial obligation. Although noting that the outcome of these matters is uncertain, Samsung Corning Precision and Samsung Corning have stated that these matters are not likely to result in a material ultimate loss to their financial statements. No claim in these matters has been asserted against Corning Incorporated.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Corning Incorporated common stock is listed on the New York Stock Exchange and the SWX Swiss Exchange. In addition, it is traded on the Boston, Midwest, Pacific and Philadelphia stock exchanges. Common stock options are traded on the Chicago Board Options Exchange. The abbreviated ticker symbol for Corning Incorporated is "GLW."

The following table sets forth the high and low sales price of Corning's common stock as reported on the Composite Tape.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Price range				
High	$ 12.40	$ 17.08	$ 21.95	$ 21.62
Low	$ 10.61	$ 10.97	$ 16.03	$ 16.61
2004				
Price range				
High	$ 13.89	$ 13.19	$ 13.03	$ 12.96
Low	$ 10.00	$ 10.08	$ 9.29	$ 10.16

As of December 31, 2005, there were approximately 26,900 record holders of common stock and approximately 630,000 beneficial shareholders.

Corning discontinued the payment of dividends on our common stock in 2001.

The section entitled "Equity Compensation Plan Information" in our definitive Proxy Statement for our 2006 annual meeting of shareholders to be held on April 27, 2006, is incorporated by reference in this Annual Report on Form 10-K/A.

(b) Not applicable.

(c) This table provides information about our purchases of our common stock during the fiscal fourth quarter of 2005:

Issuer Purchases of Equity Securities*

Period	Total Number of Shares Purchased**	Average Price Paid per Share**	Total Number of Shares Purchased a Part of Publicly Announced Plan*
October 1-31, 2005	1,046	$19.30	0
November 1-30, 2005	159,649	$19.92	0
December 1-31, 2005	15,409	$20.30	0
Total	176,104	$19.95	0

* During the quarter ended December 31, 2005, we did not have a publicly announced program for repurchase of shares of our common stock and did not repurchase our common stock in open-market transactions outside of such a program.

** This column reflects the following transactions during the fiscal fourth quarter of 2005: (i) the deemed surrender to us of 174,899 shares of common stock to pay the exercise price and to satisfy tax withholding obligations in connection with the exercise of employee stock options, and (ii) the surrender to us of 1,205 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

Item 6. Selected Financial Data (Unaudited)

(In millions, except per share amounts and number of employees)

	Years ended Decem		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Results of Operations			
Net sales	$ 4,579	$ 3,854	$ 3,090
Research, development and engineering expenses	$ 443	$ 355	$ 344
Equity in earnings of associated companies, net of impairments	$ 611	$ 454	$ 216
Income (loss) from continuing operations	$ 585	$ (2,251)	$ (280)
Income from discontinued operations		20	
Net income (loss) (1)	$ 585	$ (2,231)	$ (280)
Basic earnings (loss) per common share from (1):			
Continuing operations	$ 0.40	$ (1.62)	$ (0.22)
Discontinued operations		0.01	
Basic earnings (loss) per common share	$ 0.40	$ (1.61)	$ (0.22)
Diluted earnings (loss) per common share from (1):			
Continuing operations	$ 0.38	$ (1.62)	$ (0.22)
Discontinued operations		0.01	
Diluted earnings (loss) per common share	$ 0.38	$ (1.61)	$ (0.22)
Common dividends declared			
Shares used in computing per share amounts:			
Basic earnings (loss) per common share	1,464	1,386	1,274
Diluted earnings (loss) per common share	1,535	1,386	1,274

Financial Position			
Working capital	$ 1,490	$ 804	$ 1,077
Total assets	$ 11,207	$ 9,736	$ 10,816
Long-term debt	$ 1,789	$ 2,214	$ 2,668
Shareholders' equity	$ 5,487	$ 3,701	$ 5,411
Selected Data			
Capital expenditures	$ 1,553	$ 857	$ 366
Depreciation and amortization	$ 512	$ 523	$ 517
Number of employees (2)	26,000	24,700	20,600

Reference should be made to the Notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

(1) Corning adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) on January 1, 2002. Pursuant to SFAS 142, goodwill was no longer amortized after the adoption. For 2001, the adjusted net loss, excluding the amortization of goodwill was $5,153. For 2001, the basic and diluted loss from continuing operations per common share, excluding the amortization of goodwill, was $5.56. The basic and diluted earnings from discontinued operations per common share, excluding the amortization of goodwill was $0.04.

(2) Amounts do not include employees of discontinued operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We continued to focus on three significant priorities in 2005: protect our financial health, improve profitability, and invest in our future. We made significant progress on all three in 2005.

Financial Health

During 2005, we strengthened our balance sheet and delivered positive cash flows from operating activities. The following are key accomplishments for 2005:

- As part of a debt reduction program, we reduced the net amount of our outstanding debt by $885 million through a combination of retirements and scheduled repayments.
- All three rating agencies upgraded our ratings to investment grade.
- We received $457 million in deposits against orders relating to our multi-year supply agreements with customers in the Display Technologies segment. These agreements have helped us to meet the rapid growth of the liquid crystal display (LCD) market.

.. We generated sufficient cash flows from operating activities to cover our capital expenditures.

We ended 2005 with $2.4 billion in cash, cash equivalents and short-term investments. This represents an increase of $553 million from December 31, 2004. In the first quarter of 2005, we entered into a new revolving credit facility with a group of banks. This facility, which continues through March 2010, provides us access to a $975 million unsecured multi-currency revolving line of credit. We believe we have sufficient liquidity for the next several years to fund operations, capital expenditures and scheduled debt repayments.

Profitability

For the year ended December 31, 2005, we generated net income of $585 million or $0.38 per share compared to a net loss of $2,231 million or $1.61 per share for 2004.

We recorded restructuring, impairment, and other charges and credits in 2005 and 2004 which affect the comparability of those years. Refer to Note 4 (Restructuring, Impairment and Other Charges and (Credits)), Note 7 (Income Taxes), and Note 8 (Investments) to the consolidated financial statements for additional information.

Investing in our future

We remain committed to investing in research, development, and engineering to drive innovation. We are investing in a wide variety of technologies with a focus on glass substrates for active matrix LCDs, diesel filters and substrates in response to tightening emissions control standards, and the optical fiber and cable and hardware and equipment that will enable fiber-to-the-premises.

Our research, development and engineering expenditures have increased by $88 million or 25% compared to 2004. We believe our spending levels are adequate to support our growth strategies.

We also remain committed to investing in manufacturing capacity to match increased demand in our businesses. Our capital expenditures are primarily focused on expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and diesel products in the Environmental Technologies segment. Total capital expenditures for 2005 were $1,553 million, of which $1,250 million was directed toward our Display Technologies segment and $171 million was invested in our Environmental Technologies segment primarily in anticipation of the emerging market for diesel emission control systems.

We expect our 2006 capital spending to be in the range of $1.3 billion to $1.5 billion, of which $900 million to $1.1 billion will be directed toward our Display Technologies segment and approximately $200 million will be directed toward our Environmental Technologies segment.

Restatement of Prior Period Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that the Company would restate previously issued consolidated financial statements to properly account for the asbestos settlement charges and liability and for its investment in and equity earnings of Pittsburgh Corning Europe (PCE) from March 31, 2003, through December 31, 2005. The Company also changed the

classification of accretion on a portion of the liability to be paid in cash from interest expense to asbestos settlement charge for the same time period.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2005, resulted in an increase in investments in affiliate companies of $32 million, an increase to other accrued liabilities of $154 million, an increase to accumulated deficit of $123 million, and an increase to accumulated other comprehensive income of $1 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of $26 million, an increase to other accrued liabilities of $141 million, an increase to accumulated deficit of $123 million, and an increase to accumulated other comprehensive income of $8 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2003, resulted in an increase in investments in affiliate companies of $11 million, an increase in deferred income taxes of $53 million, an increase to other accrued liabilities of $117 million, an increase to accumulated deficit of $57 million, and an increase to accumulated other comprehensive income of $4 million.

To correct these errors, the Company has restated its consolidated financial statements and, on May 9, 2006, filed an amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005. In addition, on May 9, 2006, the company filed amended reports on Form 10-Q/A for the quarters ended March 31, 2005, June 30, 2005, and September 31, 2005, to restate the financial periods provided for those quarterly periods.

All information in this document reflects the impact of the restatement described in Note 2 (Restatement of Prior Period Financial Statements) to the consolidated financial statements.

RESULTS OF CONTINUING OPERATIONS

Selected highlights from our continuing operations follow (dollars in millions):

	2005 (Restated)	2004 (Restated)	20 (Rest
Net sales	$ 4,579	$ 3,854	$ 3,
Gross margin	$ 1,984	$ 1,415	$
(gross margin %)	43%	37%	
Selling, general and administrative expenses	$ 756	$ 653	$
(as a % of revenues)	17%	17%	
Research, development and engineering expenses	$ 443	$ 355	$
(as a % of revenues)	10%	9%	

Restructuring, impairment and other charges and (credits)	$ (38)	$ 1,789	$
(as a % of revenues)	(1)%	46%	
Asbestos settlement	$ 218	$ 65	$
(as a % of revenues)	5%	2%	
Income (loss) from continuing operations before income taxes	$ 559	$(1,604)	$ (
(as a % of revenues)	12%	(42)%	
(Provision) benefit for income taxes	$ (578)	$(1,084)	$
(as a % of revenues)	(13)%	(28)%	
Equity in earnings of associated companies, net of impairments	$ 611	$ 454	$
(as a % of revenues)	13%	12%	
Income (loss) from continuing operations	$ 585	$(2,251)	$ (
(as a % of revenues)	13%	(58)%	

Net Sales

The net sales increase in 2005 was the result of a significant increase in demand for LCD glass substrates in our Display Technologies segment and modest gains in demand for products in our Telecommunications segment to support fiber-to-the-premises projects and our Environmental segment due to increased sales of diesel filters. Net sales for our Life Sciences segment declined due to changes in the distribution channels. Movements in foreign exchange rates did not significantly impact the comparison of net sales between 2005 and 2004.

The net sales increase in 2004 was the result of strong demand for glass substrates in our Display Technologies segment, demand for hardware and equipment products in our Telecommunications segment, and improvements across the majority of our other businesses. These improvements were partially offset by the 2003 exit of our photonic technologies and U.S. conventional television glass businesses. Movements in foreign exchange rates, did not significantly impact the comparison of net sales between 2004 and 2003.

Reflecting the growth in our Display Technologies segment, net sales into international markets continue to increase at a faster rate than those into the U.S. market. For 2005, 2004, and 2003, sales into international markets accounted for 71%, 65%, and 60% of net sales, respectively.

Gross Margin

As a percentage of net sales, gross margin improved 6 percentage points in 2005 when compared to 2004. The improvement in overall gross margin dollars and as a percentage of net sales was driven by increased volume, improved mix of large generation glass, and manufacturing efficiencies in our Display Technologies segment.

For 2004, as a percentage of net sales, gross margin improved by 10 percentage points versus 2003. The improvement was driven by net sales growth in the Display Technologies segment of 87%, operating efficiencies in our Telecommunications segment, and the 2003 exit of the conventional television glass business.

Cost of Sales

The types of expenses included in the cost of sales line item are: raw materials consumption, including direct and indirect materials; salaries, wages and benefits; depreciation and amortization; production utilities; production-related purchasing; warehousing (including receiving and inspection); repairs and maintenance; inter-location inventory transfer costs; production and warehousing facility property insurance; rent for production facilities; and other production overhead.

Selling, General and Administrative Expenses

The increase in selling, general and administrative expenses for both 2005 and 2004, when compared to the previous years, was primarily driven by increases in compensation costs. As a percent of net sales, selling, general, and administrative expenses were comparable for 2005 and 2004.

The types of expenses included in the selling, general and administrative expenses line item are: salaries, wages and benefits; travel; sales commissions; professional fees; and depreciation and amortization, utilities, and rent for administrative facilities.

Research, Development and Engineering Expenses

Research, development and engineering expenditures increased by $88 million in 2005. The majority of the increase in 2005 expenditures related to our growth initiatives including glass substrates for LCDs, diesel filter and substrates in response to tightening emissions control standards, as well as exploratory projects to support future growth. Expenditures on Display Technologies projects, Environmental Technologies projects, and Life Sciences projects increased when compared with 2004.

Restructuring, Impairment and Other Charges and (Credits)

Corning recorded significant net charges in 2004 which affect the comparability of our results for 2005, 2004, and 2003. A summary of the net charges and credits for all years presented is provided in the following table (in millions):

	For the years ended Decem	
	2005	2004
Impairment of goodwill		$ 1,420
Impairment of long-lived assets other than goodwill		
Assets to be disposed of by sale or abandonment	$ 6	302
Assets to be held and used		24
Reversal of currency translation adjustment	(84)	
Accelerated depreciation		37
Loss on sale of businesses		12
Impairment of available-for-sale securities	25	
Restructuring charges and (credits)	15	(6)
Total restructuring, impairment other charges and (credits)	$ (38)	$ 1,789

Impairment of Goodwill

2004 Impairment Charge

Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," (SFAS 142) goodwill is required to be tested for impairment annually at the reporting unit level. In addition, goodwill should be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its related carrying value. In the third quarter of 2004, we identified certain factors that caused us to lower our estimates and projections for the long-term revenue growth of the Telecommunications segment, which indicated that the fair value of the Telecommunications segment reporting unit was less than its carrying value. We performed an interim impairment test of the Telecommunications segment goodwill in the third quarter of 2004 and, as a result, recorded an impairment charge of $1,420 million to reduce the carrying value of goodwill to its implied fair value at September 30, 2004 of $117 million.

Impairment of Long-Lived Assets Other Than Goodwill

Given our restructuring actions and the market conditions facing certain of our businesses, at various times throughout 2003 to 2005, we performed evaluations of the recoverability of our held for use long-lived assets other than goodwill. When an impairment evaluation was required, we developed expected future cash flows against which to compare the carrying value of the asset group being evaluated. If our projections indicated that our long lived assets were not recoverable through future cash flows, we were then required to estimate the fair value of the long-lived assets, which were limited to property, plant and equipment, using the expected cash flow approach as a measure of fair value.

2005 Impairment Charge

Assets to be disposed of by sale or abandonment

In 2005, we recorded $6 million of charges related to adjustments to prior year restructuring reserves for our Telecommunications segment.

2004 Impairment Charge

Assets to be disposed of by sale or abandonment

These charges comprise the following:

- Telecommunications segment: In 2004, we recorded a net charge of $344 million to impair plant and equipment related to certain facilities to be disposed of or shutdown. Approximately $332 million of this net charge was comprised of the partially completed sections of our Concord, N.C. optical fiber facility. As a result of our lowered outlook, we have permanently abandoned this construction in progress as we no longer believe the demand for optical fiber will warrant the investment necessary to complete this facility. We have mothballed and will continue to depreciate the separate previously-operated portion of the Concord fiber facility.

- Other businesses: We recorded net credits of $42 million, primarily for gains on the sale of assets CAV sold to a third party in China.

This represented proceeds in excess of assumed salvage values for assets previously impaired. This represented the substantial completion of the sale of CAV's assets.

Assets to be held and used

Due to our decision to permanently abandon certain assets and lower our long-term outlook for the Telecommunications segment in 2004, we determined that an event of impairment had occurred in our Telecommunications segment which required us to test the segment's long-lived assets other than goodwill for impairment. As a result of this impairment evaluation, we recorded a $24 million impairment charge in the third quarter of 2004 to write-down certain assets to fair value.

2003 Impairment Charge

Assets to be disposed of by sale or abandonment

These charges comprise the following:

- Telecommunications segment: We recorded charges of $24 million to impair plant and equipment related to the shutdown of a cabling plant and the final exit of the photonic technologies business. The charges were more than offset by a $61 million credit related to previous restructuring plans, primarily the result of our decision not to exit two of the cable sites previously marked for shutdown in 2002.

- Other businesses: We recorded charges of $78 million, primarily related to our decision to shutdown CAV, and the closure of our North Brookfield semiconductor materials plant.

Other Credits

2005 Reversal of Currency Translation Adjustment

In 2003, Corning sold its photonic business operations to Avanex. The photonics business was the sole operation of Corning O.T.I. S.r.l. (OTI), a wholly-owned Italian subsidiary of Corning, whose results were included in Corning's Telecommunications segment. Subsequent to the sale of the operating assets of OTI to Avanex, Corning began liquidating OTI. In October 2005, the assets of OTI were determined to be substantially liquidated. As a result of the substantial liquidation, OTI's cumulative translation account was reversed, resulting in a gain of $84 million in the fourth quarter.

Accelerated Depreciation

2004 Accelerated Depreciation

We recorded $37 million of accelerated depreciation relating to the final shutdown of our semiconductor materials manufacturing facility in Charleston, South Carolina, which we announced in the fourth quarter of 2003.

2003 Accelerated Depreciation

We recorded $12 million of accelerated depreciation as a result of our decision to shutdown our semiconductor materials manufacturing facility in Charleston, South Carolina by March 31, 2004.

Loss on Sale of Businesses

2004 Loss on Sale of Business

On September 1, 2004 we completed the sale of our frequency controls business, which was part of the Telecommunications segment, for net cash proceeds of $80 million. We recorded a loss on the sale of $14 million, which included an allocation of $30 million of the Telecommunications segment goodwill. The frequency controls business had 2003 annual sales of $76 million.

2003 Loss on Sale of Business

In the third quarter of 2003, we recorded a $13 million loss on the sale of a significant portion of our photonic technologies business, which was part of our Telecommunications segment.

Impairment of Available for Sale Securities

2005 Impairment Charge

In 2005, we recorded impairment charges of $25 million for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its adjusted cost basis. Our investment in Avanex was accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). In the fourth quarter of 2005, we completed the sale of our shares of Avanex.

2003 Impairment Charge

In 2003, we recorded a $5 million charge for other than temporary declines in certain cost investments in the Telecommunications segment, subsequently sold these investments for $4 million in cash, and reported the resulting $1 million gain as a credit to restructuring actions.

Restructuring Actions

2005 Restructuring Actions

Corning recorded net restructuring charges of $15 million in 2005 which included the following:

- A charge of $30 million comprising severance costs for a restructuring plan in the Telecommunications segment to continue to reduce costs in this segment.
- Net credits to prior year restructuring plans totaling $15 million primarily for revisions to plans related to the shutdown of CAV and to our specialty materials business.

2004 Restructuring Actions

There were no significant restructuring actions taken during 2004, nor were there any significant revisions to estimates used in prior year restructuring plans.

2003 Restructuring Actions

Corning recorded net restructuring charges of $41 million in 2003. Major actions approved and initiated in 2003 included the following:

- The shutdown of CAV.
- The exit of our photonics products within the Telecommunications segment.
- Credits to prior year restructuring plans, primarily the result of our decision not to exit two small cabling sites previously identified for shutdown in 2002.
- The shutdown of two of our specialty materials manufacturing facilities in North Brookfield and Charleston, South Carolina.

Legal Settlement - Asbestos

On March 28, 2003, we announced that we had reached agreement with the representatives of current and future asbestos claimants on a settlement arrangement that was thereafter incorporated into the Pittsburgh Corning Corporation (PCC) plan of reorganization (the PCC Plan). This settlement remains subject to a number of contingencies, including approval by the Bankruptcy Court. If the PCC Plan is approved and becomes effective, our settlement will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), and contribute 25 million shares of Corning common stock. The common stock and other components of the settlement will be marked-to-market each quarter until the PCC Plan is approved, thus resulting in adjustments to income and the settlement liability as appropriate. Corning will also make cash payments of $152 million (net present value as of December 31, 2005) in six installments beginning one year after the plan is effective. In addition, we will assign insurance policy proceeds from our primary insurance and a portion of our excess insurance as part of the settlement. Two of Corning's primary insurers and several excess insurers have commenced litigation for a declaration of the rights and obligations of the parties under insurance policies, including rights that may be affected by the settlement arrangement described above. Corning is vigorously contesting these cases. Management is unable to predict the outcome of this insurance litigation.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the PCC Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

The following summarizes the charges we have recorded for the asbestos settlement (in millions):

	For the years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Initial settlement charge			$ 392
Fair market value adjustment for other components	$ 21	$ 32	28
Mark-to-market common stock	197	33	115
Asbestos settlement	$ 218	$ 65	$ 535

See Legal Proceedings for a history of this matter.

Income (Loss) From Continuing Operations Before Income Taxes

In addition to the drivers identified under Gross Margin, Restructuring, Impairment and Other Charges and (Credits) and Asbestos Settlement, we also retired a significant amount of our outstanding debentures during 2005, 2004 and 2003 that resulted in the following (losses) gains for the respective periods (in millions):

	2005	2004	2003
(Loss) gain on retirement of debt	(16)	(36)	19

Movements in currency exchange rates did not have a significant impact on income (loss) from continuing operations for the years presented.

Provision (Benefit) for Income Taxes

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

	For the years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Provision (benefit) for income taxes	$ 578	$ 1,084	$(307)
Effective income tax (benefit) rate	103.4%	67.6%	(35)%

The effective income tax (benefit) rate for 2005 differed from the U.S. statutory rate of 35% primarily due to an increase in income tax expense of $525 million resulting from an increase in Corning's valuation allowance. The increase in the valuation allowance was the result of our conclusion that the sale of an appreciated asset was no longer prudent and, as such, no longer meets the criteria in SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109) for a viable tax planning strategy. The difference between the effective income tax (benefit) rate for 2004 and the U.S. statutory rate of 35% was primarily due to increases in the valuation allowance against certain domestic (U.S. federal, state and local) and foreign deferred tax assets, and the write-off of nondeductible goodwill.

For 2005, the tax provision reflected the following items:

- The impact of our inability to record tax benefits on net operating losses generated in the U.S. and certain foreign jurisdictions;
- An increase in our valuation allowance of $525 million;
- The benefit of a worthless stock deduction (and a corresponding increase in our valuation allowance) for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition which was completed in December 2000 and was substantially impaired in the second quarter of 2001;
- The benefit of tax holidays and investment credits in Taiwan and tax holidays in China and South Africa;
- The benefit from the reversal of tax contingency liabilities following the conclusion of Internal Revenue Service (IRS) examinations; and
- An $82 million credit primarily for the tax effect of eliminating our minimum pension liability for the domestic qualified plan.

In 2004, significant events occurred which required us to increase our valuation allowances against certain U.S. and German deferred tax assets. Refer to Note 4 (Restructuring, Impairment and Other Charges and (Credits)) for additional information on these events and the related charges. Accordingly, we increased our valuation allowance by $1.2 billion in the third quarter of 2004 to reduce our net deferred tax assets to approximately $530 million. At that time, we believed that it was more likely than not that we could realize the remaining net deferred tax assets through a tax planning strategy involving the sale of our investment in Dow Corning Corporation (DCC), a non-strategic appreciated asset, if we were faced with expiring net operating loss carryforwards.

During 2005, DCC's performance was much stronger than expected and DCC resumed paying a dividend; both of which are expected to continue in the future. Due to this improved performance, DCC now provides strong financial, geographic and market balance to Corning's portfolio of businesses, the profitability of which has become more concentrated due to the success of the display operating segment. As a result, we now consider DCC to be a strategic investment and can no longer assert that a potential tax planning strategy involving the sale of DCC would be prudent, as required by FAS 109. Therefore, we no longer believe that it is more likely than not that we would realize the remaining net deferred tax assets. Accordingly, we have increased our valuation allowance by $525 million to fully reserve our net U.S. deferred tax assets in the fourth quarter of 2005.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations. Refer to Note 7 (Income Taxes) to the consolidated financial statements for additional information.

During the third quarter of 2005, Corning filed its 2004 consolidated U.S. Federal income tax return, which included a $3.9 billion worthless stock deduction for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition. This acquisition was completed in December 2000 and was substantially impaired in the second quarter of 2001. Prior to the third quarter of 2005, we did not record a deferred tax asset for this item as the ultimate realization of such deduction was uncertain, and consistent with the requirements of SFAS No. 5, "Accounting for Contingencies," recognition of an asset prior to the time management determines the realization of the asset is probable is prohibited. On September 2, 2005, Corning and the Commissioner of the IRS entered into a closing agreement under section 7121 of

the Internal Revenue Code of 1986 which provides that Corning is entitled to this worthless stock deduction. We recorded a $1.5 billion deferred tax asset for this item in the third quarter, which was concurrently offset by a valuation allowance of an equal amount due to our current inability to record tax benefits for U.S. net operating losses.

Certain foreign subsidiaries in China, South Africa, Korea and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out in future years (2006 to 2009) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective rate is a reduction in the rate of 8.6%, 1.2%, and 0.5% for 2005, 2004, and 2003, respectively.

Equity in Earnings of Associated Companies, Net of Impairments

The following provides a summary of equity earnings of associated companies, net of impairments (in millions):

	2005 (Restated)	2004 (Restated)	2003 (Restated)
Samsung Corning Precision	$ 408	$ 277	$ 144
Dow Corning	253	116	82
Samsung Corning	(112)	32	(39)
All other	62	29	29
Total equity earnings	$ 611	$ 454	$ 216

The 2005 and 2004 increases in equity earnings of associated companies, net of impairments, are primarily due to strong sales and earnings performance at Samsung Precision, our 50% owned South Korea-based manufacturer of LCD glass, and at Dow Corning, our 50% owned U.S. based manufacturer of silicone products.

In addition to the above, equity in earnings of associated companies, net of impairments, included the following restructuring and impairment charges and other credits:

- In 2005, Samsung Corning incurred impairment and other charges as a result of a decline in the projected operating results for its cathode ray tube (CRT) glass business. The charge, which included certain manufacturing assets and severance and exit costs, reduced Corning's equity earnings by $106 million in the third quarter. As Samsung Corning executes its restructuring plan over the next several quarters, additional severance and shutdown costs may be required. We expect our share of these charges to approximate $30 million. None of the charges is expected to result in cash expenditures by Corning.
- In 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included $11 million related to this gain.
- In 2004 and 2003, Corning incurred charges of $35 million and $7 million, respectively, to impair equity method investments in the Telecommunications segment to their estimated fair value.
- In 2004, Dow Corning recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included $21 million related to these

charges.

.. In 2003, Samsung Corning Co., Ltd. recorded asset impairment charges. Our equity earnings included $66 million related to these charges.

Income (Loss) From Continuing Operations

As a result of the above, the income (loss) from continuing operations and per share data was as follows (in millions, except per share amounts):

	For the years e	
	2005 (Restated)	2 (Res
Income (loss) from continuing operations	$ 585	$(2,
Basic earnings (loss) per common share from continuing operations	$ 0.40	$ (1
Diluted earnings (loss) per common share from continuing operations	$ 0.38	$ (1
Shares used in computing basic per share amounts	1,464	1,
Shares used in computing diluted per share amounts	1,535	1,

RESULTS OF DISCONTINUED OPERATIONS

In the third quarter of 2004, Corning and 3M reached a final settlement agreement for funds held in escrow associated with the 2002 sale of Corning's precision lens business to 3M. As a result, we recognized a $20 million gain upon receipt of the proceeds in 2004.

OPERATING SEGMENTS

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

.. Display Technologies - manufactures liquid crystal display glass for flat panel displays;

.. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the worldwide telecommunications industry;

.. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and

.. Life Sciences - manufactures glass and plastic consumables for scientific applications.

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 include the earnings of equity affiliates that are closely associated with our operating 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 GAAP. These expenses include interest, taxes and corporate functions. 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.

On January 1, 2006, Corning changed its measurement of segment profit or loss as follows:

- We removed the net impact of financing costs, such as interest expense on debt instruments and interest costs associated with benefit plans, from reportable segments and included these amounts in Corporate unallocated expense.
- We changed the allocation method for taxes to more closely reflect the company's current tax position.
- We removed the impact of non-cash stock compensation expense from reportable segments and included this amount in Corporate unallocated expense.
- We removed the allocation of exploratory research, development and engineering expense from reportable segments and included these amounts in Corporate unallocated expense.
- We changed certain other allocation methods for corporate functions.

The following discussion reflects segment information as reported for 2005 and has not been restated to reflect the changes to segment performance measurement made effective January 1, 2006. Refer to Note 20 (Subsequent Events) for additional information on the change in segment profit or loss measurement.

Display Technologies

The following table provides net sales and other data for the Display Technologies segment (dollars in millions):

	2005	2004	2003
Net sales	$ 1,742	$ 1,113	$ 595
Income before equity earnings	$ 679	$ 258	$ 91
Equity earnings of associated companies	$ 416	$ 288	$ 144
Net income	$ 1,095	$ 546	$ 235

2005 vs. 2004

The 2005 sales increase reflects the continued overall growth of the LCD glass substrate market. During 2005, glass substrate volumes (measured in square feet of glass sold) increased approximately 64% compared with the same period in 2004. Weighted average selling prices decreased 2% compared to 2004. Included in this weighted average were selling price declines that were offset by increases in the market demand for large-size glass substrates (generation 5 and above), which carry a higher selling price per square foot. For 2005, large-size glass substrates accounted for 69% of total sales volumes, compared to 46% in 2004. Although sales of the Display Technologies segment are denominated in Japanese yen, movements in the U.S. dollar - Japanese yen exchange rate did not have a significant impact on the comparability of sales.

For 2005, the key drivers for the increase in income before equity earnings were

higher volumes, ongoing improvements in manufacturing efficiencies, and a lower effective tax rate. Movements in currency exchange rates did not have a significant impact on income before equity earnings. The increase in our equity earnings from Samsung Corning Precision was largely driven by higher volumes and ongoing improvements in manufacturing efficiencies.

The Display Technologies segment has a concentrated customer base comprised of LCD panel and color filter makers primarily located in Japan and Taiwan. For the year ended December 31, 2005, AU Optronics Corporation, Chi Mei Optoelectronics Corporation, Dai Nippon Printing Co., Ltd., Sharp Corporation, and Hannstar Display Corporation, each of which accounted for more than 10% of segment net sales, accounted for 75% of total segment sales. In addition, Samsung Corning Precision's sales are concentrated across a small number of its customers. In 2005, sales to three LCD panel makers located in Korea, Samsung Electronics Co., Ltd., LG Phillips LCD Co., and Dong Woo STI, accounted for 98% of total Samsung Corning Precision sales.

In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. In 2005 and 2004, we received a total of $457 million and $204 million, respectively, of deposits against orders.

In the event the customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, Corning may retain certain amounts of the customer deposits. If Corning does not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, Corning may be required to return certain amounts of the customer deposits. Refer to Note 1 (Summary of Significant Accounting Policies) and Note 11 (Other Liabilities) to the consolidated financial statements for further information.

In the ordinary course of business, Corning will continue to negotiate multi-year supply agreements with its large customers where feasible but we believe it is unlikely that we will negotiate agreements which require additional deposits.

Corning is investing heavily to expand capacity to meet increasing demand for LCD glass substrates. In 2005, capital spending was $1.25 billion and is expected to be $900 million to $1.1 billion in 2006. Capital spending in 2006 will be used mainly to expand manufacturing facilities in Tainan, Taiwan, Taichung, Taiwan, and Shizuoka, Japan.

2004 vs. 2003

The 2004 sales increase is largely reflective of the overall LCD-market growth. During 2004, glass substrate volumes increased approximately 65%. Sales also benefited from modest average price increases, primarily the result of a change in product mix as the market trended toward large size glass. Sales benefited by approximately 10% from a weakening of the U.S. dollar against the Japanese yen compared to 2003.

For 2004, the key drivers for the increase in income before equity earnings were the impact of incremental volumes and efficiencies realized through the shift in production toward large size glass substrates. The increase in equity earnings

were driven by the same factors as those identified for our wholly-owned business.

Outlook:
We expect to see a continuation of the overall industry growth and the trend toward large size substrates. We continue to see positive trends in the penetration rates of LCD glass into the end-markets (notebook computers, monitors and televisions), and increasing demand for the large size substrates. However, we expect the growth of LCD glass to be more heavily influenced by the penetration of LCD in the television end market. We anticipate the volume growth in the LCD market to be over 40% in 2006. We expect the market volume for large size glass substrates (Generation 5.5 and higher) to grow more than 150% in 2006. As a result of the expected growth in large size substrates, we believe our total glass volume will grow faster than the overall LCD market in 2006. This market growth is expected to occur at varying rates in the principal LCD markets of Japan, Taiwan and Korea. Sales of our wholly-owned business are primarily to panel manufacturers in Japan and Taiwan with customers in Korea being serviced by Samsung Corning Precision. The actual growth rates in these markets will impact our sales and earnings performance.

For 2006, we anticipate price declines that are more significant than experienced in previous years as competitors bring on additional capacity. In the third quarter of 2005, we began production at our new Taichung, Taiwan manufacturing facility. The ramp-up of production and our ability to efficiently start up operations may impact profitability the first half of 2006. In addition, we are beginning to see increased amounts of larger-sized glass in the marketplace from competitors. There can be no assurance that the end-market rates of growth will continue at the high rates experienced in recent quarters or that we will be able to pace our capacity expansions to actual demand. Although we believe we can continue to reduce our manufacturing costs, there can be no assurance that the rate of cost declines will offset price declines in any given period. While the industry has grown rapidly, consumer preferences for panels of differing sizes, or price or other factors, may lead to pauses in market growth, and it is possible that glass manufacturing capacity may exceed demand from time to time. In addition, changes in foreign exchange rates, principally the Japanese yen, will continue to impact the sales and profitability of this segment.

Telecommunications

The following table provides net sales and other data for the Telecommunications segment (dollars in millions):

	2005	2004	2003
Net sales:			
Optical fiber and cable	$ 834	$ 755	$ 760
Hardware and equipment	789	784	612
Photonic technologies			54
Total net sales	$ 1,623	$ 1,539	$ 1,426

Net income (loss)	$ 36	$ (1,893)	$ (169)

2005 vs. 2004

Results for the Telecommunications segment reflected a solid performance in 2005. The net sales increase was largely driven by sales in North America and Europe. Stronger North American volumes and sales of the hardware and equipment business were largely the result of sales to Verizon to support their fiber-to-the premises project. Excluding the impact of the frequency controls business, a hardware and equipment manufacturer sold in September 2004, net sales for the Telecommunications segment increased 10% in 2005 when compared to the previous year. Movements in exchange rates did not significantly impact sales for either 2005 or 2004.

For the Telecommunications segment, net income in 2005 and the net loss in 2004 were impacted by restructuring, impairment, and other charges and (credits). In 2005, we recorded net after-tax credits of $47 million related to these items and in 2004, we recorded after-tax charges of $1,798 million. Refer to Results of Continuing Operations for a detailed discussion of these charges.

The Telecommunications segment continues to have a concentrated customer base. For the year ended December 31, 2005, two customers of the Telecommunications segment, each of which accounted for more than 10% of segment net sales, represented 29% of total segment sales. For 2005 and 2004, Verizon accounted for 17% and 13%, respectively, of total segment net sales.

2004 vs. 2003

During 2004 fiber volumes grew at 18% while pricing declined by 9% from 2003 levels. The primary driver for the 2004 sales growth was Verizon's fiber-to-the-premises project in North America, with the largest benefit realized in our hardware and equipment products.

Offsetting this sales performance were the following items:

- During 2003 we completed the sale and exit of our photonic technologies business.
- On September 1, 2004, we sold our frequency controls business. This business had annual sales of $76 million in 2003.
- Sales in Japan were down in 2004, largely due to 2003 projects that were not repeated in 2004.

Movements in foreign currency exchange rates, primarily the Japanese yen and euro, did not have a significant impact on 2004 sales compared to 2003. In 2004, the Chinese Ministry of Commerce issued an anti-dumping preliminary determination asserting that Corning had dumped optical fiber into China during 2002 and 2003 and imposed a 16% duty on Corning's optical fiber imports which Corning later contested. Although the Ministry of Commerce, in December 2004, concluded that Corning had not dumped optical fiber into China, and removed the duty, Corning's market share in China was negatively impacted.

The increased net loss for 2004 is primarily attributable to the goodwill, fixed asset and equity method investments impairment charges recorded in the third quarter of 2004. Refer to Results of Continuing Operations for additional information on these charges.

Outlook:
For the Telecommunications segment, we expect sales in 2006 to remain even with 2005 as volume gains are offset by price declines. We expect the worldwide

telecommunications industry market to remain stable particularly in North America. Sales volumes will largely be dependent on the continuation of Verizon's fiber-to-the-premises project and cable and hardware and equipment sales to private networks. Changes in the expected Verizon deployment plan, or additional reductions in their inventory levels of fiber-to-the-premises products, could also affect the sales level. Should these plans not occur at the pace anticipated our sales and earnings would be adversely affected.

Environmental Technologies

The following table provides net sales and other data for the Environmental Technologies segment (dollars in millions):

	2005	2004	2003
Net sales:			
Automotive	$ 482	$ 479	$ 430
Diesel	98	69	46
Total net sales	$ 580	$ 548	$ 476
Net (loss) income	$ (26)	$ 4	$ 9

2005 vs. 2004

The 2005 increase in net sales was the result of continued growth in diesel products sales in response to tightening emissions control standards around the world. Diesel products sales growth is currently driven, in part, by demand from retrofit markets, particularly in Korea. In the first half of 2005, we received letters of intent and other expressions of intent from diesel engine manufacturers to supply filters for their 2007 model year platforms. We are continuing to negotiate with several diesel engine manufacturers to develop supply agreements. Negotiations are likely to continue through the first half of 2006. For automotive products, sales in 2005 were flat when compared to prior year.

The 2005 decrease in net income compared to 2004 resulted primarily from increased operating expenses primarily to support our emerging diesel products.

Movements in exchange rates did not significantly impact net sales or net income of this segment in 2005 when compared to 2004.

The Environmental Technologies segment sells to a concentrated customer base of manufacturers of catalyzers and emission control systems, who then sell to automotive and diesel engine manufacturers. Although our sales are to the emission control systems manufacturers, the use of our substrates and filters are generally required by the specifications of the automotive and diesel engine manufacturers. For 2005, three customers of the Environmental Technologies segment, each of which accounted for more than 10% of segment net sales,

accounted for 76% of total segment sales.

2004 vs. 2003

The 2004 increase in net sales was primarily the result of demand for our automotive and diesel ceramic filters and substrates. Volumes for our automotive products were up slightly from 2003 and sales benefited from a higher mix of our thin-wall and ultra thin-wall substrates, which allow engine manufacturers to meet their emissions control requirements in a more cost effective manner. Diesel products sales growth was primarily driven by demand from retrofit markets, although we experienced a softening in Asian retrofit markets in the second half of 2004. Movements in exchange rates did not have a significant impact on sales or net income for 2004 compared to 2003.

The 2004 decline in net income is primarily the result of increased development costs and plant start-up costs to support our emerging diesel products. These costs offset the gross margin benefits of increased volumes and the higher mix of premium automotive products.

Outlook:
We expect sales to increase in 2006. For automotive products, we expect to see stable demand based on anticipated worldwide auto production. Although volumes are anticipated to be stable, a slowdown in auto production, particularly in North America, could adversely impact our growth projections. Diesel product sales are expected to grow as diesel engine manufacturers ramp up production for the 2007 model years. The growth rate of diesel product sales in 2006 is very dependent on the emission standards for heavy duty engines in the United States continuing to be in place. The net loss for the segment is expected to be only slightly lower in 2006 as we continue to spend heavily on research, development and engineering for diesel products.

Life Sciences

The following table provides net sales and other data for the Life Sciences segment (dollars in millions):

	2005	2004	2003
Net sales	$ 282	$ 304	$ 281
Net (loss) income	$ (25)	$ 12	$ 14

2005 vs. 2004

The decrease in net sales is due largely to volume decreases as a result of a change in our distribution channel that was made in early 2005. Prior to 2005, approximately 56% of the Life Sciences segment sales were to two distributors, who in turn sold to end-users such as pharmaceutical and biotechnology companies, government entities, academic institutions and other research facilities. As a result of a change in business strategy by one of the

distributors, Corning did not renew the distribution agreement. Approximately 30% of Life Sciences 2004 sales were made through this distributor. We have been successful in transitioning the majority of the sales through this distributor to our remaining primary distributor and other existing and developing channels. As anticipated, however, the change had a negative impact on sales volumes in 2005. Approximately 53% of 2005 sales continued to be made through the remaining primary distributor.

The net loss in 2005 was due to lower sales and higher operating expenses to implement the change in distribution channels and to support new product development efforts. Movement in foreign exchange rates did not have a significant impact on the comparability of this segment's net sales or net income for 2005 and 2004.

2004 vs. 2003

The 2004 increase in net sales is primarily due to volume increases across the majority of our product lines. Demand from research, development and production end-users remained steady for 2004, which represented an improvement over the industry-wide softness experienced in 2003. Movements in foreign exchange rates, primarily the Euro, did not have a significant impact on sales for 2004 compared to 2003.

The 2004 decrease in net income is largely attributable to gross margin improvements resulting from the increase in sales volume being substantially offset by new product development costs. In addition, in 2003 net income benefited from a gain recognized on the disposition of a minor product line. Movement in exchange rates did not significantly impact net income.

Outlook:
Sales for 2006 are expected to increase modestly as we continue to regain volume and due to price increases in the first quarter of 2006. We expect a lower net loss for 2006 as a result of higher sales and a reduction in operating expenses offset somewhat by a slightly higher level of research, development and engineering spending.

Unallocated and Other

The following table provides net sales and other data (dollars in millions):

	2005 (Restated)	2004 (Restated)	2003 (Restated)
Conventional video components		$ 3	$ 65
Other businesses	$ 352	347	247
Total net sales	$ 352	$ 350	$ 312
Net (loss) income	$ (495)	$ (900)	$ (369)

Unallocated and Other includes all other operating segments that do not meet the quantitative threshold for separate reporting (e.g. Specialty Materials), certain corporate investments (e.g. Dow Corning, Samsung Corning and Steuben), discontinued operations, and unallocated expenses. Unallocated expenses include research and other expenses related to new business development; gains or losses

on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring and impairment charges related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated total.

Sales in this segment for 2005 were even with last year. The 2004 increase in net sales is primarily attributable to improvements in our Specialty Materials segment. The decrease in Conventional Video Components sales for 2004 is due to our 2003 decision, along with our partner, to shutdown CAV.

Refer to Restructuring, Impairment, and Other Charges and (Credits), Legal Settlement-Asbestos, and Provision (Benefit) for Income Taxes for a description of the key drivers of net income (loss) for 2005 vs. 2004 and 2004 vs. 2003.

LIQUIDITY AND CAPITAL RESOURCES

Financing Activities

During 2005, we had a number of significant financing transactions. In separate transactions, we redeemed or repurchased $958 million of debentures for a combination of $579 million cash and 37 million shares of Corning common stock, resulting in an increase to equity of $388 million. We recognized losses totaling $16 million associated with the debt redemptions. In addition, we issued $100 million of senior unsecured notes for proceeds of approximately $99 million and we completed a common stock offering of 20 million shares for net proceeds of approximately $323 million. We also contributed 10 million shares of Corning common stock to our U.S. pension plan resulting in an increase to equity of $199 million. As a result of these transactions, and our operating cash flow in excess of capital expenditures, we ended the year with cash and short-term investments in excess of debt on our balance sheet.

Refer to Note 12 (Debt) to the consolidated financial statements for further information.

In the first quarter of 2005 we entered a written agreement with a group of banks on a new revolving credit facility. The new facility provides us access to a $975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, a leverage ratio and an interest coverage ratio, both of which we are in compliance and also includes restrictions on the declaration of dividends. Concurrent with the closing of this credit facility, we terminated our previous $2 billion revolving line of credit that was set to expire in August 2005.

Customer Deposits

Certain customers of our Display Technologies segment have entered into long-term supply agreements and agreed to make advance cash deposits to secure supply of large-size glass substrates. The deposits will be reduced through future product purchases, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods.

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

	Estimated 2006

	2004	2005	and Beyond	Total
Customer deposits received	$204	$457	$278	$939

The majority of the remaining customer deposits will be received through 2006. In 2005, we issued $29 million in credit memoranda. These credit amounts are not included in the above amounts, and were applied against customer receivables.

In 2006, we expect to issue credits approximately equal to the amount of deposits expected to be received in 2006.

Capital Spending

Capital spending totaled $1.6 billion, $857 million and $366 million in 2005, 2004 and 2003, respectively. Capital spending activity in 2005, 2004 and 2003 primarily included expansion of LCD capacity in the Display Technologies segment and new capacity for diesel products in the Environmental Technologies segment. Our 2006 capital spending program is expected to be in the range of $1.3 billion to $1.5 billion, of which $900 million to $1.1 billion will be to expand manufacturing capacity for LCD glass substrates in the Display Technologies segment. These expenditures primarily relate to previously announced expansion plans for our existing manufacturing facilities in Tainan, Taiwan, Taichung, Taiwan, and Shizuoka, Japan. Additionally, approximately $200 million will be directed toward our Environmental Technologies segment to support the emerging diesel emissions control products.

Restructuring

During 2005, 2004 and 2003, we made payments of $25 million, $85 million, and $233 million, respectively, related to employee severance and other exit costs resulting from restructuring actions. Cash payments for employee-related costs will be substantially completed by the end of 2007, while payments for exit activities will be substantially completed by the end of 2010.

Key Balance Sheet Data

At December 31, 2005, cash, cash equivalents and short-term investments totaled $2.4 billion, compared with $1.9 billion at December 31, 2004. The increase from December 31, 2004, was primarily due to operating cash flows at $1.9 billion which included $428 million of customer deposits (net of credits issued) offset by $1.6 billion of capital spending. Net financing activities generated cash of approximately $147 million.

Balance sheet and working capital measures are provided in the following table (dollars in millions):

	As of December 31,	
	2005 (Restated)	2004 (Restated)
Working capital	$ 1,490	$ 804
Working capital, excluding cash, cash equivalents, and short-term investments	$ (944)	$ (1,077)

Current ratio	1.6:1	1.3:1
Trade accounts receivable, net of allowances	$ 629	$ 585
Days sales outstanding	49	52
Inventories	$ 570	$ 535
Inventory turns	4.7	4.9
Days payable outstanding	89	67
Long-term debt	$ 1,789	$ 2,214
Total debt to total capital	25%	42%

Credit Ratings

As of February 17, 2006, our credit ratings were as follows:

RATING AGENCY Last Update	Rating Long-Term Debt	Outlook Last Update
Fitch April 27, 2005	BBB-	Stable April 27, 2005
Standard & Poor's April 27, 2005	BBB-	Stable April 27, 2005
Moody's September 20, 2005	Baa3	Stable September 20, 2005

Management Assessment of Liquidity

Our major source of funding for 2006 and beyond will be our existing balance of cash, cash equivalents and short-term investments. From time to time we may also issue debt or equity securities to raise additional cash to fund a portion of our capital expenditures related to our growth businesses. We believe we have sufficient liquidity for the next several years to fund operations, restructuring, the asbestos settlement, research and development, capital expenditures and scheduled debt repayments.

Off Balance Sheet Arrangements

Off balance sheet arrangements are transactions, agreements or other contractual arrangements with an unconsolidated entity that Corning has an obligation to that are not recorded in our consolidated financial statements.

Corning's off balance sheet arrangements include the following:

- guarantee contracts that require applying the measurement provisions of FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), and
- variable interests held in certain unconsolidated entities.

FIN 45 requires a company, 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, 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. These guarantees have various terms, and none of these guarantees are individually significant.

Refer to Note 14 (Commitments, Contingencies and Guarantees) to the consolidated financial statements for additional information.

Corning has variable interests in three variable interest entities from which Corning leases transportation equipment.

For variable interest entities, we assess the terms of our interest in the entity to determine if we are the primary beneficiary as prescribed by FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised (FIN 46R). The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets excluding variable interests. We consolidate one variable interest entity in which we are the primary beneficiary.

Corning leases certain transportation equipment from a Trust that qualifies as a variable interest entity under FIN 46R. The sole purpose of this entity is leasing transportation equipment to Corning. Since Corning is the primary beneficiary of this entity, the financial statements of the entity are included in Corning's consolidated financial statements.

Corning leases certain transportation equipment from two additional Trusts that qualify as variable interest entities under FIN 46R. Corning is not the primary beneficiary of these entities. The sole purpose of the entities is leasing transportation equipment to Corning. Corning has been involved with these entities as lessee since the inception of the Trusts.

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements for additional information.

Corning does not have retained interest in assets transferred to an unconsolidated entity that serve as credit, liquidity or market risk support to that entity.

SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair market value. SFAS No. 133, paragraph 11(a) states that contracts that are indexed to an entity's own stock and classified in the shareholders' equity section of the consolidated financial statements are not considered derivative instruments and are therefore excluded from the balance sheet. Although Corning has contracts that are indexed to our own stock, these contracts are not classified within the shareholders' equity section of the consolidated financial statements and therefore are considered derivative instruments and are accounted for as such.

Contractual Obligations

The amounts of our obligations follow (in millions):

		Amount of commitment and conti		
	Total	Less than 1 year	1 to 2 years	2 to 3 years

Performance bonds and guarantees	$ 112	$ 36	$ 2	$ 1
Credit facilities for equity companies	165			
Stand-by letters of credit (1)	47	47		
Loan guarantees	15			
Subtotal of commitment expirations per period	$ 339	$ 83	$ 2	$ 1
Purchase obligations	219	180	33	2
Capital expenditure obligations (2)	328	328		
Total debt (3)	1,792	18	22	21
Minimum rental commitments	228	39	51	41
Interest on long-term debt (4)	1,185	110	109	109
Subtotal of contractual obligation payments due by period	$ 3,752	$ 675	$ 215	$ 173
Total commitments and contingencies	$ 4,091	$ 758	$ 217	$ 174

(1) At December 31, 2005, $34 million of the $47 million was included in other accrued liabilities on our consolidated balance sheets.
(2) Capital expenditure obligations, primarily related to our Display Technologies segment expansions, are included on our balance sheet.
(3) At December 31, 2005, $1,807 million was included on our balance sheet. Amounts above are stated at their maturity value.
(4) The estimate of interest payments assumes interest is paid through the date of maturity/expiration of the related debt, based upon stated rates in the respective debt instruments.

We have provided financial guarantees and contingent liabilities in the form of stand-by letters of credit and performance bonds, some of which do not have fixed or scheduled expiration dates. We have agreed to provide a credit facility related to Dow Corning as noted above and discussed in Note 8 (Investments) and Note 14 (Commitments, Contingencies, and Guarantees) to the consolidated financial statements. The funding of the Dow Corning credit facility will be required only if Dow Corning is not otherwise able to meet its scheduled funding obligations in its confirmed Bankruptcy Plan. We believe the significant majority of these guarantees and contingent liabilities will expire without being funded.

Pensions

We have a number of defined benefit pension plans covering certain domestic and international employees. Our largest single pension plan is Corning's U.S. qualified plan. At December 31, 2005, this plan accounted for 81% of our consolidated defined benefit pension plans' projected benefit obligation and 91% of the related plans' assets. In 2004, although global equities had positive returns, interest rates continued to decline. As a result, at December 31, 2004, the accumulated benefit obligation (ABO) for our domestic qualified and non-qualified plans and several international plans exceeded the fair value of related plan assets, requiring Corning to record an additional minimum pension liability in accordance with SFAS No. 87, "Employers' Accounting for Pensions." However, in 2005, due primarily to contributions of Corning stock to the domestic qualified pension plan, the fair value of this plan's assets at

December 31, 2005 exceeded the ABO and, accordingly, Corning eliminated this plan's minimum pension liability.

Refer to Note 13 (Employee Retirement Plans) to the consolidated financial statements for additional information.

Balances of these non-cash adjustments follow (in millions):

	December 31,	
	2005	2004
Additional minimum pension liability	$ 55	$ 417
Intangible assets	3	42
Other accumulated comprehensive loss, pre-tax	52	375
Other accumulated comprehensive loss, after-tax	40	273

We have traditionally contributed to the U.S. qualified pension plan on an annual basis in excess of the IRS minimum requirements, and as a result, mandatory contributions are not expected to be required for this plan until at least 2008. For 2005, we issued and contributed 10 million shares of Corning common stock with a value of approximately $199 million to our domestic pension plan. In 2004, we contributed $40 million to our U.S. pension plan. We anticipate making voluntary contributions of approximately $35 million in cash to our domestic and international pension plans in 2006.

ENVIRONMENT

We have been named by the Environmental Protection Agency under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is our policy to accrue for the estimated liability related to Superfund sites and other environmental liabilities related to property owned and operated by us based on expert analysis and continual monitoring by both internal and external consultants. We have accrued approximately $13 million (undiscounted) for the estimated liability for environmental cleanup and related litigation at December 31, 2005. Based upon the information developed to date, we believe that the accrued amount is a reasonable estimate of our liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect amounts reported therein. The estimates, including future projections of performance and relevant discount rates, that required us to make difficult, subjective or complex judgments follow.

Impairment of goodwill

SFAS 142 requires us to make certain difficult, subjective and complex judgments on a number of matters, including assumptions and estimates used to determine the fair value of our reporting units, which are the same as our segments.

We measure fair value on the basis of discounted expected future cash flows. Our estimates are based upon our historical experience, our current knowledge from our commercial relationships, and available external information about future trends.

Telecommunications

Results for the Telecommunications segment in 2005 were moderate as pricing in the telecommunications industry continues to decline. We expect the worldwide telecommunications industry market to remain stable particularly in North America, and fiber volumes to increase modestly and pricing pressures to continue.

For our 2005 impairment test, we used a discount rate of 13% in our calculation of fair value of the expected future cash flows. The results of our 2005 tests indicated that goodwill was not impaired. The results would not have changed had we used a discount rate of 12.5% or 13.5%. In 2004, an impairment charge of $1,420 million was recorded. We used a 12.5% discount rate for our 2004 annual impairment test. Had we used a discount rate of 12%, the impairment charge would have been approximately $90 million lower. Had we used a discount rate of 13%, the impairment charge would have been approximately $80 million higher. Terminal value of the business assumes a growth in perpetuity of 3%. Business cash flows are also used to value intangible and tangible assets which determine the implied value of reporting unit goodwill. The discount rate applied to these cash flows represents a telecommunications weighted average cost of capital based upon current debt and equity activity of 12 public companies representing a cross section of worldwide competitors of the reporting unit. Growth in the Telecommunications segment is dependent upon Corning's success in delivering results in fiber-to-the-premises applications. Increased fiber price pressure or lack of fiber-to-the-premises penetration may precipitate additional goodwill charges in the future.

Specialty Materials

Our discounted cash flow test for this reporting unit assumes a growth in perpetuity of 3%. The discount rate applied to the forecasted cash flows represents weighed average cost of capital based upon current debt and equity activity of seven public companies representing a cross section of worldwide competitors of the reporting unit. For the 2005 and 2004 impairment tests we used a risk adjusted discount rate of 13% and 12% in our calculation of the fair value of the expected future cash flows, respectively. The results of our 2005 and 2004 tests indicated that goodwill was not impaired. The results would not have changed had we used a discount rate of 12.5% or 13.5% for 2005 and 11.5% or 12.5% for 2004.

Impairment of assets held for use

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires us to assess the recoverability of the carrying value of long-lived assets when an event of impairment has occurred. We must exercise judgment in assessing whether an event of impairment has occurred. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We must exercise judgment in assessing the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In certain circumstances, we concluded that locations or businesses which share production along the supply chain must be combined in order to appropriately identify cash flows that are largely independent of the cash flows of other assets and liabilities.

Once it has been judged that an impairment has occurred, an impairment

assessment requires exercise of judgment in assessing the future use of and projected value to be derived from the impaired assets to be held and used. This may require judgment in estimating future cash flows and relevant discount rates and terminal values in estimating the current fair value of the impaired assets to be held and used.

In 2004, based on our decision to permanently abandon certain assets and lower our outlook for the Telecommunications segment, we determined an event of impairment had occurred in our Telecommunications segment. We performed an impairment test on the segment's long-lived assets, and recorded a $24 million charge to write-down certain assets to their fair value.

In 2003, we concluded events of impairment had occurred in our semiconductor materials product line, which is part of the specialty materials segment, and performed an impairment test. The results of our test indicated that our long-lived assets held for use were not impaired.

Restructuring charges and impairments resulting from restructuring actions

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," requires us to assess whether and when a restructuring event has occurred and in which periods charges related to such events should be recognized. We must estimate costs of plans to restructure including, for example, employee termination costs. Restructuring charges require us to exercise judgment about the expected future of our businesses, of portions thereof, their profitability, cash flows and in certain instances eventual outcome. The judgment involved can be difficult, subjective and complex in a number of areas including assumptions and estimates used in estimating the future profitability and cash flows of our businesses.

Restructuring events often give rise to decisions to dispose of or abandon certain assets or asset groups which, as a result, require impairment in accordance with SFAS 144. SFAS 144 requires us to carry assets to be sold or abandoned at the lower of cost or fair value. We must exercise judgment in assessing the fair value of the assets to be sold or abandoned.

During 2004 and 2003, we recorded write-downs of property, plant and equipment as a result of decisions to exit facilities, primarily in the Telecommunications segment. Assets impaired were primarily equipment, construction in progress and buildings, which were sold or abandoned. We used information available from recent auctions of telecommunications equipment to estimate salvage value when measuring impairment. The estimated salvage values were very low, primarily due to the depressed market for telecommunications related equipment. The salvage values of property impaired were also estimated to be minimal as certain facilities will be abandoned and not sold. It is possible that actual results will differ from assumptions and require adjustments to reserves.

Valuation allowances for deferred income taxes

SFAS 109, "Accounting for Income Taxes" requires us to exercise judgment about our future results in assessing the realizability of our deferred tax assets. Inherent in this estimation process, especially since we are in a net gross deferred tax asset position, in part due to prior year net operating losses, is the requirement for us to estimate future book taxable income and possible tax planning strategies. These estimates require us to exercise judgment about our future results and the prudence and feasibility of possible tax planning strategies. As more fully discussed in Note 7 (Income Taxes), Corning determined

that a tax planning strategy considered previously to be prudent was no longer prudent. As such, a $525 million adjustment was recorded in 2005 to increase the valuation allowance to fully reserve our U.S. deferred tax assets.

If we sustain an appropriate level of profitability, primarily in the U.S. and Germany, or if we are able to develop tax planning strategies, adjustments to these allowances will be required and may affect future net income.

Probability of litigation outcomes

SFAS No. 5, "Accounting for Contingencies," (SFAS 5) requires us to make judgments about future events that are inherently uncertain. In making determinations of likely outcomes of litigation matters, we consider the evaluation of outside counsel knowledgeable about each matter, as well as known outcomes in case law. See Legal Proceedings for a detailed discussion of the key litigation matters we face. The most significant matter involving judgment is the PCC asbestos liability. There are a number of factors bearing upon our potential liability, including the inherent complexity of a Chapter 11 filing, our history of success in defending ourselves against asbestos claims, our assessment of the strength of our corporate veil defenses, our continuing dialogue with our insurance carriers and the claimants' representatives, and other factors. We have reached a tentative settlement on PCC as disclosed in Legal Proceedings and Note 8 (Investments) to the Consolidated Financial Statements. The settlement is subject to a number of contingencies, including approval by the bankruptcy court and resolution of any appeals.

Other possible liabilities

SFAS 5 and other similarly focused accounting literature requires us to make judgments about future events that are inherently uncertain. In making determinations of likely outcomes of certain matters, including certain tax planning matters and environmental matters, these judgments require us to consider events and actions that are outside our control in determining whether probable or possible liabilities require accrual or disclosure.

Pension and other postretirement employee benefits (OPEB)

Pension and OPEB costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Corning's pension and other postretirement obligations and future expense.

As of December 31, 2005, the Projected Benefit Obligation (PBO) for U.S. pension plans was $2,202 million and the minimum pension liability charges to equity with respect to U.S. pension plans was $22 million, net of tax.

The following information illustrates the sensitivity to a change in certain assumptions for U.S. pension plans:

Change in Assumption	Effect on 2006 Pre-Tax Pension Expense
25 basis point decrease in discount rate	+$4.0 million
25 basis point increase in discount rate	-$(4.0) million
25 basis point decrease in expected return on assets	+$4.8 million
25 basis point increase in expected return on assets	-$(4.8) million

The above sensitivities reflect the impact of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

These changes in assumptions would have no effect on Corning's funding requirements. In addition, at December 31, 2005, a 25 basis point decrease in the discount rate would decrease stockholders' equity by $2 million before tax; a 25 basis point increase in the discount rate would increase stockholders' equity by $2 million. With a 25 basis point decrease in the discount rate, certain pension plans would become Accumulated Benefit Obligation (ABO) underfunded resulting in a significantly larger impact on equity compared to a 25 basis point increase in the discount rate. In addition, the impact of greater than a 25 basis point decrease in discount rate would not be proportional to the first 25 basis point decrease in the discount rate.

The following table illustrates the sensitivity to a change in the discount rate assumption related to Corning's U.S. OPEB plans:

Change in Assumption	Effect on 2006 Pre-Tax OPEB Expense
25 basis point decrease in discount rate	+$1 million
25 basis point increase in discount rate	-$1 million

The above sensitivities reflect the impact of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

Revenue Recognition

In certain instances, revenue recognition is based on estimates of fair value of deliverables as well as estimates of product returns, allowances, discounts and other factors. While management believes that the estimates used are appropriate, differences in actual experience or changes in estimates may affect Corning's future results.

Stock Compensation

Stock based compensation expense and disclosures are dependent on assumptions used in calculating such amounts. These assumptions include risk-free discount rates, expected term of the stock based compensation instrument granted, volatility of stock and option prices, expected time between grant date and date

of exercise, attrition, performance, and other factors. These assumptions require us to exercise judgment. Our estimates of these assumptions typically are based upon our historical experience and also currently available market place data. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Corning's future stock based compensation expense and disclosures.

NEW ACCOUNTING STANDARDS

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financials statements.

FORWARD-LOOKING STATEMENTS

The statements in this Annual Report on Form 10-K/A, in reports subsequently filed by Corning with the Securities and Exchange Commission (SEC) on Forms 10-Q, Forms 8-K, and related comments by management which are not historical facts or information and contain words such as "believes," "expects," "anticipates," "estimates," "forecasts," and similar expressions are forward-looking statements. These forward-looking statements involve risks and uncertainties that may cause the actual outcome to be materially different. Such risks and uncertainties include, but are not limited to:

- global economic and political conditions;
- tariffs, import duties and currency fluctuations;
- product demand and industry capacity;
- competitive products and pricing;
- sufficiency of manufacturing capacity and efficiencies;
- availability and costs of critical components and materials;
- new product development and commercialization;
- order activity and demand from major customers;
- fluctuations in capital spending by customers;
- possible disruption in commercial activities due to terrorist activity, armed conflict, political instability or major health concerns;
- facility expansions and new plant start-up costs;
- effect of regulatory and legal developments;
- capital resource and cash flow activities;
- ability to pace capital spending to anticipated levels of customer demand, which may fluctuate;
- interest costs;
- credit rating and ability to obtain financing and capital on commercially reasonable terms;
- adequacy and availability of insurance;
- financial risk management;
- capital spending;
- acquisition and divestiture activities;
- rate of technology change;
- level of excess or obsolete inventory;
- ability to enforce patents;
- adverse litigation;
- product and components performance issues;
- stock price fluctuations;
- the rate of substitution by end-users purchasing LCDs for notebook computers, desktop monitors and televisions;
- a downturn in demand for LCD glass substrates;
- customer ability, most notably in the Display Technologies segment, to maintain profitable operations and obtain financing to fund their

manufacturing expansions;
- fluctuations in supply chain inventory levels;
- equity company activities, principally at Dow Corning Corporation, Samsung Corning Precision, and Samsung Corning;
- movements in foreign exchange rates, primarily the Japanese yen, Euro, and Korean won; and
- other risks detailed in Corning's SEC filings.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We operate and conduct business in many foreign countries and as a result are exposed to movements in foreign currency exchange rates. Our exposure to exchange rate effects includes:

- exchange rate movements on financial instruments and transactions denominated in foreign currencies which impact earnings, and
- exchange rate movements upon conversion of net assets in foreign subsidiaries for which the functional currency is not the U.S. dollar, which impact our net equity.

Our most significant foreign currency exposure is the Japanese yen and to a much lesser extent the Korean won, the Taiwan dollar, and the Euro. We selectively enter into foreign exchange forward and option contracts with durations generally 15 months or less to hedge our exposure to exchange rate risk on foreign source income and purchases. These hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. The objective of these contracts is to neutralize the impact of exchange rate movements on our operating results. We also enter into foreign exchange forward contracts when situations arise where our foreign subsidiaries or Corning enter into lending situations, generally on an intercompany basis, denominated in currencies other than their local currency. We do not hold or issue derivative financial instruments for trading purposes. In 2005, Corning began using derivative instruments (forwards) to limit the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities. These derivative instruments are not designated as hedging instruments for accounting purposes and, as such, are referred to as undesignated hedges. Changes in the fair value of undesignated hedges, along with foreign currency gains and losses arising from the underlying monetary assets or liabilities, are recorded in current period earnings in the other income, net component in the consolidated statement of operations.

Equity in earnings of associated companies has historically contributed a significant amount to our income from continuing operations. Equity in earnings of associated companies, net of impairments was $611 million in 2005 and $454 million in 2004 with foreign-based affiliates comprising over 43% of this amount. Equity earnings from Samsung Corning and Samsung Corning Precision totaled $296 million for 2005 and $309 million for 2004. Exchange rate fluctuations and actions taken by management of these entities can affect the earnings of these companies.

We use a sensitivity analysis to assess the market risk associated with our foreign currency exchange risk. Market risk is defined as the potential change in fair value of assets and liabilities resulting from an adverse movement in foreign currency exchange rates. At December 31, 2005, we had open forward contracts, open option contracts, and foreign denominated debt with values exposed to exchange rate movements, all of which were designated as hedges at

December 31, 2005. A 10% adverse movement in quoted foreign currency exchange rates could result in a loss in fair value of these instruments of $138 million. Specific to the Japanese yen, a 10% adverse movement in quoted yen exchange rates could result in a loss in fair value of these instruments of $75 million.

As we derive approximately 70% of our net sales from outside the U.S., our sales and net income could be affected if the U.S. dollar significantly strengthens or weakens against foreign currencies, most notably the Japanese yen and Euro. Our outlooks included in Management's Discussion and Analysis assume exchange rates during 2006 remain constant at January 2006 levels. A plus or minus 10 point movement in the U.S. dollar - Japanese yen exchange rate would result in a change to 2005 net sales of approximately $200 million and net income of approximately $130 million. A plus or minus 10 point movement in the U.S. dollar - Euro exchange rate would result in a change to 2005 net sales of approximately $50 million but would have a negligible effect on net income.

Interest Rate Risk Management

It is our policy to conservatively manage our exposure to changes in interest rates. Our policy prescribes that total variable rate debt will not exceed 35% of the total debt portfolio at anytime. At December 31, 2005, our consolidated debt portfolio contained less than 1% of variable rate instruments.

Item 8. Financial Statements and Supplementary Data

See Item 15 (a) 1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Restatement

As discussed in Note 2 to the consolidated financial statements contained in this Amendment, management of the Company has amended its Annual Report on Form 10-K for the year ended December 31, 2005, to restate the Company's annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and its quarterly consolidated financial statements for each of the quarters in the years ended December 31, 2005 and 2004. The determination to restate these consolidated financial statements was made as a result of management's identification of errors related to the accounting treatment of certain items related to the 2003 Pittsburgh Corning Corporation Asbestos Litigation Bankruptcy Settlement ("the Settlement"). Specifically, between March 31, 2003, and December 31, 2005, the following errors occurred:

- Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by $13 million, $24

million, and $117 million, respectively.

- Corning incorrectly suspended recording equity earnings of Pittsburgh Corning Europe, N.V. between March 31, 2003, and December 31, 2005. As a result, equity in earnings of affiliated companies for the years 2005, 2004, and 2003 was understated by $13 million, $11 million, and $7 million, respectively.
- Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by $8 million, $8 million, and $5 million, respectively.

In the restated consolidated financial statements, the higher asbestos settlement charges are tax-effected in 2003 and the first half of 2004. As Corning provided a valuation allowance on most of its deferred tax assets in the third quarter of 2004, that quarter reflects an increase in the valuation allowance of $55 million for the deferred tax assets related to the higher asbestos settlement charges.

(b) Evaluation of disclosure controls and procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures for Corning. Management is also responsible for the assessment of the effectiveness of disclosure controls and procedures.

Disclosure controls and procedures mean controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Corning's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Corning in the reports that it files or submits under the Exchange Act is accumulated and communicated to Corning's management, including Corning's principal executive and principal financial officers, or other persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As a result of the restatement discussed above, management of the Company, under the supervision and with the participation of the Company's principal executive and financial officers, has re-evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2005. Based upon this re-evaluation and as a result of the material weaknesses discussed below under "Management's Report on Internal Control Over Financial Reporting (Restated)," the Company's principal executive and principal financial officers, have concluded that its disclosure controls and procedures were not effective as of December 31, 2005.

(c) Management's Report on Internal Control Over Financial Reporting (Restated)

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Corning as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management is also responsible for the assessment of the effectiveness of internal control over financial reporting.

Corning's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Corning's internal control over financial reporting includes those policies and

procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Corning's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that Corning's receipts and expenditures are being made only in accordance with authorizations of Corning's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Corning's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management determined that the following control deficiencies constitute material weaknesses in internal control over financial reporting at December 31, 2005:

(i) The Company did not maintain effective controls over the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability pertaining to the 2003 Pittsburgh Corning Corporation (PCC) Asbestos Litigation Bankruptcy Settlement. Specifically, the Company did not maintain effective controls to ensure that certain components of the liability, which may be settled by contributing the Company's equity interest in Pittsburgh Corning Europe, N.V. and assignment of rights to insurance proceeds, were appropriately recorded at fair value rather than book value as required by generally accepted accounting principles. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our asbestos settlement charges and related liability that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

(ii) The Company did not maintain effective controls over the completeness and accuracy of its equity investments. Specifically, the Company did not maintain effective controls to ensure that earnings of its equity investments were accurately and completely recorded. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our investments and equity in earnings of associated companies that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

In making our assessment of the effectiveness of internal control over financial reporting, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control - Integrated Framework."

In the Company's original filing of its 2005 Annual Report on Form 10-K, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005. However, in connection with the restatement discussed in Note 2 to the consolidated financial statements, management, under the supervision and with the participation of the Company's principal executive and financial officers, has subsequently concluded that the material weaknesses in internal control over financial reporting described above existed as of December 31, 2005. As a result of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2005 based upon the criteria set forth in "Internal Control - Integrated Framework" issued by the COSO. Accordingly, management has restated its report on internal control over financial reporting.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(d) Changes in internal control over financial reporting

No changes in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(e) Plan for Remediation of Material Weaknesses

Regarding the material weaknesses described above, the Company is in the process of taking steps to ensure that the material weaknesses are remediated by implementing enhanced control procedures within the Accrued Litigation and Investments in Affiliates areas and anticipates the control deficiencies in these areas can be remediated on or before September 30, 2006.

We believe the steps described below, some of which have already been taken, will remediate the material weaknesses described above.

- We have enhanced the procedures and documentation associated with the reconciliation of our PCC Asbestos Litigation liability in order to ensure that all components are included in the evaluation process and are accounted for in accordance with generally accepted accounting principles.
- We have augmented the resources in our Accounting Services department that will enable us to have a stronger segregation of duties associated with the reconciliation of the PCC Asbestos Litigation liability account to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of this work is done by separate individuals who have the requisite skill set and training.
- We are in the process of updating our key controls within the Investments in Affiliates cycle to specifically address 1) our ability to achieve full inclusion of all less than 100% owned entities in our accounting analysis of Investments in Affiliates and 2) to ensure proper monitoring and accounting for these entities.
- We are in the process of improving our investments in affiliates reconciliation procedures and documentation in order to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of the reconciliation is done by separate individuals who have the requisite skill set and training.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The section entitled "Nominees for Election as Directors" in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 27, 2006, is incorporated by reference in this Annual Report on Form 10-K/A.

Audit Committee and Audit Committee Financial Expert

Corning has an Audit Committee and has identified at least one member of the Audit Committee as the Audit Committee Financial Expert. See sections entitled "Matters Relating to Directors - Board Committees" and "Corporate Governance Matters" in our definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 27, 2006, which are incorporated by reference in this Annual Report on Form 10-K/A.

Executive Officers of the Registrant

James R. Houghton Chairman of the Board
Mr. Houghton joined Corning in 1962. He was elected a vice president of Corning and general manager of the Consumer Products Division in 1968, vice chairman in 1971, chairman of the executive committee and chief strategic officer in 1980 and chairman and chief executive officer in April 1983, retiring in April 1996. Mr. Houghton was the non-executive Chairman of the Board of Corning from June 2001 to April 2002. Mr. Houghton came out of retirement in April 2002 when he was elected Chairman and Chief Executive officer, he retired as chief executive officer effective April 28, 2005 and continues as chairman of the board of Corning. Mr. Houghton is a director of Metropolitan Life Insurance Company and Exxon Mobil Corporation. He is a trustee of the Metropolitan Museum of Art, the Pierpont Morgan Library and the Corning Museum of Glass and a member of the Harvard Corporation. Mr. Houghton has been a member of Corning's Board of Directors since 1969. Age 70.

Wendell P. Weeks President and Chief Executive Officer
Mr. Weeks joined Corning in 1983 and has served in various accounting, business development, and business manager positions. He was named a vice president and deputy general manager of the Opto-Electronics Components Business in 1995, vice president and general manager of Telecommunications Products in 1996, senior vice president in 1997, senior vice president of Opto-Electronics in 1998,

executive vice president of Optical Communications in 1999, president of Corning Optical Technologies in 2001 and became President in 2002. Mr. Weeks was elected to his current position on April 28, 2005. Mr. Weeks is a director of Merck & Co., Inc. Mr. Weeks has been a member of Corning's Board of Directors since 2000. Age 46.

James B. Flaws   Vice Chairman and Chief Financial Officer
Mr. Flaws joined Corning in 1973 and served in a variety of controller and business management positions. Mr. Flaws was elected assistant treasurer of Corning in 1993, vice president and controller in 1997 and vice president of finance and treasurer in May 1997, senior vice president and chief financial officer in December 1997, executive vice president and chief financial officer in 1999 and to his current position in 2002. Mr. Flaws is a director of Dow Corning Corporation. Mr. Flaws has been a member of Corning's Board of Directors since 2000. Age 57.

Peter F. Volanakis   Chief Operating Officer
Mr. Volanakis joined Corning in 1982 and subsequently held various marketing, development and commercial positions in several divisions. He was named managing director Corning GmbH in 1992, executive vice president of CCS Holding, Inc., formerly known as Siecor Corporation, in 1995, senior vice president of Advanced Display Products in 1997, executive vice president of Display Technologies and Life Sciences in 1999 and president of Corning technologies in 2001. Mr. Volanakis was elected to his current position on April 28, 2005. Mr. Volanakis is a director of Dow Corning Corporation. Mr. Volanakis has been a member of Corning's Board of Directors since 2000. Age 50.

Kirk P. Gregg   Executive Vice President and Chief Administrative Officer
Mr. Gregg joined Corning in 1993 as director of Executive Compensation. He was named vice president of Executive Resources and Employee Benefits in 1994, senior vice president, administration in December 1997 and to his current position in 2002. Prior to joining Corning, Mr. Gregg was with General Dynamics Corporation as corporate director, Key Management Programs, and was responsible for executive compensation and benefits, executive development and recruiting. Age 46.

Joseph A. Miller   Executive Vice President and Chief Technology Officer
Dr. Miller joined Corning in 2001 as senior vice president and chief technology officer. He was appointed to his current position in 2002. Prior to joining Corning, Dr. Miller was with E.I. DuPont de Nemours, Inc., where he served as chief technology officer and senior vice president for research and development since 1994. He began his career with DuPont in 1966. Dr. Miller is a director of Wilson Greatbatch Technologies and Dow Corning Corporation. Age 64.

Pamela C. Schneider   Senior Vice President and Operations Chief of Staff
Ms. Schneider joined Corning in 1986 as senior financial analyst in the Controllers Division. In 1988 she became manager of internal audit. In 1990 she was named controller and in 1991 chief financial officer of Corning Asahi Video Products Company. In January 1993, she was appointed vice president and chief financial officer and in 1995 vice president for Corning Consumer Products Company. In 1997, she was named vice president and in 1999 senior vice president, Human Resources and Diversity Officer for Corning. Ms. Schneider was appointed to her present position in April 2002. Age 51.

Katherine A. Asbeck   Senior Vice President - Finance
Ms. Asbeck joined Corning in 1991 as director of accounting. She was appointed assistant controller in 1993, designated chief accounting officer in 1994, elected vice president and controller in 1997 and senior vice president in 2001. She was elected to her current position in October 2005. Ms. Asbeck is a director of Samsung Corning Co., Ltd. Age 49.

William D. Eggers Senior Vice President and General Counsel
Mr. Eggers joined Corning in 1997 as vice president and deputy general counsel. He was elected senior vice president and general counsel in February 1998. Mr. Eggers was a Partner with the Rochester firm of Nixon, Hargrave, Devans & Doyle, LLP, before joining Corning. Mr. Eggers is a director of Chemung Financial Corp. Age 61.

Mark S. Rogus Senior Vice President and Treasurer
Mr. Rogus joined Corning in 1996 as manager of corporate finance. He was appointed assistant treasurer in 1999, vice president and treasurer in 2000 and was elected to his current position in 2004. Prior to joining Corning, Mr. Rogus held various business development positions at Wachovia Bank. Mr. Rogus is a director of Cormetech, Inc. Age 46.

Larry Aiello Jr. President and Chief Executive Officer - Corning Cable Systems
Mr. Aiello joined Corning in 1973 and served in several positions in manufacturing from 1975 to 1981. He was named manager-Domestic Accounting in 1981, controller-Telecommunications Products Division in 1984, director-Control and Analysis in 1987 and assistant controller and director in 1989. He was named division vice president and director-Business Development and Planning, Opto-Electronics Group in 1990, general manager-Component Products Group in 1992, vice president and controller, Corning Incorporated in 1993, senior vice president-International and president-Corning International Corporation in 1997, senior vice president and chief of staff-Corning Optical Communications in 2000 and to his current position in 2002. Age 56.

Robert B. Brown Executive Vice President, Environmental Technologies
Mr. Brown joined Corning in 1972 and served in a variety of manufacturing and engineering positions. He was appointed division vice president-manufacturing and engineering, Telecommunications Products Division in 1995, vice president manufacturing and engineering, Opto-Electronics in 1999, president-Corning Lasertron in February 2000, vice president and general manager-Amplification Products in December 2000, vice president and general manager - Optical Fiber in April 2002, to senior vice president and general manager - Telecommunications in 2003, as senior vice president and general manager - Environmental Technologies in January 2005, and to his current position in August 2005. Age 55.

Robert L. Ecklin Executive Vice President, Environmental Technologies and Strategic Growth
Mr. Ecklin joined Corning in 1961 and served in a variety of U.S. and international manufacturing and engineering managerial positions. He was named vice president of Corning Engineering in 1982, president of Corning Engineering in 1983, vice president of Business Development in 1986, general manager of the Industrial Products Division in 1989 and senior vice president of the Industrial Products Division in 1990. He was appointed executive vice president of the Environmental Products Division in 1999, executive vice president, Optical Communications in 2001 and to his listed position in 2002 and retired effective December 31, 2005. Mr. Ecklin is a director of Pittsburgh Corning Corporation and Macdermid Incorporated. Age 67.

Donald B. McNaughton Senior Vice President - International and Strategic Ventures
Mr. McNaughton joined Corning in 1989 and served in a variety of managerial positions. He was named general manager, Display Technologies and president, Display Technologies Asia in 2000, vice president, Display in 2002, senior vice president, Display in 2003, and to his current position in September 2005. Mr. McNaughton is a director of Samsung Corning Co., Ltd., and Samsung Corning Precision Glass Co., Ltd. Age 46.

Lawrence D. McRae Senior Vice President, Strategy and Corporate Development
Mr. McRae joined Corning in 1985 and served in various financial, sales and marketing positions. He was appointed vice president-Corporate Development in 2000, senior vice president-Corporate Development in 2003 and most recently, senior vice president-Strategy and Corporate Development in October 2005. Mr. McRae is on the board of directors of Dow Corning Corporation. Age 47.

Eric S. Musser Vice President and General Manager, Optical Fiber
Mr. Musser joined Corning in 1986 and held various manufacturing, planning and quality positions. He assumed the role of President for Corning Lasertron in 2000, became Corning's director of Manufacturing Operations, Photonic Technologies in 2002, then division vice president, Development and Engineering in 2003, and was elected to his current position in January 2005. Age 46.

Jane D. Poulin Division Vice President and Chief Accounting Officer
Ms. Poulin joined Corning in September 2005. Prior to joining Corning, she was an Associate Chief Accountant in the Office of the Chief Accountant of the U.S. Securities and Exchange Commission from June 2000 to September 2005. She previously served as corporate controller at a privately held manufacturer and was an audit senior manager at Ernst & Young LLP. Age 43.

Tony Tripeny Vice President and Corporate Controller
Mr. Tripeny became the corporate accounting manager for Corning Cable Systems in 1985. After serving in other financial functions, he was appointed chief financial officer of Corning Cable Systems in 2000. In 2003, he became group controller for Corning's Telecommunications business, and division vice president and operations controller of Corning in 2004, and was elected to his current position in October 2005. Age 46.

Compliance with Section 16(a) of the Exchange Act

The section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 27, 2006, is incorporated by reference in this Annual Report on Form 10-K/A.

Code of Ethics

Our Board of Directors adopted the Code of Ethics for the Chief Executive Officer and Financial Executives and the Code of Conduct for Directors and Executive Officers which supplements the Code of Conduct governing all employees and directors that has been in existence for more than ten years. During 2005, no amendments to or waivers of the provisions of the Code of Ethics were made with respect to any of our directors or executive officers. A copy of the Code of Ethics is available on our website at www.corning.com/inside_corning/corporate_governance/downloads.aspx. We will also provide a copy of the Code of Ethics to shareholders without charge upon written request to Ms. Denise A. Hauselt, Secretary and Assistant General Counsel, Corning Incorporated, HQ-E2-10, Corning, NY 14831. We will disclose future amendments to, or waivers from, the Code of Ethics on our website within four business days following the date of such amendment or waiver.

Item 11. Executive Compensation

The sections entitled "Executive Compensation," "Option SAR Grants in Last Fiscal Year," "Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values" and "Pension Plan" in our definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 27, 2006, are incorporated by reference in this Annual Report on Form 10-K/A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The sections entitled "Security Ownership of Certain Beneficial Owners" and "Equity Compensation Plan Information," in our definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 27, 2006, are incorporated by reference in this Annual Report on Form 10-K/A.

Item 13. Certain Relationships and Related Transactions

The section entitled "Other Matters - Certain Business Relationships" in our definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 27, 2006, is incorporated by reference in this Annual Report on Form 10-K/A.

Item 14. Principal Accounting Fees and Services

The section entitled "Independent Registered Public Accounting Firm" in our definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 27, 2006, is incorporated by reference in this Annual Report on Form 10-K/A.

The information required by this item is incorporated herein by reference to the information contained under the caption "Audit and Non-Audit Fees" in our 2006 Proxy Statement.

Our independent auditor, PricewaterhouseCoopers LLP ("PwC"), has recently notified the Audit Committee of Corning's Board of Directors (the "Audit Committee") that certain non-audit work performed by its network firms in Europe and China raised questions regarding PwC's independence with respect to its role as Corning's independent auditor.

Network firms of PwC performed certain VAT tax representation and remittance services for Corning entities in Europe and paid government charges on behalf of Corning in China. The payment of the taxes or fees, and the handling of company funds by an outside auditor is not permitted under SEC auditor independence rules. Unremitted amounts for a VAT refund due Corning as of December 31, 2005 were approximately $50,000. The fee paid to tax authorities on behalf of Corning was $120.

Based upon PwC's disclosure, Corning evaluated PwC's non-audit services provided to Corning during the relevant time periods and did not identify any additional non-audit services that may compromise PwC's independence for purposes herein. Corning and PwC continue to evaluate and review processes relevant to the maintenance of PwC's independence.

PwC has concluded that its objectivity and impartiality were unaffected by these services and therefore its independence has not been impaired. This conclusion is based upon the nature of services and the fact that none of its personnel who were involved in providing these tax services or remitting amounts on Corning's behalf performed any audit or audit-related services for Corning. In January

2006, PwC issued its Independence Standards Board Standard No. 1 independence letter to the Audit Committee of our Board of Directors and therein reported that it is independent under applicable standards in connection with its audit opinion for the financial statements contained in this report. The Audit Committee has discussed with PwC its independence from Corning and concurred with PwC that its independence was not impaired by the provision of these services.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

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1. Financial statements	55
2. Financial Statement Schedule:	
(i) Valuation Accounts and Reserves	107

See separate index to financial statements and financial statement schedules

(b) Exhibits filed as part of this report:

3 (i) 1 Restated Certificate of Incorporation dated December 6, 2000, filed with the Secretary of State of the State of New York on January 22, 2001 (Incorporated by reference to Exhibit 3(i) of Corning's Annual Report on Form 10-K for the year ended December 31, 2000).

3 (i) 2 Certificate of Amendment to Restated Certificate of Incorporation filed with the Secretary of State of the State of New York on August 5, 2002 (Incorporated by reference to Exhibit 99.1 to Corning's Form 8-K filed on August 7, 2002).

3 (ii) 1 Bylaws of Corning effective as of December 6, 2000 (Incorporated by reference to Exhibit 3(ii) of Corning's Annual Report on Form 10-K for the year ended December 31, 2000).

3 (ii) 2 Amendment to Article III, Section 9, of Bylaws of Corning effective as of February 5, 2003 (Incorporated by reference to Exhibit 3(ii)2 of Corning's Annual Report on Form 10-K for the year ended December 31, 2003).

4 Rights Agreement of Corning dated as of June 5, 1996 (Incorporated by reference to Exhibit 1 to Corning's Form 8-K filed on July 10, 1996).

10.1 1994 Employee Equity Participation Program (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 16, 1994 for April 28, 1994 Annual Meeting of Shareholders).

10.2 1998 Variable Compensation Plan (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March

	9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.3	1998 Worldwide Employee Share Purchase Plan (Incorporated by reference to Exhibit 2 of Corning Proxy Statement, Definitive 14A filed March 9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.4	1998 Employee Equity Participation Program (Incorporated by reference to Exhibit 3 of Corning Proxy Statement, Definitive 14A filed March 9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.5	2002 Worldwide Employee Share Purchase Plan (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 7, 2002 for April 25, 2002 Annual Meeting of Shareholders).
10.6	2000 Employee Equity Participation Program and 2003 Amendments (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
10.7	2003 Variable Compensation Plan (Incorporated by reference to Exhibit 2 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
10.8	2003 Equity Plan for Non-Employee Directors (Incorporated by reference to Exhibit 3 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
10.9	Form of Officer Severance Agreement dated as of February 1, 2004 between Corning Incorporated and each of the following four individuals: James B. Flaws, James R. Houghton, Peter F. Volanakis and Wendell P. Weeks (Incorporated by reference to Exhibit 10.1 of Corning's 10-Q filed May 4, 2004).
10.10	Officer Severance Agreement dated as of February 1, 2004 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.2 of Corning's 10-Q filed May 4, 2004).
10.11	Change In Control Agreement dated as of February 1, 2004 between Corning Incorporated and James R. Houghton (Incorporated by reference to Exhibit 10.3 of Corning's 10-Q filed May 4, 2004).
10.12	Form of Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of October 4, 2000 between Corning Incorporated and the following two individuals: James B. Flaws and Peter F. Volanakis (Incorporated by reference to Exhibit 10.4 of Corning's 10-Q filed May 4, 2004).
10.13	Form of Change In Control Amendment dated as of October 4, 2000 between Corning Incorporated and the following two individuals: James B. Flaws and Peter F. Volanakis (Incorporated by reference to Exhibit 10.5 of Corning's 10-Q filed May 4, 2004).
10.14	Amendment dated as of February 1, 2004 to Change In Control

	Agreement dated as of June 1, 2001 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.6 of Corning's 10-Q filed May 4, 2004).
10.15	Change In Control Agreement dated as of June 1, 2001 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.7 of Corning's 10-Q filed May 4, 2004).
10.16	Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.8 of Corning's 10-Q filed May 4, 2004).
10.17	Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.9 of Corning's 10-Q filed May 4, 2004).
10.18	Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants (Incorporated by reference to Exhibit 10.1 of Corning's 10-Q filed October 28, 2004).
10.19	Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Retention Grants (Incorporated by reference to Exhibit 10.2 of Corning's 10-Q filed October 28, 2004).
10.20	Form of Corning Incorporated Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.3 of Corning's 10-Q filed October 28, 2004).
10.21	Form of Corning Incorporated Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.4 of Corning's 10-Q filed October 28, 2004).
10.22	2005 Employee Equity Participation Program (Incorporated by reference to Exhibit I of Corning Proxy Statement, Definitive 14A filed March 1, 2005 for April 28, 2005 Annual Meeting of Shareholders).
10.23	Five-Year Revolving Credit Agreement with Citibank, N.A.; J.P. Morgan Chase Bank, N.A.; Bank of America, N.A.; Bank of Tokyo-Mitsubishi, Ltd.; Wachovia Bank, National Association; Barclays Bank PLC; and Deutsche Bank A.G. New York Branch dated March 17, 2005 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed April 26, 2005).
12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.
14	Corning Incorporated Code of Ethics for Chief Executive Officer and Senior Financial Officer (Incorporated by reference to Appendix H-3 of Corning's 2006 definitive Proxy Statement).
21	Subsidiaries of the Registrant at December 31, 2005.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31.1	Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(c) Financial Statement Schedules

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Signatures

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Corning Incorporated

By /s/ Wendell P. Weeks -- (Wendell P. Weeks)	President and Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

	Capacity
* --- (James R. Houghton)	Chairman of the Board of Directors
* --- (James B. Flaws)	Vice Chairman and Chief Financial Officer
* --- (Katherine A. Asbeck)	Senior Vice President, Finance
* --- (John Seely Brown)	Director
* ---	Director

(James B. Flaws)

*	
--	Director
(Gordon Gund)	
*	
--	Director
(John M. Hennessy)	
*	
--	Director
(Jeremy R. Knowles)	
*	
--	Director
(James J. O'Connor)	
*	
--	Director
(Deborah D. Rieman)	
*	
--	Director
(H. Onno Ruding)	
*	
--	Director
(William D. Smithburg)	
*	
--	Director
(Hansel E. Tookes II)	
*	
--	Director
(Peter F. Volanakis)	
*	
--	Director
(Padmasree Warrior)	

*By /s/ William D. Eggers

(William D. Eggers, Attorney-in-fact)

Corning Incorporated
2005 Annual Report
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Corning Incorporated:

We have completed integrated audits of Corning Incorporated's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule
----

In our opinion, the consolidated financial statements listed in the index appearing under item 15(a)(1) present fairly, in all material respects, the financial position of Corning Incorporated and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements and Note 1 on the financial statement schedule, the Company has restated its 2005, 2004, and 2003 consolidated financial statements and its 2005 and 2004 financial statement schedule.

Internal control over financial reporting

Also, we have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Corning Incorporated did not maintain effective internal control over financial reporting as of December 31, 2005, because the Company (i) did not maintain effective controls over the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability and (ii) did not maintain effective controls over the completeness and accuracy of its equity investments, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of

internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment at December 31, 2005:

(i) The Company did not maintain effective controls over the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability pertaining to the 2003 Pittsburgh Corning Corporation Asbestos Litigation Bankruptcy Settlement. Specifically, the Company did not maintain effective controls to ensure that certain components of the liability, which may be settled by contributing the Company's equity interest in Pittsburgh Corning Europe, N.V. and assignment of rights to insurance proceeds, were appropriately recorded at fair value rather than book value as required by generally accepted accounting principles. This control deficiency resulted in the restatement of the Company's annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of the asbestos settlement charges and related liability that would

result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

(ii) The Company did not maintain effective controls over the completeness and accuracy of its equity investments. Specifically, the Company did not maintain effective controls to ensure that earnings of its equity investments were accurately and completely recorded. This control deficiency resulted in the restatement of the Company's annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of investments and equity in earnings of affiliated companies that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005. However, management has subsequently determined that the material weaknesses described above existed as of December 31, 2005. Accordingly, Management's Report on Internal Control Over Financial Reporting has been restated and our opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report.

In our opinion, management's assessment that Corning Incorporated did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Corning Incorporated has not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 24, 2006, except for Note 2 to the consolidated financial statements, Note 1 on the financial statement schedule, and the matter discussed in the penultimate paragraph of Management's Report on Internal Control Over Financial Reporting, as to which the date is May 9, 2006

Consolidated Statements of Operations Corning In

For th

(In millions, except per share amounts)	2005 (Restated)
Net sales	$ 4,579
Cost of sales	2,595
Gross margin	1,984
Operating expenses:	
Selling, general and administrative expenses	756
Research, development and engineering expenses	443
Amortization of purchased intangibles	13
Restructuring, impairment and other charges and (credits) (Note 4)	(38)
Asbestos settlement (Note 8)	218
Operating income (loss)	592
Interest income	61
Interest expense	(108)
(Loss) gain on repurchases and retirement of debt, net (Note 12)	(16)
Other income (expense), net	30
Income (loss) from continuing operations before income taxes	559
(Provision) benefit for income taxes (Note 7)	(578)
Loss before minority interests and equity earnings	(19)
Minority interests	(7)
Equity in earnings of associated companies, net of impairments (Note 8)	611
Income (loss) from continuing operations	585
Income from discontinued operation (Note 3)	
Net income (loss)	$ 585
Basic earnings (loss) per common share (Note 17):	
Continuing operations	$ 0.40
Discontinued operation	
Basic earnings (loss) per common share	$ 0.40
Diluted earnings (loss) per common share (Note 17):	
Continuing operations	$ 0.38
Discontinued operation	
Diluted earnings (loss) per common share	$ 0.38

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

Consolidated Balance Sheets Corning In

(In millions, except share and per share amounts) (Re

Assets

Current assets:
Cash and cash equivalents $
Short-term investments, at fair value

Total cash, cash equivalents and short-term investments
Trade accounts receivable, net of doubtful accounts and allowances - $24 and $30
Inventories (Note 6)
Deferred income taxes (Note 7)
Other current assets

Total current assets

Investments (Note 8)
Property, net of accumulated depreciation - $3,632 and $3,532 (Note 9)
Goodwill and other intangible assets, net (Note 10)
Deferred income taxes (Note 7)
Other assets

Total Assets $

Liabilities and Shareholders' Equity

Current liabilities:
Current portion of long-term debt (Note 12) $
Accounts payable
Other accrued liabilities (Note 11)

Total current liabilities

Long-term debt (Note 12)
Postretirement benefits other than pensions (Note 13)
Other liabilities (Note 11)

Total liabilities

Commitments and contingencies (Note 14)
Minority interests

Shareholders' equity (Note 16):
Preferred stock - Par value $100.00 per share; Shares authorized: 10 million
Series C mandatory convertible preferred stock - Shares issued: 5.75 million;
Shares outstanding: 0 and 637 thousand
Common stock - Par value $0.50 per share; Shares authorized: 3.8 billion
Shares issued: 1,552 million and 1,424 million

Additional paid-in capital	
Accumulated deficit	
Treasury stock, at cost; Shares held: 16 million	
Accumulated other comprehensive income	
Total shareholders' equity	
Total Liabilities and Shareholders' Equity	$

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

Certain amounts for 2004 were reclassified to conform with the 2005 presentation.

Consolidated Statements of Cash Flows — Corning In

(In millions)	For t 2005 (Restat
Cash Flows from Operating Activities:	
Net income (loss)	$ 58
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	49
Amortization of purchased intangibles	1
Asbestos settlement	21
Gain on sale of discontinued operation	
Restructuring, impairment and other (credits) and charges	(3
Loss (gain) on repurchases and retirement of debt	1
Stock compensation charges	2
Undistributed earnings of associated companies	(31
Deferred taxes	42
Interest expense on convertible debentures	(2
Restructuring payments	(2
Decrease (increase) in restricted cash	2
Income tax refund	
Customer deposits, net	42
Employee benefit payments less than (in excess of) expense	3
Changes in certain working capital items:	
Trade accounts receivable	(7
Inventories	(6
Other current assets	
Accounts payable and other current liabilities, net of restructuring payments	11
Other, net	8
Net cash provided by operating activities	1,93
Cash Flows from Investing Activities:	
Capital expenditures	(1,55

Acquisitions of businesses, net of cash acquired	
Net proceeds from sale of businesses	
Net proceeds from sale or disposal of assets	1
Short-term investments - acquisitions	(1,66
Short-term investments - liquidations	1,45
Other, net	3
Net cash (used in) provided by investing activities	(1,71
Cash Flows from Financing Activities:	
Net repayments of short-term borrowings and current portion of long-term debt	(45
Proceeds from issuance of long-term debt, net	14
Retirements of long-term debt	(10
Proceeds from issuance of common stock, net	36
Proceeds from the exercise of stock options	20
Other, net	(1
Net cash provided by (used in) financing activities	14
Effect of exchange rate changes on cash	(4
Net increase (decrease) in cash and cash equivalents	33
Cash and cash equivalents at beginning of year	1,00
Cash and cash equivalents at end of year	$ 1,34

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

Consolidated Statements of Changes in Shareholders' Equity Corning In

(In millions)

	Series C Preferred stock	Common stock	Additional paid-in capital	Unearned compensation	Accumulated deficit	Tre s
Balance, December 31, 2002	$ 155	$ 634	$ 9,697	$ (2)	$(4,921)	$
Net loss					(280)	
Foreign currency translation adjustment						
Minimum pension liability adjustment						
Net unrealized gain on investments (net of tax of $2 million)						
Other comprehensive income						
Total comprehensive income						
Series C preferred stock conversions	(70)	18	52			
Shares issued in equity offerings		47	571			

Shares issued to benefit plans			(37)			
Shares issued in debt retirements			12			
Other, net		2	22	(17)		
Balance, December 31, 2003 (Restated)	$ 85	$ 701	$10,317	$ (19)	$(5,201)	$
Net loss					(2,231)	
Foreign currency translation adjustment						
Minimum pension liability adjustment						
Net unrealized gain on investments						
Other comprehensive loss						
Total comprehensive loss						
Series C preferred stock conversions	(21)	5	16			
Shares issued to benefit plans			5			
Shares issued in debt retirements			(11)			
Other, net		6	82	(27)		
Balance, December 31, 2004 (Restated)	$ 64	$ 712	$10,409	$ (46)	$(7,432)	$
Net income					585	
Foreign currency translation adjustment						
Reversal of foreign currency translation adjustment						
Minimum pension liability adjustment						
Net loss on investments						
Unrealized derivative gain on cash flow hedges						
Reclassification adjustments on cash flow hedges						
Total comprehensive income						
Series C preferred stock conversions	(64)	16	48			
Shares issued in equity offerings		10	313			
Shares issued to benefit plans		20	493	(37)		
Shares issued in debt retirements		18	370			
Other, net			(2)			
Balance, December 31, 2005 (Restated)	$ 0	$ 776	$11,631	$ (83)	$(6,847)	$

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

1. Summary of Significant Accounting Policies

Organization

Corning Incorporated is a provider of high-performance glass for computer monitors and other information display applications; optical fiber and cable and hardware and equipment products for the telecommunications industry; ceramic substrates for gasoline and diesel engines in automotive and heavy duty vehicle markets; scientific laboratory products for the scientific community and specialized polymer products for biotechnology applications; advanced optical materials for the semiconductor industry and the scientific community; and other technologies. In these notes, the terms "Corning," "Company," "we," "us," or "our" mean Corning Incorporated and subsidiary companies.

Basis of Presentation and Principles of Consolidation

Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which Corning exercises control and, when applicable, entities for which Corning has a controlling financial interest.

For variable interest entities, we assess the terms of our interest in the entity to determine if we are the primary beneficiary as prescribed by FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised (FIN 46R). The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets excluding variable interests. We consolidate one variable interest entity in which we are the primary beneficiary.

The equity method of accounting is used for investments in associated companies which are not controlled by Corning and in which our interest is generally between 20% and 50% and we have significant influence over the entity. Our share of earnings or losses of associated companies, in which at least 20% of the voting securities is owned and we have significant influence but not control over the entity, is included in consolidated operating results.

We use the cost method to account for our investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate.

All material intercompany accounts, transactions and profits are eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current-year presentation, including the classification of auction rate securities as available-for-sale securities, which are reported as short-term investments, instead of cash equivalents. These reclassifications had no impact on our results of operations or changes in shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. Significant estimates and assumptions in these consolidated financial statements include restructuring and other charges and credits, allowances for doubtful accounts receivable, estimates of fair value associated with goodwill and long-lived asset impairment

tests, estimates of the fair value of assets held for disposal, environmental and legal liabilities, income taxes and deferred tax valuation allowances, and the determination of discount and other rate assumptions for pension and other postretirement employee benefit expenses. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

Revenue Recognition

Revenue for sales of goods is recognized when a firm sales agreement is in place, delivery has occurred and collectibility of the fixed or determinable sales price is reasonably assured. If customer acceptance of products is not reasonably assured, sales are recorded only upon formal customer acceptance. Sales of goods typically do not include multiple product and/or service elements.

At the time revenue is recognized, allowances are recorded, with the related reduction to revenue, for estimated product returns, allowances and price discounts based upon historical experience and related terms of customer arrangements. Where we have offered product warranties, we also establish liabilities for estimated warranty costs based upon historical experience and specific warranty issues. Warranty liabilities are adjusted when experience indicates an expected settlement will differ from initial estimates.

1. Summary of Significant Accounting Policies (continued)

Research and Development Costs

Research and development costs are charged to expense as incurred. Research and development costs totaled $348 million in 2005, and $289 million in 2004 and 2003.

Foreign Currency Translation and Transactions

The determination of the functional currency for Corning's foreign subsidiaries is made based on the appropriate economic factors. For most foreign operations, the local currencies are generally considered to be the functional currencies. Prior to 2005, non-U.S. operations which did not use the local currency as the functional currency used the U.S. dollar. Effective January 1, 2005, our Taiwan subsidiary changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen due to the increased significance of Japanese yen based transactions of that subsidiary. As a result of this change in functional currency, exchange rate gains and losses are recognized on transactions in currencies other than the Japanese yen and included in income for the period in which the exchange rates changed.

For foreign subsidiary functional currency financial statements, balance sheet accounts are translated at current exchange rates, and statement of operations accounts are translated at average exchange rates for the year. Translation gains and losses are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity. The effects of remeasuring non-functional currency assets and liabilities into the functional currency are included in current earnings.

Stock-Based Compensation

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 123,

"Accounting for Stock-Based Compensation" (SFAS 123), we apply the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25), to our stock options and other stock-based compensation plans. These plans are more fully described in Note 18 (Stock Compensation Plans).

In accordance with APB 25, stock option compensation expense is recognized in earnings based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. The exercise price for stock options granted to employees equals or exceeds the fair market value of our common stock at the date of grant.

The following table illustrates the effect on income (loss) from continuing operations and income (loss) per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. The estimated fair value of each Corning option is calculated using the Black-Scholes option-pricing model through November 30, 2005. For options granted after that time, the fair value is estimated using a lattice-based option valuation model.

(In millions, except per share amounts):

	Years ended	
	2005 (Restated)	2 (Res
Income (loss) from continuing operations - as reported	$ 585	$ (2
Add: Stock-based employee compensation expense determined under APB 25, included in reported income (loss) from continuing operations, net of tax	37	
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(68)	
Income (loss) from continuing operations - pro forma	$ 554	$ (2
Earnings (loss) per common share from continuing operations:		
Basic - as reported	$ 0.40	$ (
Basic - pro forma	$ 0.38	$ (
Diluted - as reported	$ 0.38	$ (
Diluted - pro forma	$ 0.36	$ (

1. Summary of Significant Accounting Policies (continued)

On December 1, 2004, Corning's Compensation Committee of the Board of Directors considered and adopted a proposal that accelerated the vesting of all unvested underwater options held by active employees. Unvested underwater options were defined as options granted prior to December 1, 2004 with a grant price greater than $12.70. Approximately 7 million stock options or 5 percent of Corning's outstanding stock options were accelerated. This action was one of a series of actions taken to manage Corning's anticipated future compensation cost for all

forms of equity incentives within an acceptable range once SFAS 123 (revised), "Share-Based Payment" (SFAS 123R) is adopted. Other actions included reducing the use of stock options for all employees, increasing the use of performance shares in the executive plan, and reviewing the cost considerations of the global employee share purchase program. As a result of the accelerated vesting, the 2004 "stock-based employee compensation expense determined under fair value based method, net of tax" amount above includes $13 million of incremental expense relating to these accelerated options.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments that are readily convertible into cash. We consider securities with contractual maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Supplemental disclosure of cash flow information follows (in millions):

	Years ended	
	2005	20
Non-cash transactions:		
Retirement of short-term borrowings		$
Retirement of debt in exchange for stock	$ 388	$
Pension contribution	$ 199	
Issued credit memoranda for settlement of customer receivables	$ 29	
Cash paid for interest and income taxes:		
Interest	$ 126	$
Income taxes, net of refunds received	$ 140	$

Short-Term Investments

Our short-term investments consist of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities include U.S. treasury notes, state and municipal bonds, asset-backed securities, auction rate securities, corporate bonds, commercial paper and certificates of deposit. These investments are on deposit with a major financial institution. Unrealized gains and losses, net of tax, are computed on the first-in first-out basis and are reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity until realized. Realized gains and losses are recorded in other income (expense), net.

Allowance for Doubtful Accounts

The Company's allowance for doubtful accounts is determined based on a variety of factors that affect the potential collectibility of the related receivables, including length of time receivables are past due, customer credit ratings, financial stability of customers, specific one-time events and past customer history. In addition, in circumstances where the Company is made aware of a specific customer's inability to meet its financial obligations, a specific allowance is established. The majority of accounts are individually evaluated on a regular basis and appropriate reserves are established as deemed appropriate based on the above criteria. The remainder of the reserve is based on management's estimates and takes into consideration historical trends, market conditions and the composition of the Company's customer base.

Environmental Liabilities

The Company accrues for its environmental investigation, remediation, operating and maintenance costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. For environmental matters, the most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, current laws and regulations and prior remediation experience. For sites with multiple potential responsible parties (PRP's), the Company considers its likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. Where no amount within a range of estimates is more likely to occur than another, the minimum is accrued. When future liabilities are determined to be reimbursable by insurance coverage, an accrual is recorded for the potential liability and a receivable is recorded related to the insurance reimbursement. The uncertain nature inherent in such remediation and the possibility that initial estimates may not reflect the final outcome could result in additional costs.

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Property, Net of Accumulated Depreciation

Land, buildings and equipment are recorded at cost. Depreciation is based on estimated useful lives of properties using the straight-line method. Except as described in Note 4 (Restructuring, Impairment and Other Charges and (Credits)) related to accelerated depreciation arising from restructuring programs, the estimated useful lives range from 20 to 40 years for buildings and 3 to 20 years for equipment.

Included in the subcategory of equipment are the following types of assets:

Asset type	Range of useful life
Computer hardware and software	3 years
Manufacturing equipment	3 to 15 years
Furniture and fixtures	5 to 7 years
Transportation equipment	20 years

Included in manufacturing equipment are certain components of production equipment that are coated with or constructed of precious metals. These metals have an indefinite useful life as they are returned to their elemental state and reused or sold.

Goodwill and Other Intangible Assets

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is tested for impairment annually in the fourth quarter, and will be tested for impairment between annual tests if an event occurs or circumstances change that more likely than not would indicate the carrying amount may be impaired.

Impairment testing for goodwill is done at a reporting unit level. Reporting units are either one level below the operating segment level or an aggregation of two or more reporting units within the same operating segment if such reporting units share similar economic characteristics. Goodwill relates and is assigned directly to a specific reporting unit. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using a discounted cash flow analysis. Refer to Note 4 (Restructuring, Impairment and Other Charges and (Credits)) and Note 10 (Goodwill and Other Intangible Assets) for additional information.

Other intangible assets include patents, trademarks and other intangible assets acquired from an independent party. Such intangible assets have a definite life and are amortized on a straight-line basis with estimated useful lives ranging from 5 to 20 years.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, such as plant and equipment and intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. We assess the recoverability of the carrying value of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is measured based on the difference between estimated fair value and carrying value. Assets to be disposed are written-down to the greater of their fair value or salvage value. Fair values are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

Treasury Stock

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of shareholders' equity in the consolidated balance sheets. From time to time, treasury shares may be reissued as contributions to our employee benefit plans and for the retirement or conversion of certain debt instruments. When shares are reissued, we use an average cost method for determining cost. The difference between the cost of the shares and the reissuance price is added or deducted from additional paid-in capital.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), which establishes financial accounting and reporting standards for the effect of income taxes. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and the deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the entity's financial statements. The Company is subject to income taxes in the United States and in numerous foreign jurisdictions. No provision is made for U.S. income taxes on the undistributed earnings of its wholly owned foreign subsidiaries because substantially all such earnings are

indefinitely reinvested in those companies. Provision for the tax consequences of distributions, if any, from consolidated foreign subsidiaries is recorded in the year the distribution is declared. Significant judgment is required in determining the Company's worldwide income tax position as well as its effective tax rate.

The Company has provided for potential liabilities due in various jurisdictions. Judgment is required in determining the worldwide income tax expense provision. In the ordinary course of global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities. SFAS 109 requires us to exercise judgment about our future results in assessing the realizability of our deferred tax assets. Inherent in this estimation process, especially since we are in a net gross deferred tax asset position, in part due to prior year net operating losses, is the requirement for us to estimate future book taxable income and possible tax planning strategies. Although the Company believes its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in the historical income tax provisions and accruals. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which such determination is made.

Fair Value of Financial Instruments

Management believes that the carrying values of financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued liabilities approximate fair value as a result of the short-term maturities of these instruments.

Derivative Instruments

We participate in a variety of foreign exchange forward contracts and foreign exchange option contracts entered into in connection with the management of our exposure to fluctuations in foreign exchange and interest rates. These financial exposures are managed in accordance with corporate policies and procedures.

All derivatives are recorded at fair value on the balance sheet. Changes in the fair value of derivatives designated as cash flow hedges and hedges of net investments in foreign operations are recorded in accumulated other comprehensive income (loss). Amounts, related to cash flow hedges are reclassified from accumulated other comprehensive income (loss) when the underlying hedged item impacts earnings. This reclassification is recorded in the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded, typically sales or cost of sales. Changes in the fair value of derivatives designated as fair value hedges are recorded currently in earnings offset to the extent the derivative was effective, by the change in the fair value of the hedged item. Corning currently does not have any fair value hedges. Changes in the fair value of derivatives not designated as hedging instruments are recorded currently in earnings in the other income line of the consolidated statement of operations.

We have issued foreign currency denominated debt that has been designated as a hedge of the net investment in a foreign operation. The effective portion of the changes in fair value of the debt is reflected as a component of other comprehensive income (loss) as part of the foreign currency translation adjustment.

Variable Interest Entities

Corning leases certain transportation equipment from a Trust that qualifies as a variable interest entity under FIN 46R. The sole purpose of this entity is

leasing transportation equipment to Corning. Since Corning is the primary beneficiary of this entity, the financial statements of the entity are included in Corning's consolidated financial statements. The entity's assets are primarily comprised of fixed assets which are collateral for the entity's borrowings. These assets, amounting to approximately $29.5 million and $30.4 million as of December 31, 2005 and 2004, respectively, are classified as long-term assets in the consolidated balance sheet.

Corning leases certain transportation equipment from two additional Trusts that qualify as variable interest entities under FIN 46R. Corning is not the primary beneficiary of these entities. The sole purpose of the entities is leasing transportation equipment to Corning. Corning has been involved with these entities as lessee since the inception of the Trusts. Lease revenue generated by these Trusts was $1.5 million, $1.6 million, and $1.3 million for the years ended December 31, 2005, 2004 and 2003, respectively. Corning's maximum exposure to loss as a result of its involvement with the Trusts is estimated at approximately $16.6 million and $17.3 million at December 31, 2005 and 2004, respectively.

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4" (SFAS 151). SFAS 151 amends ARB No. 43, Chapter 4, "Inventory Pricing," to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. Additionally, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Corning is required to adopt SFAS 151 effective January 1, 2006. Corning does not expect the adoption of SFAS 151 to have a material impact on its consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS 123 and supercedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value. Under SFAS 123(R), Corning must determine the appropriate fair value model to be used for valuing share-based payments, the attribution method for compensation cost, and the transition method to be used at date of adoption. We will implement the provisions of SFAS 123(R) on January 1, 2006 following the "prospective adoption" transition method. This adoption method requires Corning to begin expensing share-based payments effective January 1, 2006. Prior periods will not be restated.

Corning grants restricted shares and stock options that are subject to specific vesting conditions (e.g., three-year cliff vesting). The awards specify that the employee will continue to vest in the award after retirement without providing any additional service. Corning has historically accounted for this type of arrangement by recognizing compensation cost over the nominal vesting period and, if the employee retires before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement (the "nominal vesting period approach").

SFAS 123(R) specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). This would be the case for Corning

awards that vest when employees retire and are granted to retirement eligible employees. Effective January 1, 2006, related compensation cost must be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

We will continue to follow the nominal vesting period approach for any share-based awards granted prior to adopting SFAS 123(R) and the corresponding remaining portion of unvested outstanding awards after adopting SFAS 123(R). Upon adoption of SFAS 123(R), we will apply the non-substantive vesting period approach to new grants that have retirement eligibility provisions. Had we applied the non-substantive vesting period approach in prior periods, stock-based compensation cost would have been $16 million and $7 million higher for 2005 and 2004, respectively, for stock options and restricted share awards.

Our current estimate is that our pretax and after-tax stock-based compensation expense will increase by $60 million to $70 million in 2006 and beyond as a result of adopting SFAS 123(R). This amount includes approximately $15 million related to the impact of applying the non-substantive vesting period approach.

In December 2004, the FASB issued SFAS No. 153, "Exchanges in Nonmonetary Assets - an amendment of APB Opinion No. 29" (SFAS 153) which became effective in July 2005. This Statement amends APB No. 29, "Accounting for Nonmonetary Transactions," by eliminating an exception for nonmonetary exchanges of similar productive assets and replacing it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Corning adopted SFAS 153 prospectively, on July 1, 2005, as required. The impact of SFAS 153 was not material to Corning's consolidated results of operations and financial condition.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" (FIN 47), which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Corning adopted FIN 47 effective December 31, 2005. The impact of FIN 47 was not material to Corning's consolidated results of operations and financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Corning will apply the standard's guidance to changes in accounting methods as required. Corning does not expect the adoption of SFAS 154 will have a material impact on its consolidated results of operations and financial condition.

2. Restatement of Previously Issued Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that we would restate previously issued consolidated financial statements for each of the three years ended December 31, 2005, to correct for errors in the accounting for the asbestos settlement liability and for our investment in Pittsburgh Corning Europe N.V. (PCE) from March 31, 2003, through December 31, 2005. We also changed the classification of accretion on a portion of the

liability from interest expense to asbestos settlement expense in our consolidated statements of operations for the same time period.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against Corning and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish our equity interest in PCC, contribute our equity interest in PCE, and contribute 25 million shares of Corning common stock. We also agreed to make cash payments with a value of $131 million, in March 2003, over six years from the effective date of the settlement and to assign insurance policy proceeds from our primary insurance and a portion of our excess insurance at the time of the settlement.

Between March 31, 2003, and December 31, 2005, the following accounting errors occurred:

- Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by $13 million, $24 million, and $117 million, respectively.
- Corning incorrectly suspended recording equity earnings of PCE between March 31, 2003, and December 31, 2005. As a result, equity in earnings of associated companies for the years 2005, 2004, and 2003 was understated by $13 million, $11 million, and $7 million, respectively.
- Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by $8 million, $8 million, and $5 million, respectively.

In the restated financial statements, the higher asbestos settlement charges have been tax-effected in 2003 and the first half of 2004. As Corning provided a valuation allowance on most of its deferred tax assets in the third quarter of 2004, that quarter reflects an increase in the valuation allowance of $55 million for the deferred tax assets related to the higher asbestos settlement charges.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2005, resulted in an increase in investments in affiliate companies of $32 million, an increase to other accrued liabilities of $154 million, an increase to accumulated deficit of $123 million, and an increase to accumulated other comprehensive income of $1 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of $26 million, an increase to other accrued liabilities of $141 million, an increase to accumulated deficit of $123 million, and an increase to accumulated other comprehensive income of $8 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2003, resulted in an increase in investments in affiliate companies of $11 million, an increase in deferred income taxes of $53 million, an increase to other accrued liabilities of $117 million, an increase to accumulated deficit of $57 million, and an increase to accumulated other comprehensive income of $4 million.

2. Restatement of Previously Issued Financial Statements (continued)

The impacts of the restatement adjustments on Corning's financial statements are as follows:

Consolidated Statements of Operations
Summary of Restatement Impacts
(Audited; in millions, except per share amounts)

F

	Previously Reported
Operating expenses:	
Asbestos settlement	$ 197
Operating income (loss)	613
Interest expense	116
Income (loss) from before income taxes	572
Provision for income taxes	(578)
Loss before minority interests and equity earnings	(6)
Equity in earnings of associated companies, net of impairments	598
Net income	$ 585
Basic earnings per common share	$ 0.40
Diluted earnings per common share	$ 0.38

F

	Previously Reported
Operating expenses:	
Asbestos settlement	$ 33
Operating loss	(1,453)
Interest expense	141
Loss before income taxes	(1,580)
Provision for income taxes	(1,031)

Loss before minority interests and equity earnings	(2,611)
Equity in earnings of associated companies, net of impairments	443
Loss from continuing operations	$ (2,185)
Net (loss)	$ (2,165)
Basic loss per common share from continuing operations	$ (1.57)
Basic loss per common share	$ (1.56)
Diluted loss per common share from continuing operations	$ (1.57)
Diluted loss per common share	$ (1.56)

	F
	Previously Reported
Operating expenses:	
Asbestos settlement	$ 413
Operating loss	(655)
Interest expense	154
Loss before income taxes	(759)
Benefit for income taxes	254
Loss before minority interests and equity earnings	(505)
Equity in earnings of associated companies, net of impairments	209
Net (loss)	$ (223)
Basic loss per common share	$ (0.18)
Diluted loss per common share	$ (0.18)

2. Restatement of Previously Issued Financial Statements (continued)

Consolidated Balance Sheets
Summary of Restatement Impacts
(Audited; in millions)

	As
	Previously Reported

Investments	$ 1,697
Total Assets	$ 11,175
Other accrued liabilities	$ 1,508
Total current liabilities	$ 2,216
Total liabilities	$ 5,523
Accumulated deficit	$ (6,724)
Accumulated other comprehensive income	$ 177
Total shareholders' equity	$ 5,609
Total Liabilities and Shareholders' Equity	$ 11,175

	As
	Previously Reported
Investments	$ 1,484
Total Assets	$ 9,744
Other accrued liabilities	$ 1,178
Total current liabilities	$ 2,338
Total liabilities	$ 5,899
Accumulated deficit	$ (7,309)
Accumulated other comprehensive income	$ 148
Total shareholders' equity	$ 3,816
Total Liabilities and Shareholders' Equity	$ 9,744

(a) Includes a reclassification of approximately $32 million for gross presentation of certain deferred tax assets and liabilities by jurisdiction.

2. Restatement of Previously Issued Financial Statements (continued)

Consolidated Statements of Cash Flows
Summary of Restatement Impacts
(Audited; in millions)

	F
	Previously

	Reported
Cash Flows from Operating Activities:	
Net income	$ 585
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:	
Asbestos settlement charge	197
Equity in earnings of associated companies in excess of dividends received	(297)
Other, net	94
Net cash provided by operating activities	$ 1,939

F

	Previously Reported
Cash Flows from Operating Activities:	
Net loss	$ (2,165)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:	
Asbestos settlement charge	33
Equity in earnings of associated companies in excess of dividends received	(303)
Deferred tax provision	947
Other, net	(5)
Net cash provided by operating activities	$ 1,009

F

	Previously Reported
Cash Flows from Operating Activities:	
Net loss	$ (223)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:	
Asbestos settlement charge	413
Equity in earnings of associated companies in excess of dividends received	(97)
Deferred tax benefit	(263)
Other, net	(1)
Net cash provided by operating activities	$ 133

3. Discontinued Operation

In the third quarter of 2004, Corning and 3M Company (3M) reached a final settlement agreement for funds held in escrow associated with the 2002 sale of Corning's precision lens business to 3M. As a result, we recognized a $20 million gain upon receipt of the proceeds in 2004. This gain is included in income from discontinued operation in the 2004 consolidated statement of operations.

4. Restructuring, Impairment and Other Charges and (Credits)

2005 Actions

Corning recorded net credits of $38 million in 2005. A summary of the charges and credits follows:

.. We recorded a credit of $84 million for the reversal of the cumulative translation account of O.T.I. S.r.l. (OTI), a wholly-owned foreign subsidiary of Corning, upon OTI's substantial liquidation. The photonics business in Milan, Italy, was the sole operation of OTI, whose results were included in Telecommunications segment. Subsequent to Corning's agreement to sell its photonics business operations to Avanex Corporation (Avanex) in 2003, Corning began liquidating OTI. In October 2005, the assets were substantially liquidated and OTI's cumulative translation account was reversed.

.. We recorded a charge of $30 million which was comprised of severance costs for a restructuring plan in the Telecommunications segment to continue to reduce costs in this segment.

.. We recorded net credit adjustments of $9 million to prior year restructuring plans which included charges of $8 million related to our Telecommunications segment and credits of $17 million for businesses in our Unallocated and Other segment.

.. We recorded impairment charges of $25 million in the Telecommunications segment for an other than temporary decline in the fair value of our investment in Avanex below its adjusted cost basis. Our investment in Avanex was accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). In the fourth quarter of 2005, we completed the sale of our remaining shares of Avanex.

The following table summarizes the restructuring, impairment, and other charges and (credits) as of and for the year ended December 31, 2005 (in millions):

		Year ended December 31, 2005			
	Reserve at January 1, 2005	Charges/ (credits)	Revisions to existing plans	Net charges/ (reversals)	Ca paym
Restructuring:					
Employee related costs	$ 18	$ 30	$ (1)	$ 29	$ (
Other charges (credits)	77		(14)	(14)	(
Total restructuring charges	$ 95	$ 30	$ (15)	$ 15	$ (

Impairment of long-lived assets:			
Impairment of available-for-sale securities	$ 25		$ 25
Assets to be disposed of by sale or abandonment		$ 6	6
Total impairment charges	$ 25	$ 6	$ 31
Reversal of currency translation adjustment	$ (84)		$ (84)
Total restructuring, impairment and other charges and (credits)	$ (29)	$ (9)	$ (38)

Cash payments for employee-related costs will be substantially completed by the end of 2007, while payments for exit activities will be substantially completed by the end of 2010.

The following table summarizes the net charge (reversals) for 2005 restructuring, impairment, and other charges and (credits) by operating segment (in millions):

	Telecom- munications	Unallocated and Other	Total
Net credit	$ (47)	$ 9	$ (38)

4. Restructuring, Impairment and Other Charges and (Credits) (continued)

2004 Actions

Corning recorded net charges of $1,789 million in 2004. A summary of the significant charges and credits follows:

- We recorded a charge of $1,420 million to impair a significant portion of our Telecommunications segment goodwill balance. Refer to Note 10 (Goodwill and Other Intangible Assets) for additional information on this charge.
- We recorded a $350 million charge to impair certain fixed assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). This charge primarily relates to our third quarter decision to permanently abandon approximately $332 million of construction in progress at our optical fiber manufacturing facility in Concord, North Carolina that had been stopped in 2002. As a result of our lowered outlook for the Telecommunications segment, we have permanently abandoned this construction in progress as we no longer believe the demand for optical fiber will warrant the investment necessary to complete this facility.
- We recorded an asset held for use impairment charge of $24 million to impair certain fixed assets and intangible assets other than goodwill in accordance with SFAS 144. Due to our decision to permanently abandon certain fixed assets and lower our long-term outlook for the Telecommunications segment, we determined that an event of impairment, as

defined by SFAS 144, had occurred in our Telecommunications segment which required us to test the segment's long-lived assets other than goodwill for impairment. We estimated the fair value of the long-lived assets using the discounted cash flow approach as a measure of fair value. As a result of our impairment evaluation, we recorded an impairment charge to write-down certain assets to their estimated fair values.

- We recorded a gain of $33 million related to proceeds in excess of assumed salvage values for assets of Corning Asahi Video Products Company (CAV) that were previously impaired but later sold to a Henan Anyang CPT Glass Bulb Group, Electronic Glass Co., Ltd. (Henan Anyang), located in China. This represented the substantial completion of the sale of CAV's assets.
- We recorded $37 million of accelerated depreciation relating to the final shutdown of our semiconductor materials manufacturing facility in Charleston, South Carolina, which we announced in the fourth quarter of 2003.
- We recorded a loss of $14 million on the sale of our frequency controls business for net cash proceeds of $80 million. The frequency controls business, which was part of our Telecommunications segment, had annual sales of $76 million.
- We recorded net credits of $25 million related to adjustments to prior period restructuring, impairment, and other charges.

The following table summarizes the charges, credits and balances of the restructuring liabilities as of and for the year ended December 31, 2004 (in millions):

		Year ended December 31, 2004			
	Reserve at January 1, 2004	Charges	Revisions to existing plans	Net charges/ (reversals)	Ca paym
Restructuring:					
Employee related costs	$ 78				$ (
Exit costs	108	$ 2	$ (8)	$ (6)	(
Total restructuring charges	$ 186	$ 2	$ (8)	$ (6)	$ (
Impairment of long-lived assets:					
Goodwill		$ 1,420		$ 1,420	
Assets to be disposed of by sale or abandonment		350	$ (48)	302	
Asset to be held and used		24		24	
Total impairment charges		$ 1,794	$ (48)	$ 1,746	
Other:					
Accelerated depreciation		$ 37		$ 37	
Loss on sale of business		14	$ (2)	12	
Total other charges		$ 51	$ (2)	$ 49	
Total restructuring, impairment and other charges and (credits)		$ 1,847	$ (58)	$ 1,789	

In 2004, net charges (reversals) for restructuring, impairment, and other actions totaled $1,798 million for the Telecommunications segment and were a credit of $9 million for the Unallocated and Other segment.

4. Restructuring, Impairment and Other Charges and (Credits) (continued)

2003 Actions

Corning recorded net charges of $111 million in 2003. Major actions approved and initiated in 2003 included the following:

- The shutdown of CAV.
- The exit of our photonic technologies products within the Telecommunications segment, which included the sale of certain assets to Avanex.
- Credits to prior year restructuring plans, primarily the result of our decision not to exit two cabling sites previously marked for shutdown in 2002.
- The shutdown of two of our specialty materials manufacturing facilities in North Brookfield and Charleston, South Carolina.

The following table summarizes the charges, credits and balances of the restructuring liabilities as of and for the year ended December 31, 2003 (in millions):

		Year ended December 31, 2003			
	Reserve at January 1, 2003	Charges	Reversals to existing plans	Net charges/ (reversals)	Non- us
Restructuring:					
Employee related costs	$ 273	$ 90	$ (63)	$ 27	$ (
Exit costs	132	37	(23)	14	
Total restructuring charges	$ 405	$ 127	$ (86)	$ 41	$ (
Impairment of long-lived assets:					
Assets to be disposed of by sale or abandonment		$ 40	$ (61)	$ (21)	
Assets to be held and used		62		62	
Cost investments		5	(1)	4	
Total impairment charges		$ 107	$ (62)	$ 45	
Other:					
Accelerated depreciation		$ 12		$ 12	
Loss on Avanex transaction		13		13	
Total other charges		$ 25		$ 25	
Total restructuring, impairment and					

other charges and (credits)	$ 259	$ (148)	$ 111

In 2003, net charges (reversals) for restructuring, impairment, and other actions were a credit of $36 million for the Telecommunications segment and a charge of $147 million for Unallocated and Other. The headcount reductions associated with 2003 restructuring plans totaled 975 for U.S. hourly employees, 750 for U.S. salaried employees, and 250 for non-U.S. employees.

As of December 31, 2004, all of the 1,975 employees from the 2003 restructuring plans had been separated.

5. Short-Term Investments

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

	December 31, 2005	December 31, 2004
Bonds, notes and other securities		
U.S. government and agencies	$ 259	$ 85
States and municipalities	77	216
Asset-backed securities	374	245
Commercial paper	57	20
Other debt securities	325	306
Total short-term investments	$ 1,092	$ 872

Gross unrealized gains and losses were insignificant at December 31, 2005 and 2004.

5. Short-Term Investments (continued)

The following table summarizes the contractual maturities of available-for-sale securities at December 31, 2005 (in millions):

Less than one year	$ 375
Due in 1-5 years	379
Due in 5-10 years	23
Due after 10 years	315
Total	$ 1,092

Proceeds from sales and maturities of short-term investments totaled $1.5 billion, $1.4 billion and $2.6 billion in 2005, 2004 and 2003, respectively. The gross realized gains and losses related to sales of short-term investments were insignificant in 2005, 2004 and 2003.

6. Inventories

Inventories comprise the following (in millions):

December 31,

	2005	2004
Finished goods	$ 135	$ 136
Work in process	198	172
Raw materials and accessories	124	139
Supplies and packing materials	113	88
Total inventories	$ 570	$ 535

7. Income Taxes

Income (loss) from continuing operations before income taxes follows (in millions):

	Years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
U.S. companies	$ (213)	$ (1,578)	$ (1,044)
Non-U.S. companies	772	(26)	168
Income (loss) from continuing operations before income taxes	$ 559	$ (1,604)	$ (876)

The current and deferred amounts of the provision (benefit) for income taxes follow (in millions):

	Years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Current:			
Federal	$ (14)	$ (20)	$ (11)
State and municipal		(7)	(3)
Foreign	167	111	23
Deferred:			
Federal	443	593	(304)
State and municipal		227	(31)
Foreign	(18)	180	19
Provision (benefit) for income taxes	$ 578	$ 1,084	$ (307)

Amounts are reflected in the preceding tables based on the location of the taxing authorities.

We do not provide income taxes on the post-1992 earnings of domestic subsidiaries that we expect to recover tax-free without significant cost. Income taxes have been provided for post-1992 unremitted earnings of domestic corporate joint ventures that we do not expect to recover tax-free. Unremitted earnings of domestic subsidiaries and corporate joint ventures that arose in fiscal years beginning on or before December 31, 1992 have been indefinitely reinvested. We currently provide income taxes on the earnings of foreign subsidiaries and associated companies to the extent these earnings are currently taxable or expected to be remitted. As of December 31, 2005, taxes have not been provided on approximately $2.2 billion of accumulated foreign unremitted earnings which

are expected to remain invested indefinitely.

The American Jobs Creation Act of 2004 (the "Act") was signed into law on October 22, 2004. The Act introduced a special one-time (for 2004 or 2005) 85% dividends received deduction for certain repatriated foreign earnings. Our remittance plans did not change as a result of this provision. Our accumulated foreign unremitted earnings are expected to remain invested indefinitely.

7. Income Taxes (continued)

The Act also provided for the repeal of the extraterritorial income tax regime (through reduced benefits in 2005 and 2006, with full repeal effective for 2007) and the allowance of a deduction for qualified domestic production activities (phased in over the years 2005 to 2009 and fully effective in 2010). Neither of these changes is expected to have a significant impact on our effective tax rate or U.S. tax liabilities because of our loss position in the U.S. and the resulting valuation allowances against our U.S. deferred tax assets.

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations follows:

	Y
	2005 (Restated)
Statutory U.S. income tax (benefit) rate	35.0%
State income benefit, net of federal benefit	(1.9)
Nondeductible goodwill and other expenses	0.3
Worthless stock deductions	(272.7)
Tax holidays	(8.9)
Investment & other tax credits	(12.7)
Rate difference on foreign earnings	10.2
Reversal of tax contingency liabilities	(2.5)
Minimum pension obligation	(14.6)
Currency translation adjustment	(5.2)
Valuation allowances	374.0
Other items, net	2.4
Effective income tax (benefit) rate	103.4%

For 2005, the tax provision reflected the following items:

.. The impact of our inability to record tax benefits on net operating losses generated in the U.S. and certain foreign jurisdictions;
.. An increase in our valuation allowance as a result of the conclusion that the sale of an appreciated asset was no longer prudent and, as such, no longer meets the criteria for a tax planning strategy;
.. The benefit of a worthless stock deduction (and a corresponding increase in our valuation allowance) for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition which was completed in December 2000 and was substantially impaired in the second quarter of 2001;

- The benefit of tax holidays and investment credits in Taiwan and tax holidays in China and South Africa;
- The benefit from the reversal of tax contingency liabilities following the conclusion of Internal Revenue Service (IRS) examinations; and
- The tax effect of eliminating our minimum pension liability for the domestic qualified plan.

In 2004, significant events occurred which required us to increase our valuation allowances against certain U.S. and German deferred tax assets. Refer to Note 4 (Restructuring, Impairment and Other Charges and (Credits)) for additional information on these events and the related charges. Accordingly, we increased our valuation allowance by $1.2 billion in the third quarter of 2004 to reduce our net deferred tax assets to approximately $530 million. At that time, we believed that it was more likely than not that we could realize the remaining net deferred tax assets through a tax planning strategy involving the sale of our investment in Dow Corning Corporation (DCC), a non-strategic appreciated asset, if we were faced with expiring net operating loss carryforwards.

During 2005, DCC's performance was much stronger than expected and DCC resumed paying a dividend; both of which are expected to continue in the future. Due to this improved performance, DCC now provides strong financial, geographic and market balance to Corning's portfolio of businesses, the profitability of which has become more concentrated due to the success of the display operating segment. As a result, we now consider DCC to be a strategic investment and can no longer assert that a potential tax planning strategy involving the sale of DCC would be prudent, as required by FAS 109. Therefore, we no longer believe that it is more likely than not that we would realize the remaining net deferred tax assets. Accordingly, we have increased our valuation allowance by $525 million to fully reserve our net U.S. deferred tax assets in the fourth quarter of 2005.

As a result of the elimination of the minimum pension liability for the domestic qualified plan, $82 million tax benefit from the minimum pension liability, previously included in other comprehensive income, was reflected in our provision for income taxes in the fourth quarter of 2005.

7. Income Taxes (continued)

During the third quarter of 2005, Corning filed its 2004 consolidated U.S. Federal income tax return, which included a $3.9 billion worthless stock deduction for the loss on our investment in the photonic technologies business associated with the Pirelli acquisition. This acquisition was completed in December 2000 and was substantially impaired in the second quarter of 2001. Prior to the third quarter of 2005, we did not record a deferred tax asset for this item as the ultimate realization of such deduction was uncertain, and consistent with the requirements of SFAS No. 5, "Accounting for Contingencies," recognition of an asset prior to the time management determines the realization of the asset is probable is prohibited. On September 2, 2005, Corning and the Commissioner of the IRS entered into a closing agreement under section 7121 of the Internal Revenue Code of 1986 which provides that Corning is entitled to this worthless stock deduction. We recorded a $1.5 billion deferred tax asset for this item in the third quarter, which was concurrently offset by a valuation allowance of an equal amount due to our current inability to record tax benefits for U.S. net operating losses.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability is sustained, primarily in the U.S. and Germany, or there are tax planning strategies that would enable us to conclude

that it is more likely than not that a portion of the deferred tax benefits would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations.

Certain foreign subsidiaries in China, South Africa and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out in future years (2006 to 2009) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective rate is a reduction in the rate of 8.9%, 1.2%, and 0.5% for 2005, 2004, and 2003, respectively.

We establish tax contingency liabilities when, despite our belief that our tax returns are fully supportable, it is probable that certain positions may not be sustained through the income tax audit process. These liabilities are analyzed on a quarterly basis and adjusted based upon changes in facts and circumstances, such as reviews of intercompany transfer pricing practices, the progress of income tax audits, new case law and emerging legislation. In the third quarter of 2005, in conjunction with our reassessment process, we recorded a tax benefit of $14 million following the conclusion of an IRS examination for the years 2001 and 2002. We continue to believe that our recorded tax contingency liabilities are adequate for all open years, based on our assessment of the previously mentioned factors. However, since tax laws and regulations are subject to interpretation, the final results of income tax audits could differ significantly from what we have reflected in our income tax accounts and could have a material effect on our tax provision, net income and/or cash flows in a future period or periods in which such a conclusion is reached. Due to the complexity involved in these matters we are not able to estimate the range of reasonably possible losses in excess of amounts recorded.

The tax effects of temporary differences and carryforwards that gave rise to significant portions of the deferred tax assets and liabilities follows (in millions):

	December 31,	
	2005 (Restated)	2004 (Restated)
Loss and tax credit carryforwards	$ 2,723	$ 1,189
Capitalized research and development	176	207
Restructuring reserves	230	237
Postretirement medical and life benefits	248	243
Inventory	51	35
Intangible and other assets	86	98
Other accrued liabilities	340	218
Other employee benefits		97
Other		86
Gross deferred tax assets	3,854	2,410
Valuation allowance	(3,672)	(1,747)
Deferred tax assets	182	663
Fixed assets	(80)	(131)
Other employee benefits	(67)	
Other	(7)	
Deferred tax liabilities	(154)	(131)
Net deferred tax assets	$ 28	$ 532

Based on our estimated 2005 consolidated U.S. Federal income tax return to be filed, Corning has net operating loss carryforwards of ($5.1) billion for U.S. Federal income tax purposes. These operating losses will expire in 2022 $0.1 billion, 2023 $0.6 billion, 2024 $4.2 billion and 2025 $0.2 billion.

8. Investments

Investments comprise the following (in millions):

		Dece
	Ownership Interest (1)	2005 (Restated)
Associated companies accounted for under the equity method		
Samsung Corning Precision Glass Co., Ltd.	50%	$ 859
Dow Corning Corporation	50%	473
Samsung Corning Co., Ltd.	50%	231
All other	25%-51%	162
		1,725
Other investments (2)		4
Total		$ 1,729

(1) Amounts reflect Corning's direct ownership interests in the respective associated companies. Corning does not control any of such entities. In the cases where Corning owns over 50% of the voting stock of another entity accounted for by the equity method, Corning does not have control because the other equity owner has significant participatory rights.
(2) Amounts reflect $53 million of available-for-sale securities at December 31, 2004 stated at market value.

8. Investments (continued)

Associated Companies at Equity

The financial position and results of operations of these investments follow (in millions):

For the years ended Dece	
2005	2004

	(Restated)	(Restated)
Statement of Operations:		
Net sales	$ 6,979	$ 6,146
Gross profit	$ 2,866	$ 2,341
Net income	$ 1,250	$ 1,036
Corning's equity in earnings of affiliated companies (1)(2)	$ 611	$ 454
Related Party Transactions:		
Corning sales to equity company affiliates	$ 133	$ 127
Corning purchases from equity company affiliates	$ 106	$ 106

	December 31,	
	2005	2004
Balance Sheet:		
Current assets	$ 3,596	$ 2,779
Noncurrent assets	$ 5,023	$ 5,426
Short-term borrowings, including current portion of long-term debt	$ 88	$ 75
Other current liabilities	$ 1,520	$ 1,442
Long-term debt	$ 153	$ 252
Other long-term liabilities	$ 2,676	$ 2,777
Minority interest	$ 223	$ 245
Related Party Transactions:		
Balances due from equity company affiliates	$ 34	$ 23
Balances due to equity company affiliates	$ 45	$ 15

	For the years ended Dece	
	2005	2004
Dividends received from affiliated companies	$ 301	$ 140
Royalty income from affiliated companies	$ 75	$ 47

(1) Equity in earnings shown above and in the consolidated statements of operations are net of amounts recorded for income tax.

(2) Amounts include the following restructuring and impairment charges:

- In 2005, Dow Corning Corporation recorded a gain on the issuance of subsidiary stock. Our equity earnings included $11 million related to this gain.
- In 2005, Samsung Corning recorded charges to restructure and impair certain manufacturing assets. Our equity earnings included $106 million related to these charges.
- In 2004, Dow Corning Corporation recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included $21 million related to these charges.
- In 2004 and 2003, Corning recorded $35 million and $7 million, respectively, of charges to impair equity method investments in the Telecommunications segment to their estimated fair value.
- In 2003, Samsung Corning Co., Ltd. recorded asset impairment charges. Our equity earnings included $66 million related to these charges.

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

At December 31, 2005, approximately $1,516 million of equity in undistributed earnings of equity companies was included in our accumulated deficit.

8. Investments (continued)

A discussion and summarized results of Corning's significant investees at December 31, 2005 follows:

Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision)

Samsung Corning Precision is a South Korea-based manufacturer of liquid crystal display glass for flat panel displays. Samsung Corning Precision's financial position and results of operations follow (in millions):

	For the years ended Dece	
	2005	2004
Statement of Operations:		
Net sales	$ 1,660	$ 1,097
Gross profit	$ 1,234	$ 820
Net income	$ 848	$ 561
Corning's equity in earnings of Samsung Corning Precision	$ 408	$ 277
Related Party Transactions:		
Corning sales to Samsung Corning Precision (1)	$ 116	$ 96
Corning purchases from Samsung Corning Precision	$ 71	$ 76

	December 31,	
	2005	2004
Balance Sheet:		
Current assets	$ 400	$ 200
Noncurrent assets	$ 1,848	$ 1,506
Short-term borrowings, including current portion of long-term debt	$ 57	$ 54
Other current liabilities	$ 359	$ 368
Long-term debt	$ 28	$ 97
Other long-term liabilities	$ 86	$ 45

	For the years ended Decem	
	2005	2004
Dividends received from Samsung Corning Precision	$ 156	$ 71
Royalty income from Samsung Corning Precision	$ 65	$ 42

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

Balances due to and from Samsung Corning Precision were $41 million and $18 million at December 31, 2005 and $12 million and $4 million at 2004, respectively.

As of December 31, 2005, Samsung Corning Precision and Samsung Corning Co., Ltd. were two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and 14 other creditors. Refer to Samsung Corning Co., Ltd. section of this note for additional information.

In February 2006, Corning made a capital contribution to Samsung Corning Precision in the amount of $77 billion Korean won (approximately $75 million USD).

8. Investments (continued)

Samsung Corning Co., Ltd. (Samsung Corning)

Samsung Corning is a South Korea-based manufacturer of glass panels and funnels for cathode ray tube (CRT) television and display monitors. In the third quarter of 2005, Samsung Corning incurred impairment and other charges of $212 million as a result of a decline in the projected operating results for its CRT glass business. The charge, which included certain manufacturing assets and severance and exit costs, reduced Corning's equity earnings by $106 million in the third quarter. None of the charges is expected to result in cash expenditures by Corning.

As of December 31, 2005, Corning's investment in Samsung Corning was $231 million. Corning has determined that a separate impairment of its investment in Samsung Corning was not necessary in 2005. We will continue to monitor this investment as it is possible an impairment may be required in the future.

In 2003, Samsung Corning recorded a significant asset impairment charge, our portion of which was $66 million after tax.

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

	For the years ended Dece	
	2005	2004
Statement of Operations:		
Net sales	$ 823	$ 1,019
Gross profit	$ 87	$ 245
Net (loss) income	$ (249)	$ 94
Corning's equity in (losses) earnings of Samsung Corning	$ (112)	$ 32

	December 31,	
	2005	2004
Balance Sheet:		
Current assets	$ 345	$ 425
Noncurrent assets	$ 391	$ 652
Other current liabilities	$ 154	$ 163
Long-term debt	$ 48	$ 47
Other long-term liabilities	$ 24	$ 56
Minority interest	$ 45	$ 73

	For the years ended Dece	
	2005	2004
Dividends received from Samsung Corning	$ 22	$ 18

As of December 31, 2005, Samsung Corning Precision and Samsung Corning were two of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and 14 other creditors (SGI and Creditors) for alleged breach of an agreement that approximately thirty affiliates of the Samsung group entered into with SGI and Creditors in September 1999. The lawsuit is pending in the courts of Korea. According to the agreement, the Samsung affiliates agreed to sell 3.5 million shares of Samsung Life Insurance Co., Ltd. (SLI) by December 31, 2000, which were transferred to SGI and Creditors in connection with the petition for court receivership of Samsung Motor Inc. In the lawsuit, SGI and Creditors allege that, in the event that the proceeds of sale of the SLI shares is less than 2.45 trillion Korean won (approximately $2.42 billion), the Samsung affiliates allegedly agreed to compensate SGI and Creditors for the shortfall, by other means, including Samsung affiliates' purchase of equity or subordinated debentures to be issued by SGI and Creditors. Any excess proceeds are to be distributed to the Samsung affiliates. As of December 31, 2005, the shares of Samsung Life Insurance Co., Ltd. have not been sold. The suit asks for damages of approximately $4.68 billion plus penalty interest. SCP and SCC combined guarantees should represent no more than 3.1% of the Samsung affiliates' total financial obligation. Although noting that the outcome of these matters is uncertain, Samsung Corning Precision and Samsung Corning have stated that these matters are not likely to result in a material ultimate loss to their financial statements. No claim in these matters has been asserted against Corning.

8. Investments (continued)

Dow Corning Corporation (Dow Corning)

Dow Corning is a U.S. based manufacturer of silicone products. In 1995, Corning fully impaired its investment of Dow Corning upon its entry into bankruptcy proceedings and did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that its emergence from bankruptcy protection was probable. Dow Corning emerged from bankruptcy in 2004.

See discussion below for additional information and for a history of this matter. Corning considers the difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning's equity to be permanent. This difference is $249 million.

Dow Corning's financial position and results of operations follow (in millions):

	For the years ended Dece	
	2005	2004
Statement of Operations:		
Net sales	$ 3,878	$ 3,373
Gross profit	$ 1,312	$ 1,036
Net income	$ 507	$ 238
Corning's equity in earnings of Dow Corning	$ 253	$ 116

	December 31,	
	2005	2004
Balance Sheet:		
Current assets	$ 2,575	$ 1,828
Noncurrent assets	$ 2,573	$ 2,988
Short-term borrowings, including current portion of long-term debt	$ 22	$ 14
Other current liabilities	$ 911	$ 764
Long-term debt	$ 39	$ 60
Other long-term liabilities	$ 2,554	$ 2,660
Minority interest	$ 179	$ 172

	For the years ended Dece	
	2005	2004
Dividends received from Dow Corning	$ 45	

Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning, which was in reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code between May 1995 and May 2004. Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousand breast-implant product lawsuits each of which typically sought damages in excess of $1 million. On November 8, 1998, Dow Corning and the Tort Claimants Committee jointly filed a revised Plan of Reorganization (Joint Plan) which provided for the settlement or other resolution of implant claims. After review and approvals by the Bankruptcy Court and the U.S. District Court of the Eastern District of Michigan, and an appeal, the District Court on April 2, 2004 entered an order establishing June 1, 2004 as the effective date of the Joint Plan.

Under the terms of the Joint 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. Of the approximately $3.2 billion of required funding, Dow Corning has paid approximately $1.6 billion (inclusive of

insurance) and expects to pay up to an additional $1.6 billion ($710 million after-tax) over 16 years. Corning and Dow Chemical have each agreed to provide a credit facility to Dow Corning of up to $150 million ($300 million in the aggregate), subject to the terms and conditions stated in the Joint Plan. As required by the Joint Plan, Dow Corning has fully satisfied (or reserved for) the claims of its commercial creditors in accordance with a March 31, 2004 ruling of the District Court determining the amount of pendency interest allowed on the $810 million in principal owing on such claims. In the second quarter of 2004, Dow Corning recorded a $47 million adjustment to its interest liabilities relating to this matter, of which Corning recognized $14 million in its second quarter equity in earnings of associated companies, net of impairments. Certain commercial creditors have appealed that ruling to the U.S. Court of Appeals of the Sixth Circuit seeking from Dow Corning an additional sum of approximately $80 million for interest at default rates and enforcement costs. Corning believes the risk of material loss to Dow Corning (net of sums reserved) is remote.

8. Investments (continued)

In addition, Dow Corning has received a statutory notice of deficiency from the United States Internal Revenue Service asserting tax deficiencies totaling approximately $65 million relating to its federal income tax returns for the 1995 and 1996 calendar years. This matter is pending before the U.S. District Court in Michigan. Dow Corning has also received a proposed adjustment from the IRS (approximately $117 million) with respect to its federal income tax returns for the 1997, 1998 and 1999 calendar years. Dow Corning is vigorously contesting these deficiencies and proposed adjustments which it believes are excessive.

The Joint Plan includes releases for Corning and Dow Chemical as shareholders in exchange for contributions to the Joint Plan. Although claims against the shareholders were included in several thousand state and federal lawsuits filed pre-bankruptcy, alleging injuries arising from Dow Corning's implant products, Corning was awarded summary judgment in federal court and in several state jurisdictions. The remaining claims against Corning will be channeled by the Joint Plan into facilities established by the Joint Plan. Management believes that the likelihood of a materially adverse impact to Corning's financial statements arising from these remaining shareholder claims is remote.

Pittsburgh Corning Corporation (PCC)

Corning and PPG Industries, Inc. (PPG) each own 50% of the common stock of PCC. Over a period of more than two decades, PCC and several other defendants have been 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. As of the bankruptcy filing, PCC had in excess of 140,000 open claims and had insufficient remaining insurance and assets to deal with its alleged current and future liabilities. More than 100,000 additional claims have been filed with PCC after its bankruptcy filing. As a result of PCC's bankruptcy filing, Corning recorded an after-tax charge of $36 million in 2001 to fully impair its investment in PCC and discontinued recognition of equity earnings. At the time PCC filed for bankruptcy protection, there were approximately 12,400 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.

Corning is also currently named in approximately 11,300 other cases (approximately 42,800 claims) alleging injuries from asbestos and similar amounts of monetary damages per claim. Those cases have been covered by insurance without material impact to Corning to date. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

In the bankruptcy court, PCC in April 2000 obtained a preliminary injunction against the prosecution of asbestos actions arising from PCC's products against its two shareholders to afford the parties a period of time (the Injunction Period) in which to negotiate a plan of reorganization for PCC (PCC Plan).

On May 14, 2002, PPG announced that it had agreed with certain of its insurance carriers and representatives of current and future asbestos claimants on the terms of a settlement arrangement applicable to claims arising from PCC's products.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of $131 million, in March 2003, over six years from the effective date of the settlement and to assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance at the time of the settlement.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the PCC Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

As discussed in Note 2 (Restatement of Prior Period Financial Statements) we have restated prior period financial statements to correct the accounting related to the asbestos settlement.

For the year ended 2005, we recorded asbestos settlement expense of $218 million, including $197 million reflecting the increase in the value of Corning's common stock from December 31, 2004 to December 31, 2005, and $21 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

8. Investments (continued)

If the book value of the assets to be contributed to the asbestos settlement

remains lower than the carrying value of the asbestos settlement liability, a gain would be recognized at the time of the settlement.

For the year ended 2004, we recorded asbestos settlement expense of $65 million, including $33 million reflecting the increase in the value of Corning's common stock from December 31, 2003 to December 31, 2004, and $32 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

For the year ended 2003, we recorded asbestos settlement expense of $535 million, including an initial expense of $392 million, $115 million reflecting the increase in the value of Corning's common stock from January 1, 2003 to December 31, 2003, and $28 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

Since March 28, 2003, we have recorded total net charges of $818 million to reflect the initial settlement liability and subsequent adjustments for the change in the fair value of the components of the liability.

The fair value of the liability expected to be settled by contribution of our investment in PCE, the fair value of 25 million shares of our common stock and assigned insurance proceeds (in aggregate totaling $667 million, $456 million and $399 million at December 31, 2005, 2004 and 2003 respectively) is recorded in other accrued liabilities in our consolidated balance sheets. As the timing of this obligation's settlement will depend on future judicial rulings (i.e., controlled by a third party and not Corning), this portion of the PCC liability is considered a "due on demand" obligation. Accordingly, this portion of the obligation has been classified as a current liability, even though it is possible that the contribution could be made beyond one year. The remaining portion of the settlement liability (totaling $152 million, $144 million, and $136 million at December 31, 2005, 2004 and 2003 respectively), representing the net present value of the cash payments, is recorded in the other liabilities component in our consolidated balance sheets.

9. Property, Net of Accumulated Depreciation

Property, net follows (in millions):

	December 31,	
	2005	2004
Land	$ 70	$ 76
Buildings	1,999	1,943
Equipment	5,177	4,569
Construction in progress	1,061	885
	8,307	7,473
Accumulated depreciation	(3,632)	(3,532)
Total	$ 4,675	$ 3,941

Approximately $27 million, $22 million and $9 million of interest costs were capitalized as part of property, net in 2005, 2004 and 2003, respectively.

10. Goodwill and Other Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the year ended December 31, 2005, by segment follows (in millions):

	Telecommunications	Display Technologies
Balance at January 1, 2004	$ 1,576	$ 9
Impairment	(1,420)	
Divestitures	(30)	
Foreign currency translation & other	(3)	
Balance at December 31, 2004	$ 123	$ 9
Foreign currency translation & other	$ (5)	
Balance at December 31, 2005	$ 118	$ 9

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

10. Goodwill and Other Intangible Assets (continued)

2005 Assessment

Our annual goodwill recoverability assessment is completed in the fourth quarter, as it is traditionally based on our annual strategic planning process that runs from June to October. This process includes reviewing expectations for the long-term growth of our businesses and forecasting future cash flows. The results of our impairment tests indicated that the fair value of each reporting unit exceeded its book value.

2004 Assessment

In the third quarter of 2004, we identified certain factors during our annual strategic planning process that caused us to lower our estimates and projections for the long-term revenue growth of the Telecommunications segment, which indicated that it was more likely than not that the fair value of the Telecommunications segment reporting unit was less than its carrying value. As such, we performed an interim impairment test of the Telecommunications segment goodwill in the third quarter of 2004, the results of which were reviewed with Corning's Board of Directors on October 6, 2004.

Although we were experiencing stronger than expected volume in this segment, the improved demand was from a narrow band of customers, and we saw few signs of a broader recovery in overall demand, mix of premium products, and pricing for our products. The lack of industry consolidations, increased competitive pressures in the industry, and revised estimates of future customer demand for the types of products expected to be deployed caused us to change our assessment of the future pace of recovery. The primary estimates and forecasts that caused the change in our outlook and reduced the fair value of the Telecommunications segment from that measured in 2003 were:

- Revised estimates of future pricing for fiber and cable;
- Revised estimates of demand for premium fiber product; and
- Revised estimates for the long-term worldwide market volume growth.

We estimated the fair value of the Telecommunications segment using a discounted cash flow model based on our current estimates for the long-term growth of the Telecommunications segment, and concluded that the fair value of the Telecommunications segment was below its carrying amount. Accordingly, we recorded an impairment charge of $1,420 million to reduce the carrying value of goodwill to its implied fair value. The goodwill impairment charge was included in restructuring, impairment and other charges and (credits) on the consolidated statement of operations. We updated our Telecommunications segment goodwill test in the fourth quarter of 2004. The result of the test concluded that the fair value of the reporting unit exceeded its book value at that time.

We performed a goodwill impairment test for our Specialty Materials reporting unit in the fourth quarter of 2004. The result of this impairment test indicated that the fair value of our reporting unit exceeded its book value.

As discussed in Note 4 (Restructuring, Impairment and Other Charges and (Credits)), in the third quarter of 2004, we completed the sale of our frequency controls business, which was part of the Telecommunications segment. As required by SFAS No. 142, "Goodwill and Other Intangible Assets," we allocated a portion of the Telecommunications segment goodwill balance to the carrying amount of the frequency controls business in determining the loss on disposal. The amount of goodwill to be included in that carrying amount was based on the relative fair value of the business to be disposed and the portion of the Telecommunications segment to be retained. The amount of goodwill allocated to the carrying value of frequency controls business was $30 million.

2003 Assessment

We performed goodwill impairment tests for our Telecommunications and Specialty Materials segment reporting units in the fourth quarter of 2003. The results of our impairment tests indicated that the fair value of each reporting unit exceeded its book value.

In the third quarter we completed the sale of certain photonic technologies assets, which was part of the Telecommunications segment. We allocated a portion of the Telecommunications segment goodwill balance to the carrying amount of the photonic technologies assets in determining the loss on disposal. The amount of goodwill allocated to the photonic technologies assets was $21 million.

10. Goodwill and Other Intangible Assets (continued)

Other Intangible Assets

The carrying amount of other intangible assets follows (in millions):

	December 31,			
	2005			
	Gross	Accumulated Amortization	Net	Gro
Amortized intangible assets:				
Patents and trademarks	$ 143	$ 88	$ 55	$ 1
Non-competition agreements	111	111		1

Other	4	1	3	
Total amortized intangible assets	258	200	58	2
Unamortized intangible assets:				
Intangible pension assets	3		3	
Total	$ 261	$ 200	$ 61	$ 3

Amortized intangible assets are primarily related to the Telecommunications segment. Amortization expense related to these intangible assets is expected to be approximately $11 million in 2006 and 2007, $10 million in 2008, and insignificant thereafter.

As a result of the elimination of the minimum pension liability for Corning's U.S. qualified plan, the related intangible pension asset of $39 million was reversed in 2005.

11. Other Liabilities

Other accrued liabilities follow (in millions):

	December 31,	
	2005 (Restated)	2004 (Restated)
Current liabilities:		
Wages and employee benefits	$ 325	$ 291
Asbestos settlement	667	456
Income taxes	165	155
Customer deposits	164	18
Other current liabilities	341	399
Other accrued liabilities	$ 1,662	$ 1,319
Non-current liabilities:		
Asbestos settlement	$ 152	$ 144
Customer deposits	431	197
Other non-current liabilities	342	406
Other liabilities	$ 925	$ 747

Asbestos Settlement

The current liability represents the cost of our investment in PCE and the fair value of the 25 million shares of Corning common stock as of December 31, 2005, which will be contributed to the PCC Plan when it becomes effective. As the timing of the settlement of the obligation under this portion of the PCC liability is outside of Corning's control, it is considered a "due on demand" obligation. Accordingly, this portion of the obligation has been classified as a current liability, even though it is possible that the contribution could be made in 2007 or later. The non-current liability represents the net present value of cash payments as of December 31, 2005, which will be contributed to the PCC Plan in six installments beginning one year after the PCC Plan is effective. Refer to Note 8 (Investments) for additional information on the asbestos settlement.

11. Other Liabilities (continued)

Customer Deposits

In 2005 and 2004, several of Corning's customers entered into long-term purchase and supply agreements in which Corning's Display Technologies segment will supply large-size glass substrates to these customers over periods of up to six years. As part of the agreements, these customers agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased.

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

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

	2004	2005	Estimated 2006 and Beyond	Total
Gross customer deposits received	$204	$457	$278	$939

The majority of customer deposits will be received through 2006. In 2005, we began issuing credit memoranda which totaled $29 million for the year. These credits are not included (netted) in the above amounts.

Customer deposit liabilities were $595 million and $215 million at December 31, 2005 and 2004, respectively, of which $164 million and $18 million, respectively, were recorded in the current portion of other accrued liabilities in our consolidated balance sheets.

In the event customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, Corning may retain certain amounts of the customer deposits. If Corning does not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, Corning may be required to return certain amounts of customer deposits.

12. Debt

(In millions):

	2005

Current portion of long-term debt	$ 18
Long-term debt	
Euro notes, 5.625%, due 2005	
Debentures, 7%, due 2007, net of unamortized discount of $15 million in 2004	
Convertible notes, 4.875%, due 2008	
Convertible debentures, 3.5%, due 2008	
Zero coupon convertible debentures, 2%, due 2015, redeemable and callable in 2005	
Notes, 6.3%, due 2009	$ 150
Euro notes, 6.25%, due 2010	355
Debentures, 6.75%, due 2013	100
Debentures, 5.90%, due 2014	200
Debentures, callable, 6.05%, due 2015	100
Debentures, 6.20%, due 2016	200
Debentures, 8.875%, due 2016	81
Debentures, 8.875%, due 2021	82
Medium-term notes, average rate 8.1%, due through 2025	175
Debentures, 6.85%, due 2029	150
Other, average rate 2.9%, due through 2015	214
Total long-term debt	1,807
Less current portion of long-term debt	18
Long-term debt	$ 1,789

12. Debt (continued)

At December 31, 2005 and 2004, the weighted-average interest rate on short-term borrowings was 2.2% and 2.3%, respectively.

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was $1.9 billion at December 31, 2005, and $2.8 billion at December 31, 2004.

The following table shows debt maturities by year at December 31, 2005 (in millions):

2006	2007	2008	2009	2010	Thereafter
$18	$22	$21	$169	$384	$1,178

In the first quarter of 2005, we completed negotiations with a group of banks on a new revolving credit facility. Concurrent with the closing of this credit facility, we terminated our previous $2 billion revolving line of credit that was set to expire in August 2005. The new facility provides us access to a $975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, including a leverage test (debt to capital ratio) and an interest coverage ratio (calculated on the most recent four quarters) and also includes restriction on the declaration of dividends. As of December 31, 2005, we were in compliance with these covenants.

Debt Retirements

During the years ended December 31, 2005, 2004 and 2003, we retired a significant portion of our outstanding notes and debentures as part of a debt reduction program. The debt was retired through a combination of cash repurchases and exchanges for Corning common stock. The following table summarizes the activities related to our debt retirements (in millions):

	Book Value of Debentures Retired	Cash Paid
2005 activity:		
Convertible debentures, 3.5%, due 2008	$ 297	$ 2
Euro notes, 5.625%, due 2005	189	189
Oak 4 7/8% Subordinated notes, due 2008	96	
Debentures, 7% due 2007	88	100
Zero coupon convertible debentures, 2%, due 2015	277	277 (1)
Other Loans payable	11	11
Total 2005 activity	$ 958	$ 579
2004 activity:		
Convertible debentures, 3.5%, due 2008	$ 368	$ 37
Zero coupon convertible debentures, 2%, due 2015	119	117
Other Loans payable	115	115
Total 2004 activity	$ 602	$ 269
2003 activity:		
Zero coupon convertible debentures, 2%, due 2015	$ 1,239	$ 1,121
Euro notes, 5.625%, due 2005	67	68
Other Loans payable	181	181
Total 2003 activity	$ 1,487	$ 1,370

(1) The zero coupon convertible debentures cash payment includes $23 million of interest.

Issuance of Long-Term Debt

In the second quarter of 2005, we issued $100 million of 6.05% senior unsecured notes for net proceeds of approximately $99 million. The notes mature on June 15, 2015. We may redeem the debentures at any time. The $100 million debt issuance, along with a common stock offering of 20 million shares for net proceeds of approximately $323 million, were issued under our existing $5 billion universal shelf registration statement that became effective in March 2001. At December 31, 2005, our remaining capacity under the shelf registration statement was approximately $2.1 billion.

12. Debt (continued)

In the first quarter of 2004, we issued $400 million of debentures, of which

$200 million aggregate principal amount of 5.90% notes mature on March 15, 2014 and $200 million aggregate principal amount of 6.20% notes mature on March 15, 2016. These debentures were issued under our existing $5 billion universal shelf registration statement, which became effective in March 2001. We realized net proceeds of approximately $396 million from the issuance of these debentures, which was used to fund debt repurchases, capital expenditures and cost of operations.

In 2004, Corning entered into a 10-year loan agreement with a Japanese bank to fund certain capital expansion activities in Japan. An initial loan of approximately $46 million, bearing interest at 2.6%, was received in 2004. A final loan of approximately $48 million, bearing interest at 2.1%, was received in January 2005. The loans will amortize equally from July 2006 through maturity.

13. Employee Retirement Plans

Defined Benefit Plans

We have defined benefit pension plans covering certain domestic and international employees. Our funding policy has been to contribute, as necessary, an amount in excess of the minimum requirements in order to achieve the company's long-term funding targets. In 2005, we issued and contributed 10 million shares of Corning common stock, with a value of approximately $199 million, to our domestic defined benefit plan. In 2004, we made a voluntary incremental contribution of $52 million to our domestic and international pension plans.

We use a December 31 measurement date for our domestic defined benefit plans. The measurement dates for our foreign defined benefit pension plans are September 30 and December 31.

In 2000, we amended our U.S. pension plan to include a cash balance pension feature. All salaried and non-union hourly employees hired before July 1, 2000 were given the choice of staying in the existing plan or participating in the cash balance plan beginning January 1, 2001. Salaried employees hired after July 1, 2000 automatically became participants in the new cash balance plan. Under the cash balance plan, employee accounts are credited monthly with a percentage of eligible pay based on age and years of service. Benefits are 100% vested after five years of service.

Corning and certain of its domestic subsidiaries also offer postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age. Prior to January 1, 2003, our principal retiree medical plans required retiree contributions each year equal to the excess of medical cost increases over general inflation rates. In response to rising health care costs, effective January 1, 2003, we changed our cost-sharing approach for retiree medical coverage. For current retirees (including surviving spouses) and active employees eligible for the salaried retiree medical program, we are placing a "cap" on the amount we will contribute toward retiree medical coverage in the future. The cap will equal 150% of our 2001 contributions toward retiree medical benefits. Once our contributions toward salaried retiree medical costs reach this cap, impacted retirees will have to pay the excess amount in addition to their regular contributions for coverage.

13. Employee Retirement Plans (continued)

Obligations and Funded Status

The change in benefit obligation and funded status of our employee retirement plans follow (in millions):

	Pension Benefits		P
December 31,	2005	2004	2
Change in Benefit Obligation			
Benefit obligation at beginning of year	$ 2,365	$ 2,095	$
Service cost	46	42	
Interest cost	132	132	
Plan participants' contributions	2	2	
Amendments			
Curtailment gain	(1)	(4)	
Special termination benefits		1	
Actuarial losses (gains)	194	228	
Benefits paid	(155)	(155)	
Foreign currency translation	(39)	24	
Benefit obligation at end of year	2,544	2,365	
Change in Plan Assets			
Fair value of plan assets at beginning of year	1,978	1,839	
Actual gain on plan assets	218	225	
Employer contributions	217	52	
Plan participants' contributions	2	2	
Benefits paid	(155)	(155)	
Foreign currency translation	(22)	15	
Fair value of plan assets at end of year	2,238	1,978	
Unfunded status	(306)	(387)	
Unrecognized transition asset	(1)	(1)	
Unrecognized prior service cost (credit)	37	44	
Unrecognized actuarial loss	623	537	
Recognized asset (liability)	$ 353	$ 193	$
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid benefit cost	$ 456	$ 287	
Accrued benefit liability	(103)	(94)	$
Additional minimum liability	(56)	(417)	
Intangible asset	3	42	
Accumulated other comprehensive loss	53	375	
Recognized asset (liability)	$ 353	$ 193	$

The accumulated benefit obligation for defined benefit pension plans was $2.0 billion and $2.3 billion at December 31, 2005 and 2004, respectively.

The following information is presented for pension plans where the projected

benefit obligation as of December 31, 2005 and 2004 exceeded the fair value of plan assets (in millions):

	December 31,	
	2005	2004
Projected benefit obligation	$ 2,544	$ 2,365
Fair value of plan assets	2,238	1,978

13. Employee Retirement Plans (continued)

The following information is presented for pension plans where the accumulated benefit obligation as of December 31, 2005 and 2004 exceeded the fair value of plan assets (in millions):

	December 31,	
	2005	2004
Accumulated benefit obligation	$ 220	$ 2,076
Fair value of plan assets	7	1,798

The components of net periodic benefit expense for our employee retirement plans follow (in millions):

	Pension Benefits			Po
Years ended December 31,	2005	2004	2003	2005
Service cost	$ 46	$ 42	$ 33	$ 10
Interest cost	132	132	126	43
Expected return on plan assets	(154)	(147)	(146)	
Amortization of net loss	29	21	9	9
Amortization of prior service cost (credit)	7	9	9	(4)
Net periodic benefit expense	60	57	31	58
Discontinued operation				
Curtailment loss (gain)	1	(1)	9	
Special termination benefits	1	1	15	
Total expense	$ 62	$ 57	$ 55	$ 58

Additional information on our pension plan follows (in millions):

	Pension Benefits

	2005	2004
(Decrease) increase in minimum liability included in other comprehensive income (loss), after tax	$ (221) (1)	$ 126 (1)

(1) Includes $12 million after-tax increase in minimum liability included in other comprehensive income related to an investment accounted for under the equity method.

In 2005, Corning used a specific bond matching/spot rate yield curve model for estimating the appropriate discount rate for pension and postretirement benefit assumptions. This model develops a hypothetical yield curve and associated spot rate curve to discount the plan's projected benefit payments and match payment durations. Once the present value of projected benefit payments is calculated, the suggested discount rate is equal to the level rate that results in the same present value. The yield curve is based on actual high-quality corporate bonds across the full maturity spectrum. The curve is developed from yields on approximately 550-600 Moody's Aa-graded, non-callable bonds. The highest and lowest 10th percentile yields are excluded from the curve in order to eliminate outliers in the bond population. We believe such method provides a better estimate of the pension and postretirement benefit discount rates.

Prior to 2005, Corning used a benchmark index technique to establish an appropriate discount rate. The Moody's Aa Corporate Bond Index was the starting point for previous years' discount rate assumptions. It was then adjusted upward to restate the rate from a semi-annual coupon basis to an annual discount rate basis. The composite duration of the cash flows for our benefits obligation was comparable to the Moody's Aa benchmark. This method was consistently applied since the adoption of FAS 87 in 1988 and FAS 106 in 2002.

13. Employee Retirement Plans (continued)

Measurement of postretirement benefit expense is based on assumptions used to value the postretirement benefit obligation at the beginning of the year.

The weighted-average assumptions used to determine benefit obligations at December 31 follow:

	Pension Benefits					
	Domestic			International		
	2005	2004	2003	2005	2004	2003
Discount rate	5.50%	5.75%	6.25%	4.52%	5.21%	5.29
Rate of compensation increase	4.50%	4.50%	4.50%	3.73%	3.58%	3.34

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 follow:

	Pension Benefits					
	Domestic			International		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75%	6.25%	6.75%	5.27%	5.33%	5.79
Expected return on plan assets	8.50%	8.50%	8.50%	7.22%	7.41%	7.95
Rate of compensation increase	4.50%	4.50%	4.50%	3.42%	3.42%	3.89

The expected rate of return on plan assets was determined based on the current interest rate environment and historical market premiums relative to fixed income rates of equity and other asset classes and adjusted for active management of certain portions of the portfolio.

Assumed Health Care Trend Rates at December 31	2005	2004
Health care cost trend rate assumed for next year	10%	9%
Rate that the cost trend rate gradually declines to	5%	5%
Year that the rate reaches the ultimate trend rate	2010	2009

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions):

	One-Percentage-Point Increase	One-Percen Decr
Effect on annual total of service and interest cost	$ 4.0	$
Effect on postretirement benefit obligation	$ 47.5	$ (

Medicare Prescription Drug, Improvement and Modernization Act of 2003

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was passed which expands Medicare to include an outpatient prescription drug benefit beginning in 2006. In May 2004, the FASB issued Staff Position (FSP) No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP No. 106-1), which provides guidance on how companies should account for the impact of the Act on its postretirement health care plans. To encourage employers to retain or provide postretirement drug benefits, beginning in 2006 the federal government will provide non-taxable subsidy payments to employers that sponsor prescription drug benefits to retirees that are "actuarially equivalent" to the Medicare benefit. Corning has determined that its postretirement health care plans' prescription drug benefits are actuarially equivalent to Medicare Part D benefits to be provided under the Act. Effective in the third quarter of 2004, Corning prospectively adopted the accounting guidance of FSP No. 106-2, which reduced our postretirement health care and life insurance plans' accumulated postretirement benefit obligation by $73 million and the related annual expense by $10 million. For 2004, our postretirement benefit expense decreased $5 million reflecting the adoption of this accounting

guidance.

13. Employee Retirement Plans (continued)

Plan Assets

The weighted-average asset allocation for domestic and international pension plans at December 31, 2005 and December 31, 2004 by asset category were as follows:

	Plan Assets At December 31,	
	2005	2004
Equity Securities	40%	50%
Fixed Income Securities	42%	35%
Real Estate	5%	7%
Other	13%	8%
Total	100%	100%

The total fair value of domestic plan assets at December 31, 2005 was $2,040 million and the expected long-term rate of return on these assets was 8.5%.

We have an investment policy for domestic and international pension plans with a primary objective to adequately provide for both the growth and liquidity needed to support all current and future benefit payment obligations. For domestic plans, the investment strategy is to invest in a diversified portfolio of assets which are expected to satisfy the above objective and produce both absolute and risk adjusted returns competitive with a benchmark that for domestic plans is 60% Russell 3000 Index, 20% Lehman Long Government/Credit Index and 20% Lehman Long Credit Index. For international plans, the investment strategy is the same as for domestic plans and the benchmark is a composite of 50% equities and 50% fixed income indexes. The strategy includes the following target asset allocation:

	Domestic	International
Equity Securities	39%	48%
Fixed Income Securities	40%	49%
Real Estate	6%	
Other	15%	3%
Total	100%	100%

A tactical allocation mandate, which is part of the overall investment strategy, allows the actual domestic allocation in equity securities to be reduced by maximum of 6% relative to the total based on market valuations.

Equity securities include Corning common stock in the amount of $11 million (0.5% of total plan assets) and $7 million (0.4% of total plan assets) at December 31, 2005 and 2004, respectively.

Cash Flow Data

We anticipate making voluntary contributions of approximately $35 million in cash to our domestic and international pension plans in 2006.

The following reflects the gross benefit payments which are expected to be paid for the domestic and international plans and the gross amount of annual Medicare Part D federal subsidy expected to be received (in millions):

	Expected Benefit Payments		
	Pension Benefits	Postretirement Benefits	Expected Feder Post Retire
2006	$ 153	$ 76	$
2007	$ 150	$ 81	$
2008	$ 149	$ 84	$
2009	$ 147	$ 87	$
2010	$ 148	$ 90	$
Years 2011-2015	$ 781	$ 475	$

Other Benefit Plans

We offer defined contribution plans covering employees meeting certain eligibility requirements. On January 1, 2003, we reduced our matching contributions to the domestic Corning Incorporated Investment Plan by 2.5% of pay for all salaried employees. This reduction was temporary, and we increased our contributions to prior levels effective January 1, 2004. Total consolidated defined contribution plan expense was $34 million, $28 million and $24 million for the years ended December 31, 2005, 2004 and 2003, respectively.

14. Commitments, Contingencies, and Guarantees

FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), requires a company, 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, 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. These guarantees have various terms, and none of these guarantees are individually significant.

Minimum rental commitments under leases outstanding at December 31, 2005 follow (in millions):

2006	2007	2008	2009	2010	2011 and thereafter
$39	$51	$41	$19	$16	$62

Total rental expense was $67 for 2005, $54 million for 2004 and $66 million for 2003.

The ability of certain subsidiaries and associated companies to transfer funds is limited by provisions of foreign government regulations, affiliate agreements and certain loan agreements. At December 31, 2005, the amount of equity subject to such restrictions for consolidated subsidiaries totaled $208 million. 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. In addition, we have provided other financial guarantees and contingent liabilities in the form of stand-by letters of credit and performance bonds. We have agreed to provide a credit facility related to Dow Corning as discussed in Note 8 (Investments). The funding of the Dow Corning credit facility will be required only if Dow Corning is not otherwise able to meet its scheduled funding obligations in its confirmed Bankruptcy Plan. The purchase obligations primarily represent raw material and energy-related take-or-pay contracts. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

The amounts of our obligations follow (in millions):

		Amount of commitment and conti		
	Total	Less than 1 year	1 to 2 years	2 to year
Performance bonds and guarantees	$ 112	$ 36	$ 2	$
Credit facilities for equity companies	165			
Stand-by letters of credit (1)	47	47		
Loan guarantees	15			
Subtotal of commitment expirations per period	$ 339	$ 83	$ 2	$
Purchase obligations	219	180	33	
Capital expenditure obligations (2)	328	328		
Total debt (3)	1,792	18	22	2
Minimum rental commitments	228	39	51	4
Interest on long-term debt (4)	1,185	110	109	10
Subtotal of contractual obligation payments due by period	$ 3,752	$ 675	$ 215	$ 17
Total commitments and contingencies	$ 4,091	$ 758	$ 217	$ 17

(1) At December 31, 2005, $34 million of the $47 million was included in other accrued liabilities on our consolidated balance sheets.
(2) Capital expenditure obligations, primarily related to our Display Technologies segment expansions, are included on our balance sheet.
(3) At December 31, 2005, $1,807 million was included on our balance sheet. Amounts above are stated at their maturity value.
(4) The estimate of interest payments assumes interest is paid through the date of maturity/expiration of the related debt, based upon stated rates in the respective debt instruments.

Corning is a defendant in various lawsuits, including environmental,

product-related suits, the Dow Corning and PCC matters discussed in Note 8 (Investments), and is subject to various claims which arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Corning's consolidated financial position, liquidity or results of operations.

14. Commitments, Contingencies, and Guarantees (continued)

We have been named by the Environmental Protection Agency under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is our policy to accrue for the estimated liability related to Superfund sites and other environmental liabilities related to property owned and operated by us based on expert analysis and continual monitoring by both internal and external consultants. We have accrued approximately $13 million (undiscounted) for the estimated liability for environmental cleanup and related litigation at December 31, 2005. Based upon the information developed to date, we believe that the accrued amount is a reasonable estimate of our liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

15. Hedging Activities

We operate and conduct business in many foreign countries and as a result are exposed to movements in foreign currency exchange rates. Our exposure to exchange rate effects includes:

- exchange rate movements on financial instruments and transactions denominated in foreign currencies which impact earnings, and
- exchange rate movements upon conversion of net assets in foreign subsidiaries for which the functional currency is not the U.S. dollar, which impact our net equity.

Our most significant foreign currency exposures relate to Japan, Korea, Taiwan and western European countries. We selectively enter into foreign exchange forward and option contracts with durations generally 15 months or less to hedge our exposure to exchange rate risk on foreign source income and purchases. The hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. The objective of these contracts is to neutralize the impact of exchange rate movements on our operating results.

We engage in foreign currency hedging activities to reduce the risk that changes in exchange rates will adversely affect the eventual net cash flows resulting from the sale of products to foreign customers and purchases from foreign suppliers. The hedge contracts reduce the exposure to fluctuations in exchange rate movements because the gains and losses associated with foreign currency balances and transactions are generally offset with gains and losses of the hedge contracts. Because the impact of movements in foreign exchange rates on the value of hedge contracts offsets the related impact on the underlying items being hedged, these financial instruments help alleviate the risk that might otherwise result from currency exchange rate fluctuations.

The following table summarizes the notional amounts and respective fair values of Corning's derivative financial instruments, which mature at varying dates, at December 31, 2005 (in millions):

	Notional Amount	Fair Value
Foreign exchange forward contracts	$829	$11
Foreign exchange option contracts	$374	$10

The forward and option contracts we use in managing our foreign currency exposures contain an element of risk in that the counterparties may be unable to meet the terms of the agreements. However, we minimize this risk by limiting the counterparties to a diverse group of highly-rated major domestic and international financial institutions with which we have other financial relationships. We are exposed to potential losses in the event of non-performance by these counterparties; however, we do not expect to record any losses as a result of counterparty default. We do not require and are not required to place collateral for these financial instruments.

In the second quarter of 2005, Corning began using derivative instruments (forwards) to limit the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities. These derivative instruments are not designated as hedging instruments for accounting purposes and, as such, are referred to as undesignated hedges. Changes in the fair value of undesignated hedges are recorded in current period earnings in the other income, net component, along with the foreign currency gains and losses arising from the underlying monetary assets or liabilities, in the consolidated statement of operations. At December 31, 2005, the notional amount of the undesignated derivatives was $366 million.

Cash Flow Hedges

Corning has cash flow hedges that relate to foreign exchange forward and option contracts. The critical terms of each cash flow hedge are identical to the critical terms of the hedged item. Therefore, Corning utilizes the critical terms test under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), and the presumption is that there is no hedge ineffectiveness as long as the critical terms of the hedge and the hedged item do not change. During the life of each hedge, the critical terms of the hedge and the hedged item did not change. We did not have any gain or loss from hedge ineffectiveness. We did not exclude any components of a hedge's gain or loss from the assessment of hedge effectiveness.

15. Hedging Activities (continued)

Corning defers net gains and losses from cash flow hedges into accumulated other comprehensive income (loss) on the consolidated balance sheet, until such time as the hedged item impacts earnings. At that time Corning reclassifies net gains and losses from cash flow hedges into the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded, typically sales or cost of sales. Amounts are reclassified from accumulated other comprehensive income (loss) when the underlying hedged item impacts earnings. At December 31, 2005, the amount of net gains expected to be reclassified into earnings within the next 12 months is $22 million.

Fair Value Hedges

In March and April of 2002, we entered into three interest rate swaps that are fair value hedges and economically exchanged a notional amount of $275 million

of fixed rate long-term debt to floating rate debt. Under the terms of the swap agreements, we paid the counterparty a floating rate that is indexed to the six month LIBOR rate and received the fixed rates of 8.3% to 8.875%, which are the stated interest rates on the long-term debt instruments. As a result of these transactions, Corning was exposed to the impact of interest rate changes.

Each fair value hedge (swap) had identical terms to the critical terms of the hedged item. Therefore, Corning utilized the short-cut method allowed under FAS 133 which presumes that there is no hedge ineffectiveness as long as the critical terms of the hedge and the hedged item do not change. During the life of each hedge, the critical terms of the hedge and the hedged item did not change. We did not have any gain or loss from hedge ineffectiveness. We did not exclude any components of a hedge's gain or loss from the assessment of hedge ineffectiveness.

In 2004 and 2003, we terminated the interest rate swap agreements described above. The termination of these swaps resulted in gains of $5 million in 2004 and $15 million in 2003 which we will amortize to earnings as a reduction of interest expense over the remaining life of the debt. The cash proceeds from the termination of the swaps total $8 million in 2004 and $17 million in 2003 and are included in the financing section of our consolidated statement of cash flows.

Corning records net gains and losses from fair value hedges into the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded.

Net Investment in Foreign Operations

We have issued foreign currency denominated debt that has been designated as a hedge of the net investment in a foreign operation. The effective portion of the changes in fair value of the debt is reflected as a component of other accumulated comprehensive income (loss) as part of the foreign currency translation adjustment. Net losses included in the cumulative translation adjustment at December 31, 2005 and 2004, were $107 million and $166 million, respectively.

16. Shareholders' Equity

The following table presents changes in capital stock for the period from January 1, 2003 to December 31, 2005 (in millions):

	Series C Preferred Stock		Common Stock	
	Shares	Par Value	Shares	Par Va
Balance at December 31, 2002	2	$ 155	1,267	$ 63
Shares issued in equity offerings			95	4
Conversion of preferred stock	(1)	(70)	35	1
Shares issued to benefit plans				
Shares issued in debt retirement				
Other			4	

Balance at December 31, 2003 (Restated)	1	$ 85	1,401	$ 70
Conversion of preferred stock		(21)	11	
Shares issued to benefit plans				
Shares issued in debt retirement				
Other			12	
Balance at December 31, 2004 (Restated)	1	$ 64	1,424	$ 71
Shares issued in equity offerings			20	1
Conversion of preferred stock	(1)	(64)	32	1
Shares issued to benefit plans			39	2
Shares issued in debt retirement			37	1
Other				
Balance at December 31, 2005 (Restated)			1,552	$ 77

Preferred Stock

We have designated 2.4 million shares as Series A Junior Participating Preferred Stock for which no shares have been issued. In June 1996, the Board of Directors approved the renewal of the Preferred Share Purchase Right Plan, which entitles shareholders to purchase 0.01 of a share of Series A Junior Participating Preferred Stock upon the occurrence of certain events. In addition, the rights entitle shareholders to purchase shares of common stock at a 50% discount in the event a person or group acquires 20% or more of our outstanding common stock. The preferred share purchase rights became effective July 15, 1996 and expire July 15, 2006.

On the mandatory conversion date of August 16, 2005, the remaining shares of our 7.00% Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we issued 31 million shares of Corning common stock resulting in an increase to equity of $62 million. The Series C mandatory convertible preferred stock had a liquidation preference of $100 per share, plus accrued and unpaid dividends.

16. Shareholders' Equity (continued)

Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss) follow (in millions):

	Foreign currency translation adjustment	Minimum pension liability adjustment	Net unrealize gains (losses) investmen

December 31, 2002	$ 9	$ (173)	$ 2
Foreign currency translation adjustment (net of tax of $38 million)	243		
Minimum pension liability adjustment (net of tax of $(18) million) (1)		26	
Net unrealized gain on investments (net of tax of $3 million)			1
Unrealized derivative loss on cash flow hedges (net of tax of $4 million)			
Reclassification adjustments on cash flow hedges (net of tax of $4 million)			
Balance at December 31, 2003 (Restated)	$ 252	$ (147)	$ 3
Foreign currency translation adjustment (2)	178		
Minimum pension liability adjustment (1)(2)		(126)	
Net unrealized gain on investments (2)			8
Unrealized derivative loss on cash flow hedges (2)			
Reclassification adjustments on cash flow hedges (2)			
Balance at December 31, 2004 (Restated)	$ 430	$ (273)	$ 11
Foreign currency translation adjustment (2)	(255)		
Minimum pension liability adjustment (1)(3)		246	
Net unrealized loss on investments (4)			(13)
Unrealized derivative gain on cash flow hedges (2)			
Reclassification adjustments on cash flow hedges (2)			
Balance at December 31, 2005 (Restated)	$ 175	$ (27)	$ (2)

(1) Includes adjustments from Dow Corning.
(2) Zero tax effect for 2004 and 2005. Refer to Note 7 (Income Taxes) for an explanation of Corning's tax paying position.
(3) Net of tax effect of $84 million in 2005.
(4) Net of tax effect of $2 million in 2005.

17. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per common share assumes the issuance of common shares for all potentially dilutive securities outstanding. Since we reported a loss from continuing operations in 2004 and 2003, the diluted loss per common share is the same as the basic loss per common share, as any potentially dilutive securities would reduce the loss per common share from continuing operations.

The reconciliation of the amounts used to compute basic and diluted loss per common share from continuing operations follows (in millions, except per share amounts):

	For the years ended December 31					
	2005 (Restated)			2004 (Restated)		
	Income	Weighted-Average Shares	Per Share Amount	Loss	Weighted-Average Shares	Per Share Amount
Basic earnings (loss) per common share	$ 585	1,464	$0.40	$ (2,251)	1,386	$(1.62)
Effect of dilutive securities:						
Stock compensation awards		41				
7% mandatory convertible preferred stock (1)		20				
3.5% convertible debentures	3	10				
Diluted Earnings (Loss) Per Common Share	$ 588	1,535	$0.38	$ (2,251)	1,386	$(1.62)

(1) On the mandatory conversion date of August 16, 2005, the remaining shares of our 7.00% Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we issued 31 million shares of Corning common stock resulting in an increase to equity of $62 million.

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

	For the years ended December	
	2005	2004
Potential common shares excluded from the calculation of diluted loss per share:		
Stock options		34
7% mandatory convertible preferred stock (1)		36
3.5% convertible debentures		41
4.875% convertible notes (2)	4	6
Zero coupon convertible debentures	2	3
Total	6	120
Stock options excluded from the calculation of diluted loss per share because the exercise price was greater than the average market price of the common shares	47	59

(1) On the mandatory conversion date of August 16, 2005, the remaining shares of our 7.00% Series C Mandatory Convertible Preferred Stock were converted into Corning common stock at a conversion rate of 50.813 shares of common stock for each preferred share. Upon conversion of the preferred shares, we issued 31 million shares of Corning common stock resulting in an increase to equity of $62 million.

(2) In the third quarter of 2005, substantially all holders of our $96 million outstanding Oak 4 7/8% subordinated notes elected to convert their notes into Corning common stock. The conversion ratio was 64.41381 shares of Corning common stock for each $1,000 principal amount of notes. Upon the conversion of these notes, we issued 6 million shares of Corning common stock resulting in an increase to equity of $95 million.

18. Stock Compensation Plans

At December 31, 2005, our stock compensation programs are in accordance with the 2005 Employee Equity Participation Program and 2003 Equity Plan for Non-Employee Directors Program. Any ungranted shares from prior years will be available for grant in the current year. At December 31, 2005, 111 million shares are available under these programs for 2006. Any remaining shares available for grant, but not yet granted, will be carried over and used in the following year.

Stock Option Plans

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

Changes in the status of outstanding options follow:

	Number of Shares (in thousands)	Weighted-Average Exercise Price
Options outstanding January 1, 2003	97,327	$ 26.47
Options granted under plans	40,953	$ 5.85
Options exercised	(1,547)	$ 6.75
Options terminated	(1,381)	$ 16.26
Options outstanding December 31, 2003	135,352	$ 20.58
Options granted under plans	13,625	$ 11.98
Options exercised	(8,401)	$ 6.15
Options terminated	(1,553)	$ 27.49
Options outstanding December 31, 2004	139,023	$ 20.43
Options granted under plans	10,141	$ 14.87
Options exercised	(24,360)	$ 8.72
Options terminated	(4,300)	$ 39.23
Options outstanding December 31, 2005	120,504	$ 21.67

Options exercisable at December 31, 2005	97,015	$ 24.55
Options exercisable at December 31, 2004	108,126	$ 24.22
Options exercisable at December 31, 2003	72,867	$ 27.47

The weighted-average fair value of options granted was $6.18 in 2005, $4.99 in 2004 and $3.82 in 2003.

The following table summarizes information about our stock option plans at December 31, 2005:

	Options Outstanding			
Range of Exercise Prices	Number Outstanding at December 31, 2005 (in thousands)	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Numb Exercisa December (in thou
$ 1.54 to 3.80	11,761	5.4	$ 3.28	4,1
$ 4.06 to 6.93	15,775	7.0	$ 4.79	13,6
$ 7.08 to 9.95	24,049	6.1	$ 8.44	23,8
$ 10.05 to 15.87	27,255	7.7	$ 12.66	16,5
$ 16.02 to 29.58	14,087	6.1	$ 20.20	11,2
$ 30.01 to 59.35	11,518	4.7	$ 46.86	11,4
$ 60.24 to 74.09	15,566	4.6	$ 69.31	15,5
$76.03 to 111.00	493	4.7	$ 92.23	4
	120,504	6.3	$ 21.67	97,0

18. Stock Compensation Plans (continued)

Incentive Stock Plans

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

In 2005, 2004 and 2003, grants of 2,726,000 shares, 3,051,000 shares and 1,842,000 shares, respectively, were made under this plan. The weighted-average price of the grants was $17.70 in 2005, $12.57 in 2004 and $10.61 in 2003, respectively. A total of 7.6 million shares issued remained subject to forfeiture at December 31, 2005.

We apply APB 25 accounting for our stock-based compensation plans. Compensation expense is recorded for awards of shares or share rights over the period earned. Compensation expense of $37 million, $5 million and $1 million, net of tax, was recorded in 2005, 2004 and 2003, respectively.

SFAS 123 requires that reload options be treated as separate grants from the related original option grants. Under our reload program, upon exercise of an option, employees may tender unrestricted shares owned at the time of exercise

to pay the exercise price and related tax withholding, and receive a reload option covering the same number of shares tendered for such purposes at the market price on the date of exercise. The reload options vest in one year and are only granted in certain circumstances according to the original terms of the option being exercised. The existence of the reload feature results in a greater number of options being measured.

For purposes of SFAS 123 disclosure, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model through November 30, 2005. For options granted after that time, the fair value is estimated using a lattice-based option valuation model.

The following are weighted-average inputs for the Black-Scholes option-pricing model used for grants under our stock plans through November 2005 and in 2004, and 2003, respectively:

	2005	2004	2003
Expected life in years	4	4	5
Risk free interest rate	3.8%	3.4%	2.9%
Expected volatility	50%	50%	79%

During 2004, Corning updated its analysis of the historical stock exercise behavior of its employees, among other relevant factors, and determined that the best estimate of the stock options' expected term granted in 2004 was 4 years, compared to our previous expected term estimate of 5 years. Additionally, Corning used a 10-year mean reversion analysis, as allowed by SFAS 123, to determine the volatility assumption also used to estimate the fair value of options granted in 2004. Prior to 2004, Corning used historical trailing volatility for a period equal to the expected term of our stock options. Corning believes a mean reversion analysis provides a better estimate of future volatility expectations.

The lattice-based valuation model, used to estimate the fair values of option and restricted stock grants after November 30, 2005, incorporates the assumptions (including ranges of assumptions) noted in the table below. Expected volatilities are based on implied volatilities from traded options on Corning's stock, historical volatility of Corning's stock, and other factors.

In estimating option grant fair value under the lattice based model, Corning uses historical data to estimate future option exercise and employee termination within the valuation model and separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived using a regression model and represents the period of time that options granted are expected to be outstanding. The range given below results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

18. Stock Compensation Plans (continued)

The following inputs for the lattice-based valuation model were used for option grants under our Stock Option Plans since December 1, 2005:

	2005

Expected volatility	37-53%
Weighted-average volatility	49%
Expected dividends	0
Expected term (in years)	3.7-4.9
Risk-free rate	1.0-9.7%
Expected time to exercise (in years)	2.5-3.6
Pre-vesting departure rate	3%
Post vesting departure rates	10-16%

The fair value of each restricted stock grant under the Incentive Stock Plans after November 30, 2005 was estimated on the date of grant using the lattice valuation model and for performance based grants assumes that performance goals will be achieved. The assumptions for annual departure probability used in estimating Incentive Stock grant fair values are the same as those noted in the table above related to grants under our Stock Option Plans, for stock issued since December 1, 2005. The expected term for grants under the Incentive Stock Plans is 1 to 10 years.

Worldwide Employee Share Purchase Plan

In addition to the Stock Option Plan and Incentive Stock Plans, we have a Worldwide Employee Share Purchase Plan (WESPP). Under the WESPP, substantially all employees can elect to have up to 10% of their annual wages withheld to purchase our common stock. The purchase price of the stock is 85% of the lower of the beginning-of-quarter or end-of-quarter closing market price.

19. Operating Segments

Corning conducts its worldwide operations through operating segments, which are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our Chief Operating Decision Making group (CODM) is comprised of the president and chief executive officer, vice chairman and chief financial officer, chief operating officer, executive vice president-chief administrative officer, executive vice president-chief technology officer, and senior vice president and operations chief of staff.

Our reportable operating segments follow:

- Display Technologies - manufactures liquid crystal display glass for flat panel displays;
- Telecommunications - manufactures optical fiber and cable and hardware and equipment components for the telecommunications industry;
- Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- Life Sciences - manufactures glass and plastic consumables for scientific applications.

The Environmental Technologies reportable segment is an aggregation of our Automotive and Diesel operating segments, as these two segments share similar economic characteristics, products, customer types, production processes and distribution methods.

All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g. Dow Corning and Steuben), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring and impairment charges related to the

corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

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 include the earnings of equity affiliates that are closely associated with our operating 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 GAAP. These expenses include interest, taxes and corporate functions. 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. Revenue attributed to geographic areas is based on the location of the customer.

19. Operating Segments (continued)

Geographic Concentration

A significant amount of specialized manufacturing capacity for our Display Technologies segment is concentrated in Asia. It is at least reasonably possible that the use of a facility located outside of an entity's home country could be disrupted. Due to the specialized nature of the assets, it would not be possible to find replacement capacity quickly. Accordingly, loss of the facility could produce a near-term severe impact to our display business and the company as a whole.

	Restat		
	Display Technologies	Telecom-munications	Environmental Technologies
For the year ended December 31, 2005 (Restated)			
Net sales	$ 1,742	$ 1,623	$ 580
Depreciation (1)	$ 186	$ 172	$ 72
Amortization of purchased intangibles		$ 13	
Research, development and engineering expenses (2)	$ 121	$ 96	$ 114
Restructuring, impairment and other charges and (credits) (8)		$ (47)	
Interest expense (3)	$ 55	$ 30	$ 20
(Provision) benefit for income taxes (9)	$ (151)	$ 4	$ 7
Income (loss) before minority interests and equity (losses) earnings (4)	$ 679	$ 29	$ (26)
Minority interests (5)		2	
Equity in earnings of associated companies, net of impairments (6)	416	5	
Net income (loss)	$ 1,095	$ 36	$ (26)
Investment in associated companies, at equity	$ 860	$ 11	$ 31
Segment assets (7)	$ 3,626	$ 1,153	$ 726
Capital expenditures	$ 1,250	$ 43	$ 171

For the year ended December 31, 2004 (Restated)			
Net sales	$ 1,113	$ 1,539	$ 548
Depreciation (1)	$ 131	$ 204	$ 65
Amortization of purchased intangibles		$ 37	
Research, development and engineering expenses (2)	$ 83	$ 90	$ 87
Restructuring, impairment and other charges and (credits)		$ 1,798	
Interest expense (3)	$ 52	$ 50	$ 22
(Provision) benefit for income taxes	$ (146)	$ 29	
Income (loss) before minority interests and equity (losses) earnings (4)	$ 258	$(1,862)	$ 3
Minority interests (5)		2	
Equity in earnings of associated companies, net of impairments (6)	288	(33)	1
Income from discontinued operations			
Net income (loss)	$ 546	$(1,893)	$ 4
Investment in associated companies, at equity	$ 582	$ 23	$ 31
Segment assets (7)	$ 2,470	$ 1,341	$ 587
Capital expenditures	$ 640	$ 32	$ 124
For the year ended December 31, 2003 (Restated)			
Net sales	$ 595	$ 1,426	$ 476
Depreciation (1)	$ 110	$ 246	$ 80
Amortization of purchased intangibles		$ 37	
Research, development and engineering expenses (2)	$ 55	$ 120	$ 87
Restructuring, impairment and other charges and (credits)		$ (36)	
Interest expense (3)	$ 39	$ 75	$ 19
(Provision) benefit for income taxes	$ (45)	$ 78	$ (5)
Income (loss) before minority interests and equity (losses) earnings (4)	$ 91	$ (158)	$ 9
Minority interests (5)			
Equity in earnings of associated companies, net of impairments (6)	144	(11)	
Net income (loss)	$ 235	$ (169)	$ 9
Investment in associated companies, at equity	$ 299	$ 59	$ 30
Segment assets (7)	$ 1,297	$ 1,848	$ 485
Capital expenditures	$ 251	$ 15	$ 69

19. Operating Segments (continued)

(1) Depreciation expense for Corning's reportable segments includes an allocation of depreciation of corporate property not specifically identifiable to a segment. Related depreciable assets are not allocated to segment assets.

(2) Non-direct research, development and engineering expenses are allocated to segments based upon direct project spending for each segment.

(3) Interest expense is allocated to segments based on a percentage of segment net operating assets.

(4) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to

segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales.

(5) Minority interests include the following restructuring, impairment and other charges and (credits):

- In 2004, gains from the sale of assets of Corning Asahi Video (CAV) in excess of assumed salvage value of $17 million, and reversals of CAV severance reserves of $2 million.
- In 2003, impairment charges for long-lived assets of CAV and exit costs of $57 million.

(6) Equity in earnings of associated companies, net of impairments includes the following restructuring and impairment charges:

- In 2004 and 2003, charges of $35 million and $7 million, respectively, to impair equity method investments in the Telecommunications segment to their estimated fair value.
- In 2004, Dow Corning Corporation recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included $21 million related to these charges.
- In 2005 and 2003, charges of $106 million and $66 million, respectively, to reflect our share of Samsung Corning Co., Ltd.'s asset impairment charges.

(7) Segment assets include inventory, accounts receivable, property and associated equity companies and cost investments.

(8) Restructuring, impairment and other charges and (credits) includes: in 2005, an impairment charge of $25 million for the other-than-temporary decline in our investment in Avanex below its cost basis; a loss of $16 million associated with the redemption or retirement of debt.

(9) (Provision) benefit for income taxes includes, in 2005, a net $443 million charge to tax expense which included a $525 million increase to our valuation allowance against deferred tax assets resulting from our conclusion that the sale of an appreciated asset no longer met the criteria established by SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109) for a viable tax planning strategy offset by an $82 million credit to tax expense primarily related to the tax impact of eliminating the minimum pension liability associated with our domestic defined benefit plan.

Each of our reportable segments is concentrated across a relatively small number of customers. For the year ended December 31, 2005, five customers of the Display Technologies segment, each of which accounted for more than 10% of segment net sales, accounted for 75% of total segment sales. In the Telecommunications segment, two customers, each of which accounted for more than 10% of this segment's net sales, accounted for 29% of total segment sales in 2005. In the Environmental Technologies segment, three customers, each of which accounted for more than 10% of segment sales, represented 76% of total segment sales in 2005. In the Life Sciences segment, one customer accounted for 53% of this segment's sales for 2005.

A reconciliation of reportable segment net income (loss) to consolidated net income (loss) follows (in millions):

	Years ended	
	2005 Restated	2004 R
Net income (loss) of reportable segments	$ 1,080	$ (1
Non-reportable operating segments net (loss) income (1)	(100)	
Unallocated amounts:		
Non-segment loss and other (2)	(13)	

Non-segment restructuring, impairment and other (charges) and credits	(25)	
Asbestos settlement	(218)	
Interest income	61	
(Loss) gain on repurchases of debt	(16)	
(Provision) benefit for income taxes (3)	(451)	
Minority interests		
Equity in earnings of associated companies, net of impairments (4)	267	
Income from discontinued operations		
Net income (loss)	$ 585	$ (2

(1) Non-reportable operating segments net (loss) income includes the results of non-reportable operating segments.
(2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
(3) (Provision) benefit for income taxes includes taxes associated with non-segment restructuring, impairment and other charges (credits) as well as $525 million and $937 million for the impact of establishing a valuation allowance against certain deferred tax assets in 2005 and 2004, respectively, and offset by an $82 million benefit primarily for the impact of eliminating the minimum pension liability of our domestic qualified plan in 2005.
(4) Equity in earnings of associated companies, net of impairments includes amounts derived from corporate investments, primarily Dow Corning Corporation.

The following table provides net sales for the Telecommunications segment (in millions):

	Years ended December 31,		
	2005	2004	2003
Net sales:			
Optical fiber and cable	$ 834	$ 755	$ 760
Hardware and equipment	789	784	612
Photonic technologies			54
Total net sales	$ 1,623	$ 1,539	$ 1,426

19. Operating Segments (continued)

The following table provides net sales for the Environmental Technologies segment (in millions):

	Years ended December 31,		
	2005	2004	2003
Net sales:			
Automotive	$ 482	$ 479	$ 430
Diesel	98	69	46
Total net sales	$ 580	$ 548	$ 476

The following table provides net sales for the Unallocated and Other segment (in millions):

	Years ended December 31,		
	2005	2004	2003
Net sales:			
Conventional video components		$ 3	$ 65
Other businesses	$ 352	347	247
Total net sales	$ 352	$ 350	$ 312

A reconciliation of reportable segment assets to consolidated assets follows (in millions):

	Years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Total assets of reportable segments	$ 5,642	$ 4,521	$ 3,741
Non-reportable operating segments assets	772	724	673
Unallocated amounts:			
Current assets (1)	2,682	2,171	1,751
Investments (2)	332	433	285
Property, net (3)	836	886	973
Other non-current assets (4)	943	1,035	3,393
Total assets	$ 11,207	$ 9,770	$ 10,816

(1) Includes current corporate assets, primarily cash, short-term investments and deferred taxes.
(2) Represents corporate investments in associated companies, at both cost and equity (primarily Dow Corning Corporation).
(3) Represents corporate property not specifically identifiable to an operating segment.
(4) Includes non-current corporate assets, pension assets and deferred taxes.

19. Operating Segments (continued)

Information concerning principal geographic areas was as follows (in millions):

	2005 (Restated)		2004 (Restated)	
	Net Sales	Long-lived Assets (1)	Net Sales	Long-lived Assets (1)
North America				
United States	$ 1,339	$ 3,400	$ 1,337	$ 2,982
Canada	107		120	

Mexico	56	114	43	23
Total North America	1,502	3,514	1,500	3,005
Asia Pacific				
Japan	688	541	540	511
Taiwan	1,230	1,696	705	985
China	144	74	101	73
Korea	53	1,092	60	938
Other	155	3	174	8
Total Asia Pacific	2,270	3,406	1,580	2,515
Europe				
Germany	261	159	274	212
France	43	105	40	124
United Kingdom	81	69	65	80
Italy	30		38	
Other	265	68	236	58
Total Europe	680	401	653	474
Latin America				
Brazil	19	3	19	3
Other	16		12	
Total Latin America	35	3	31	3
All Other	92	13	90	18
Total	$ 4,579	$ 7,337	$ 3,854	$ 6,015

(1) Long-lived assets primarily include investments, plant and equipment, goodwill and other intangible assets.

20. Subsequent Events

On January 1, 2006, Corning changed its measurement of segment profit or loss for the following items:

- We removed the net impact of financing costs, such as interest expense on debt instruments and interest costs associated with benefit plans, from reportable segments and included these amounts in Corporate unallocated expense.
- We changed the allocation method for taxes to more closely reflect the company's current tax position.
- We removed the impact of non-cash stock compensation expense from reportable segments and included this amount in Corporate unallocated expense.
- We removed the allocation of exploratory research, development and engineering expense from the reportable segments and included these amounts in Corporate unallocated expense.

.. We changed certain other expense allocation methods for Corporate functions.

The following provides historical segment information reflecting these changes in the measurement of segment profit or loss for 2005, 2004 and 2003 and quarterly information for 2005.

Our reportable operating segments follow:

- Display Technologies - manufactures liquid crystal display glass for flat panel displays;
- Telecommunications - manufactures optical fiber and cable and hardware and equipment components for the telecommunications industry;
- Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- Life Sciences - manufactures glass and plastic consumables for scientific applications.

The Environmental Technologies reportable segment is an aggregation of our Automotive and Diesel operating segments, as these two segments share similar economic characteristics, products, customer types, production processes and distribution methods.

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

20. Subsequent Events (continued)

Restated Segment Information (in millions)

	Display Technologies	Telecom-munications	Environmental Technologies
For the year ended December 31, 2005 (Restated)			
Net sales	$ 1,742	$ 1,623	$ 580
Depreciation (1)	$ 185	$ 180	$ 70
Amortization of purchased intangibles		$ 13	
Research, development and engineering expenses (2)	$ 107	$ 76	$ 102
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		$ (47)	
Income tax provision	$ (122)	$ (15)	$ (5)
Earnings (loss) before minority interest and equity earnings (loss) (3)	$ 823	$ 61	$ 15
Minority interests (4)		$ 2	
Equity in earnings (loss) of associated companies (5)	$ 416	$ 5	
Net income (loss)	$ 1,239	$ 68	$ 15
Investment in associated companies, at equity	$ 860	$ 11	$ 31
Segment assets (6)	$ 3,626	$ 1,153	$ 726
Capital expenditures	$ 1,250	$ 43	$ 171
For the year ended December 31, 2004 (Restated)			
Net sales	$ 1,113	$ 1,539	$ 548

Depreciation (1)	$ 129	$ 209	$ 63
Amortization of purchased intangibles		$ 37	
Research, development and engineering expenses (2)	$ 70	$ 69	$ 76
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		$ 1,798	
Income tax (provision) benefit	$ (71)	$ (25)	$ (40)
Earnings (loss) before minority interest and equity earnings (loss) (3)	$ 429	$(1,843)	$ 20
Minority interests (4)		$ 2	
Equity in earnings (loss) of associated companies (5)	$ 288	$ (33)	$ 1
Income (loss) from continuing operations	$ 717	$(1,874)	$ 21
Discontinued operations			
Net income (loss)	$ 717	$(1,874)	$ 21
Investment in associated companies, at equity	$ 582	$ 23	$ 31
Segment assets (6)	$ 2,470	$ 1,341	$ 587
Capital expenditures	$ 640	$ 32	$ 124
For the year ended December 31, 2003 (Restated)			
Net sales	$ 595	$ 1,426	$ 476
Depreciation (1)	$ 97	$ 245	$ 55
Amortization of purchased intangibles		$ 37	
Research, development and engineering expenses (2)	$ 48	$ 108	$ 74
Restructuring, impairment and other charges and (credits) (before-tax and minority interest)		$ (36)	
Income tax (provision) benefit	$ (69)	$ 68	$ (22)
Earnings (loss) before minority interest and equity earnings (loss) (3)	$ 130	$ (108)	$ 43
Minority interests (4)			
Equity in earnings (loss) of associated companies (5)	$ 144	$ (11)	
Net income (loss)	$ 274	$ (120)	$ 43
Investment in associated companies, at equity	$ 299	$ 59	$ 30
Segment assets (6)	$ 1,297	$ 1,848	$ 485
Capital expenditures	$ 251	$ 15	$ 69

20. Subsequent Events (continued)

(1) Depreciation expense for Corning's reportable segments includes an allocation of depreciation of corporate property not specifically identifiable to a segment.

(2) Research, development, and engineering expenses includes direct project spending which is identifiable to a segment.

(3) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales.

(4) Minority interests included the impact of the following restructuring, impairment, and other charges (credits):

- In 2004, gains from the sale of assets of Corning Asahi Video (CAV) in excess of assumed salvage value of $17 million, and reversals of CAV

severance reserves of $2 million.

- In 2003, impairment charges for long-lived assets of CAV and exit costs of $57 million.

(5) Equity in earnings of associated companies, net of impairments includes the following restructuring and impairment charges:

- In 2004 and 2003, charges of $35 million and $7 million, respectively, to impair equity method investments in the Telecommunications segment to their estimated fair value.
- In 2005 and 2003, $106 million and $66 million, respectively, to reflect our share of Samsung Corning Co., Ltd.'s asset impairment charges.

(6) Segment assets include inventory, accounts receivable, property and associated equity companies and cost investments.

A reconciliation of reportable segment net income (loss) to consolidated net income (loss) follows (in millions):

	Years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Net income (loss) of reportable segments	$ 1,318	$ (1,120)	$ 228
Non-reportable segments	(66)	50	(122)
Unallocated amounts:			
Net financing costs (1)	(93)	(164)	(150)
Stock-based compensation expense	(37)	(11)	(1)
Exploratory research	(77)	(68)	(43)
Corporate contributions	(24)	(17)	(24)
Equity in earnings of associated companies, net of impairments (2)	266	127	89
Asbestos settlement (3)	(218)	(65)	(535)
Other corporate items (4)	(484)	(963)	278
Net income (loss)	$ 585	$ (2,231)	$ (280)

(1) Net financing costs include interest expense, interest income, and interest costs and investment gains associated with benefit plans.

(2) Equity in earnings of associated companies, net of impairments represents equity in earnings of Dow Corning Corporation which includes the following items:

- In 2005, a gain of $11 million which represents our share of Dow Corning's gain on the issuance of subsidiary stock.
- In 2004, charges of $21 million which represents our share of Dow Corning's charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy.

(3) In 2005, 2004, and 2003, the asbestos settlement includes $197 million, $33 million, and $115 million, respectively, to reflect the movement in Corning's common stock price in each year and $21 million, $32 million, and $28 million, respectively, to adjust the estimated fair value of the other components of the proposed asbestos settlement. In 2003, Corning also recorded a charge of $392 million to reflect the initial liability based on the terms of the settlement agreement. See Note 8 (Investments) to the consolidated financial statements.

(4) Other corporate items include the tax impact of the unallocated amounts and the following significant items:

- In 2005, an impairment charge of $25 million for the other-than-temporary decline in our investment in Avanex below its cost basis; a loss of $16 million associated with the redemption or retirement of debt; a net $443 million charge to tax expense which included a $525 million increase to our valuation allowance against

deferred tax assets resulting from our conclusion that the sale of an appreciated asset no longer met the criteria established by SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109) for a viable tax planning strategy offset by an $82 million credit to tax expense primarily related to the tax impact of eliminating the minimum pension liability associated with our domestic defined benefit plan.

- In 2004, a $992 million charge to tax expense as a result of the company's decision to provide a valuation allowance against a significant portion of its deferred tax assets and a loss of $36 million associated with the retirement of significant portion of Corning's long-term debt.

A reconciliation of reportable segment net assets to consolidated net assets follows (in millions):

	Years ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Total assets of reportable segments	$ 5,642	$ 4,521	$ 3,741
Non-reportable segments	573	724	720
Unallocated amounts:			
Current assets (1)	2,682	2,171	1,754
Investments (2)	531	433	285
Property, net (3)	836	886	932
Other non-current assets (4)	943	1,035	3,384
Total assets	$ 11,207	$ 9,770	$ 10,816

(1) Includes current corporate assets, primarily cash, short-term investments and deferred taxes.
(2) Represents corporate investments in associated companies, at both cost and equity (primarily Dow Corning Corporation).
(3) Represents corporate property not specifically identifiable to an operating segment.
(4) Includes non-current corporate assets, pension assets and deferred taxes.

Corning Incorporated and Subsidiary Companies
Schedule II - Valuation Accounts and Reserves
(in millions)

Year ended December 31, 2005 (Restated)	Balance at Beginning of Period	Additions	Net Ded and
Doubtful accounts and allowances	$ 30	$ 3	$
Deferred tax assets valuation allowance (1)	$ 1,747	$ 2,030	$
Accumulated amortization of			

purchased intangible assets	$ 196	$ 13	$
Reserves for accrued costs of business restructuring	$ 95	$ 30	$

Year ended December 31, 2004 (Restated)	Balance at Beginning of Period	Additions	Net Ded and
Doubtful accounts and allowances	$ 38	$ 4	$
Deferred tax assets valuation allowance (1)	$ 469	$ 1,278	
Accumulated amortization of purchased intangible assets	$ 147	$ 49	
Reserves for accrued costs of business restructuring	$ 186	$ 2	$

Year ended December 31, 2003 (Restated)	Balance at Beginning of Period	Additions	Net Ded and
Doubtful accounts and allowances	$ 59	$ 5	$
Deferred tax assets valuation allowance	$ 417	$ 52	
Accumulated amortization of purchased intangible assets	$ 104	$ 43	
Reserves for accrued costs of business restructuring	$ 405	$ 127	$

(1) The deferred tax assets valuation allowance has been restated to reflect an increase in the valuation allowance for the deferred tax assets related to the higher asbestos settlement charges; as discussed in Note 2 to the consolidated financial statements.

QUARTERLY OPERATING RESULTS
(unaudited)

(In millions, except per share amounts)

2005 (Restated)	First Quarter	Second Quarter	T Qu

Net sales	$ 1,050	$ 1,141	$
Gross margin	$ 429	$ 483	$
Restructuring, impairment and other charges and (credits)	$ 19	$ (1)	$
Asbestos settlement	$ (12)	$ 143	$
(Loss) income from continuing operations before income taxes, minority interests and equity earnings	$ 101	$ 38	$
(Provision) benefit for income taxes	(19)	(44)	
Minority interests	(1)	(5)	
Equity in earnings of associated companies, net of impairments	169	176	
Net (loss) income	$ 250	$ 165	$
Basic (loss) earnings per common share	$ 0.18	$ 0.11	$
Diluted (loss) earnings per common share	$ 0.17	$ 0.11	$

2004 (Restated)	First Quarter	Second Quarter	T Qu
Net sales	$ 844	$ 971	$
Gross margin	$ 300	$ 346	$
Restructuring, impairment and other charges and (credits)	$ 34	$ (34)	$
Asbestos settlement	$ 22	$ 52	$
(Loss) income from continuing operations before income taxes, minority interests and equity earnings	$ (65)	$ 33	$
(Provision) benefit for income taxes	13	(23)	
Minority interests		(11)	
Equity in earnings of associated companies, net of impairments	108	110	
Income (loss) from continuing operations	$ 56	$ 109	$
Income from discontinued operations (1)			
Net (loss) income	$ 56	$ 109	$
Basic (loss) earnings per common share from:			
Continuing operations	$ 0.04	$ 0.08	$
Discontinued operations			
Basic (loss) earnings per common share	$ 0.04	$ 0.08	$
Diluted (loss) earnings per common share from:			
Continuing operations	$ 0.04	$ 0.07	$
Discontinued operations			
Diluted (loss) earnings per common share	$ 0.04	$ 0.07	$

(1) Discontinued operations are described in Note 3 (Discontinued Operations) to the Consolidated Financial Statements.

DOW CORNING CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

DOW CORNING CORPORATION
AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

To the Stockholders and
Board of Directors of
Dow Corning Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows, stockholders' equity and comprehensive income present fairly, in all material respects, the financial position of Dow Corning Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Detroit, Michigan
February 9, 2006

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except for per share amounts)

	Year ended De	
	2005	2004
Net Sales	$3,878.7	$3,372.
Operating Costs and Expenses:		
Cost of sales	2,567.2	2,336
Marketing and administrative expenses	556.2	549
Restructuring costs	-	44
Total operating costs and expenses	3,123.4	2,930
Operating Income	755.3	442
Interest income	22.8	17
Interest expense	(3.9)	(97
Gain on issuance of subsidiary stock	21.2	-
Other nonoperating income (expense), net	16.9	20
Income before Income Taxes and Minority Interests	812.3	381
Income tax provision	253.8	125
Minority interests' share in income	52.0	18
Net Income	$ 506.5	$ 238
Weighted-Average Common Shares Outstanding (basic and diluted)	2.5	2
Net Income per Share (basic and diluted)	$ 202.60	$ 95.
Dividends Declared per Common Share	$ 36.00	$ -

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of U.S. dollars)

ASSETS

	December 31, 2005	D

Current Assets:	
Cash and cash equivalents	$ 137.6
Marketable securities	1,081.8
Accounts receivable (net of allowance for doubtful accounts of $8.2 in 2005 and $11.7 in 2004)	517.4
Anticipated implant insurance receivable	47.2
Notes and other receivables	110.6
Inventories	506.6
Deferred income taxes	123.8
Other current assets	49.8
Total current assets	2,574.8
Property, Plant and Equipment	4,573.3
Less - Accumulated Depreciation	(3,249.8)
Net property, plant and equipment	1,323.5
Other Assets:	
Marketable securities	8.8
Anticipated implant insurance receivable	218.2
Deferred income taxes	750.3
Intangible assets (net of accumulated amortization of $15.7 in 2005 and $12.6 in 2004)	103.1
Goodwill	66.1
Restricted investments	25.9
Other	74.1
Total other assets	1,246.5
Total Assets	$ 5,144.8

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of U.S. dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2005	D
Current Liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 22.3	
Trade accounts payable	309.7	

Accrued payrolls and employee benefits	210.4
Accrued taxes	116.4
Accrued interest	66.4
Current portion of implant reserve	57.8
Other current liabilities	150.0
Total current liabilities	933.0
Other Liabilities:	
Long-term debt	39.3
Implant reserve	1,755.7
Employee benefits	547.2
Co-insurance payable	36.2
Deferred revenue	103.4
Other noncurrent liabilities	111.0
Total other liabilities	2,592.8
Minority Interest in Consolidated Subsidiaries	178.6
Stockholders' Equity:	
Common stock ($5.00 par value - 2,500,000 shares authorized, issued and outstanding)	12.5
Retained earnings	1,514.8
Accumulated other comprehensive income (loss):	
Cumulative translation adjustment	35.1
Minimum pension liability	(131.1)
Other equity adjustments	9.1
Total accumulated other comprehensive income (loss)	(86.9)
Total stockholders' equity	1,440.4
Total Liabilities and Stockholders' Equity	$ 5,144.8

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of U.S. dollars)

	Year ended De	
	2005	2004

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 506.5	$ 238
Depreciation and amortization	211.6	210
Changes in deferred revenue	111.4	-
Other, net	83.9	93
Changes in operating assets and liabilities		
Changes in accounts and notes receivable	(33.2)	(10
Changes in accounts payable	21.2	(36
Changes in inventory	(107.2)	37
Changes in other operating assets and liabilities	76.6	163
Cash provided by operating activities	870.8	695
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(200.5)	(109
Acquisitions of businesses, net of cash received	-	(92
Proceeds from sales and maturities of securities	3,379.1	4,529
Purchases of securities	(4,113.3)	(3,645
Other, net	2.2	(1
Cash provided by (used in) investing activities	(932.5)	682
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings	-	12
Payments on long-term debt	(11.1)	(9
Net change in short-term borrowings	7.4	(2
Distributions to minority interests	(58.2)	(3
Cash received from minority interests	48.6	-
Dividends paid to stockholders	(90.0)	-
Cash used in financing activities	(103.3)	(3
CASH FLOWS RELATED TO REORGANIZATION ACTIVITIES:		
Reorganization costs	(3.4)	(7
Implant reserve and other payments	(40.3)	(505
Release of insurance proceeds	-	207
Payments under co-insurance arrangement	(2.1)	(30
Implant insurance reimbursements	42.4	128
Payments on long-term debt	-	(273
Payments of notes payable	-	(375
Payments of interest	-	(673
Cash used in reorganization activities	(3.4)	(1,530
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(16.0)	15
CHANGES IN CASH AND CASH EQUIVALENTS:		
Net decrease in cash and cash equivalents	(184.4)	(140
Cash and cash equivalents at beginning of year	322.0	462
Cash and cash equivalents at end of year	$ 137.6	$ 322

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions of U.S. dollars)

	Year ended De	
	2005	2004
Common Stock ($5.00 par value - 2,500,000 shares authorized, issued and outstanding)		
Balance at beginning and end of year	$ 12.5	$ 12
Retained Earnings		
Balance at beginning of year	1,098.3	860
Net income	506.5	238
Common stock dividends declared	(90.0)	-
Balance at end of year	1,514.8	1,098
Accumulated Other Comprehensive Income (Loss)		
Cumulative translation adjustment balance at beginning of year	170.6	110
Translation adjustments	(136.8)	60
Income tax benefit (provision)	1.3	0
Balance at end of year	35.1	170
Additional minimum pension liability balance at beginning of year	(135.8)	(143
(Increase) decrease in minimum pension liability	3.2	8
Income tax benefit (provision)	1.5	(0
Balance at end of year	(131.1)	(135
Other equity adjustments balance at beginning of year	0.8	3
Change in unrealized gain (loss) on cash flow hedges	14.2	(2
Change in unrealized gain (loss) on available-for-sale securities	(1.4)	(2
Income tax benefit (provision)	(4.5)	1
Balance at end of year	9.1	0
Total Accumulated Other Comprehensive Income (Loss)	(86.9)	35
Stockholders' Equity	$ 1,440.4	$ 1,146

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions of U.S. dollars)

	Year ended December 31	
	2005	2004
Net Income	$ 506.5	$ 238.3
Other Comprehensive Income (Loss):		
Foreign currency translation adjustments (net of tax of $(1.3), $0.2, $(11.8))	(135.5)	60.5
Unrealized net gain (loss) on available-for-sale securities (net of tax of $0.4, $1.5, $(0.9))	(1.0)	(0.8)
Net gain (loss) on cash flow hedges (net of tax of $(4.9), $0, $0)	9.3	(2.1)
(Increase) decrease in minimum pension liability (net of tax of $1.5, $(0.4), $7.7)	4.7	8.0
Other comprehensive income (loss), net of tax	(122.5)	65.6
Comprehensive Income	$ 384.0	$ 303.9

(See Notes to the Consolidated Financial Statements)

DOW CORNING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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DOW CORNING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars except where noted)

NOTE 1 - BUSINESS AND BASIS OF PRESENTATION

Business

Dow Corning Corporation ("Dow Corning") was incorporated in 1943 by Corning Glass Works, now Corning Incorporated ("Corning"), and The Dow Chemical Company ("Dow Chemical") for the purpose of developing and producing polymers and other materials based on silicon chemistry. Dow Corning operates in various countries around the world through numerous wholly owned or majority owned subsidiary corporations (hereinafter, the consolidated operations of Dow Corning and its subsidiaries will be referred to as the "Company").

Dow Corning built its business based on silicon chemistry. Silicon is one of the most abundant elements in the world. Most of Dow Corning's products are based on polymers known as silicones, which have a silicon-oxygen-silicon

backbone. Through various chemical processes, Dow Corning manufactures silicones that have an extremely wide variety of characteristics, in forms ranging from fluids, gels, greases and elastomeric materials to resins and other rigid materials. Silicones combine the temperature and chemical resistance of glass with the versatility of plastics. Regardless of form or application, silicones generally possess such qualities as electrical resistance, resistance to extreme temperatures, resistance to deterioration from aging, water repellency, lubricating characteristics, relative chemical and physiological inertness and resistance to ultraviolet radiation.

The Company engages primarily in the discovery, development, manufacturing, marketing and distribution of silicon-based materials and offers related services. Since its inception, Dow Corning has been engaged in a continuous program of basic and applied research on silicon-based materials to develop new products and processes, to improve and refine existing products and processes and to develop new applications for existing products. The Company manufactures over 7,000 products and serves approximately 25,000 customers worldwide, with no single customer accounting for more than three percent of the Company's sales in any of the past three years. Principal United States manufacturing plants are located in Kentucky and Michigan. Principal foreign manufacturing plants are located in Belgium, China, France, Germany, Japan, South Korea and the United Kingdom. The Company operates research and development facilities in the United States, Belgium, China, Germany, Ireland, Japan, South Korea and the United Kingdom. The Company also operates technical service centers in the United States, Belgium, Brazil, China, Germany, Japan, South Korea, Taiwan and the United Kingdom. Dow Corning's average employment for 2005 was approximately 8,900 persons.

The consolidated financial statements include the accounts of the Company and its subsidiaries. Certain prior year items have been reclassified to conform to the 2005 presentation.

Bankruptcy Proceedings

On May 15, 1995, the Company voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Eastern District of Michigan, Northern Division in order to resolve the Company's breast implant liabilities and related matters. The Company emerged from its Chapter 11 proceeding on June 1, 2004. Upon emergence from the Company's Chapter 11 proceeding, the Company was not subject to "fresh start" reporting as defined in SOP 90-7. See Note 16 for further information on this matter.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Dow Corning and all of its wholly owned and majority owned domestic and foreign subsidiaries. The Company's interests in 20% to 50% owned subsidiaries are carried on the equity basis and are included under the caption "Other Assets - Other" in the consolidated balance sheets. Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of ninety days or less. The carrying amounts for cash equivalents approximate their fair market values.

Inventories

The value of inventories is determined using lower of cost or market as the basis. Produced goods are valued using a first-in, first-out cost flow methodology, while purchased materials and supplies are valued using an average cost flow methodology. See Note 6 for further information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Depreciation

Property, plant and equipment is carried at cost less any impairment and is depreciated principally using accelerated methods over estimated useful lives. Upon retirement or other disposal, the asset cost and related accumulated depreciation are removed from the accounts and the net amount, less any proceeds, is charged or credited to income. If an asset is determined to be impaired, either based on value or a shortened life, the carrying amount of the asset is reduced to its fair value and the difference is charged to income in the period incurred.

The Company capitalizes the costs of internal-use software in accordance with American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Amounts capitalized during the years ended December 31, 2005 and 2004 were $4.2 and $5.8, respectively. As of December 31, 2005 and 2004, unamortized software costs were $4.6 and $6.2, respectively.

Expenditures for maintenance and repairs are charged against income as incurred. Expenditures that significantly increase asset value, extend useful asset lives or adapt property to a new or different use are capitalized.

The Company follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. See Note 9 for further information.

Marketable Securities

The Company accounts for investments in debt and equity securities in conformity with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires the use of fair value accounting for trading or available-for-sale securities, while retaining the use of the amortized cost method for investments in debt securities that the Company has the positive intent and ability to hold to maturity. Investments in debt and equity securities are included in the captions "Marketable securities" and "Restricted investments" in the consolidated balance sheets. All such investments are considered to be available for sale. If the decline in fair value of an investment in debt or equity securities is determined to be other than temporary, the carrying amount of the asset is reduced to its fair value, and the difference is charged to income in the period incurred. See Notes 5 and 11 for further information.

Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, investments, derivative financial instruments and trade receivables. The Company's policies limit the amount of credit exposure to any single counterparty for cash and investments. The Company uses major financial institutions with high credit ratings to engage in transactions involving investments and derivative instruments. The Company minimizes credit risk in its receivables from customers through its sale of products to a wide variety of customers and markets in locations throughout the world. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses, and historically such losses have been within expectations. Management believes the risk of incurring material losses related to credit risk is remote, and any losses would be immaterial to consolidated financial results.

Intangibles

Intangible assets of the Company include goodwill, patents and licenses, and other assets acquired by the Company that are separable and measurable apart from goodwill. Goodwill, representing the excess of cost over the fair value of net assets of businesses acquired, is tested for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. See Note 10 for further information.

Revenue

The Company recognizes revenue in accordance with the U.S. Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements." The Company recognizes revenue only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable and collectibility is reasonably assured. Generally, revenue is recognized when title and risk of loss transfer to the customer for products and as work is performed for professional services. Amounts billed to a customer in a sale transaction related to shipping costs are classified as revenue. The Company reduces revenue for product returns, allowances and price discounts. Amounts billed to customers in excess of amounts recognized as revenue are reported as deferred revenue in the consolidated balance sheets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shipping Costs

Shipping costs are primarily comprised of payments to third party shippers. The Company records shipping costs incurred as a component of "Cost of sales" in the consolidated statements of income. Shipping costs totaled $113.9, $94.3, and $76.6 for the years ended December 31, 2005, 2004 and 2003, respectively.

Research and Development Costs

Research and development costs are charged to operations when incurred and

are included in "Cost of sales" in the consolidated statements of income. These costs totaled $182.3 in 2005, $181.4 in 2004, and $162.5 in 2003, and were comprised primarily of labor costs, outside services and depreciation.

Income Taxes

The Company accounts for income taxes in conformity with the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires a company to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company records a valuation allowance on deferred tax assets when appropriate to reflect the expected future tax benefits to be realized. In determining the appropriate valuation allowance, certain judgments are made relating to recoverability of deferred tax assets, use of tax loss carryforwards, level of expected future taxable income and available tax planning strategies. These judgments are routinely reviewed by management. At December 31, 2005 and 2004, the Company had net deferred tax asset balances of $869.1 and $983.3, respectively, after valuation allowances of $1.6 and $3.1, respectively. For additional information, see Note 7.

Currency Translation

The value of the U.S. dollar fluctuates against foreign currencies. Since the Company does business in many countries, these fluctuations affect the Company's consolidated financial position and results of operations. The Company accounts for these fluctuations in accordance with SFAS No. 52, "Foreign Currency Translation."

Subsidiaries in Europe and Japan translate their assets and liabilities, stated in their functional currency, into U.S. dollars at current exchange rates, that is, the rates in effect at the end of the period. The gains or losses that result from this process affect "Cumulative translation adjustment" in the stockholders' equity section of the consolidated balance sheets. Changes in the functional currency value of monetary assets and liabilities denominated in foreign currencies are recognized in the caption, "Other nonoperating income (expense), net" in the consolidated statements of income. The revenues and expenses of these non-U.S. subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period. Therefore, the reported U.S. dollar results included in the consolidated statement of income fluctuate from period to period, depending on the value of the U.S. dollar against foreign currencies.

For non-U.S. subsidiaries outside of Europe and Japan, where the U.S. dollar is the functional currency, inventories, property, plant and equipment and other non-monetary assets, together with their related elements of expense, are translated at historical rates of exchange. All other assets and liabilities are translated at current exchange rates. All other revenues and expenses are translated at average exchange rates. Translation gains and losses for these subsidiaries are recognized in the caption, "Other nonoperating income (expense), net" in the consolidated statements of income.

Derivative Financial Instruments

The Company uses derivative financial instruments to reduce the impact of changes in foreign exchange rates on its earnings, cash flows and fair values of

assets and liabilities. In addition, the Company uses derivative financial instruments to reduce the impact of changes in natural gas and other commodity prices on its earnings and cash flows. The Company enters into derivative financial contracts based on analysis of specific and known economic exposures. The Company's policy prohibits holding or issuing derivative financial instruments for trading or speculative purposes. The types of instruments typically used are forward contracts, but may also include option combinations and purchased option contracts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company recognizes all derivatives as "Other current assets" or "Other current liabilities" in the consolidated balance sheets at fair value. On the date the derivative instrument is entered into, if the Company is designating the instrument as a hedge, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge), (2) a hedge of the exposure to variability in cash flows of a forecasted transaction (cash flow hedge), or (3) a hedge of the foreign currency exposure of a net investment in a foreign operation. Changes in the fair value of a derivative that is designated as and meets all the required criteria for a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings. Changes in the fair value of a derivative or non-derivative that is designated as and meets all the required criteria for a hedge of a net investment are recorded in other comprehensive income. Changes in the fair value of a derivative that is not designated as a hedge are recorded immediately in earnings.

The majority of currency derivative instruments entered into by the Company are not designated as hedging instruments. Contracts used to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments. Net foreign currency (gains) and losses recognized in income, which include changes in the fair value of such currency derivatives as well as foreign exchange gains and losses on monetary assets and liabilities of the Company, amounted to ($1.5) in 2005, $1.7 in 2004, and $5.7 in 2003. In addition, the income tax provision in the consolidated statements of operations includes net foreign currency (gains) and losses from currency derivatives of ($0.3), $2.7, and $6.3 for 2005, 2004, and 2003, respectively, which when considered together with the related tax benefits and gains from underlying exposures, had the effect of decreasing (increasing) the income tax provision by $(2.0), $1.0, and ($0.1) in 2005, 2004, and 2003, respectively. See Note 7 for further information.

Where an instrument is designated as a hedge, the Company formally documents all relationships between the hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting with

respect to that derivative prospectively.

Litigation

The Company is subject to legal proceedings and claims arising out of the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after analysis of each known issue and an analysis of historical claims experience for incurred but not reported matters. The Company expenses these legal costs, including those expected to be incurred in connection with a loss contingency, as incurred. The Company has an active risk management program consisting of numerous insurance policies secured from many carriers. These policies provide coverage that is utilized to mitigate the impact, if any, of certain of the legal proceedings. The required reserves may change in the future due to new developments in each matter. See Notes 16 and 17 for further information.

Environmental Matters

The Company determines the costs of environmental remediation for its facilities, facilities formerly owned by the Company and third party waste disposal facilities based on evaluations of current law and existing technologies. Inherent uncertainties exist in these evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. The Company records a charge to earnings for environmental matters when it is probable that a liability has been incurred and the Company's costs can be reasonably estimated. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. The Company had accrued obligations of $2.9 at December 31, 2005 and 2004 for environmental remediation and restoration costs. Management believes that any costs incurred in excess of those accrued will not have a material adverse impact on the Company's consolidated financial position or results of operations.

Issuance of Shares by Subsidiaries

Gains or losses arising from the issuance of shares by subsidiaries due to changes in the Company's proportionate share of the value of the issuing subsidiary's equity are recorded in the consolidated statements of income as "Other nonoperating income (expense), net" pursuant to SAB Topic 5H, "Accounting for Sales of Stock by a Subsidiary."

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards

On September 15, 2005, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." EITF 04-13 describes the circumstances under which two or more inventory transactions with the same counterparty should be viewed as a single nonmonetary transaction, and describes the circumstances under which nonmonetary

exchanges of inventory within the same line of business should be recognized at fair value. EITF 04-13 will be effective for transactions completed in reporting periods beginning after March 15, 2006. The Company is currently evaluating the applicability of EITF 04-13 to the Company's inventory transactions.

On June 8, 2005, the FASB issued FASB Staff Position ("FSP") No. FAS 143-1, "Accounting for Electronic Equipment Waste Obligations." FSP No. FAS 143-1 addresses the accounting for asset waste obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment ("the Directive") adopted by the European Union. Under the Directive, commercial users of certain electronic equipment have an obligation to ensure proper disposal of such equipment until the equipment is sold or otherwise disposed. FSP No. FAS 143-1 requires such obligations to be accounted for as an asset retirement obligation by applying the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations," and FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations." The Company adopted FSP No. FAS 143-1 during the three months ended June 30, 2005. The adoption of FSP No. FAS 143-1 did not have a material impact on the Company's consolidated financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 supersedes Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires all voluntary changes in accounting principle because of preferability or any change resulting from the issuance of an accounting pronouncement that does not include detailed transition instructions to be handled by retrospective application, unless it is impracticable to determine the effect on prior period financial statements. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. The Company plans to adopt SFAS No. 154 effective January 1, 2006. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations." FIN No. 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company adopted FIN No. 47 in the three month period ended December 31, 2005. The adoption of FIN No. 47 did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2004, the Financial FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of Accounting Principles Board ("APB") Opinion No. 29." APB No. 29 requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged, with certain exceptions. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and includes a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement is effective for fiscal years beginning after June 15, 2005. The Company plans to adopt SFAS No. 153 on January 1, 2006 and does not expect its adoption to have a material effect on future consolidated results.

On October 22, 2004, the American Jobs Creation Act of 2004 (the "Jobs Creation Act") became law in the United States. In December 2004, the FASB issued FSP Nos. FAS 109-1 and FAS 109-2, which provide guidance on accounting and disclosure related to the Jobs Creation Act. FSP No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of

2004," requires the qualified production activities deduction provided for under the Jobs Creation Act to be accounted for as a special deduction in accordance with SFAS No. 109. FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," provides accounting and disclosure requirements for the one-time dividends received deduction on the repatriation of certain foreign earnings under the Jobs Creation Act. See Note 7 for further information.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4." SFAS No. 151 amends Chapter 4 of ARB No. 43, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. The Statement requires such costs to be recorded as charges in the period incurred, and also requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for annual periods beginning after June 15, 2005. The Company plans to adopt SFAS No. 151 effective January 1, 2006 and does not expect the adoption of SFAS No. 151 to have a material effect on future consolidated results.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2004, the FASB issued FSP No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." This FSP was superseded in June 2004 by FSP No. FAS 106-2 of the same title. These FSP's provide guidance on the accounting for and disclosure of the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act expands Medicare to provide prescription drug benefits to eligible enrollees and contains provisions that apply to employers who sponsor postretirement health care plans that provide prescription drug benefits. Beginning in 2006, sponsors of postretirement plans that provide a prescription drug benefit that is "actuarially equivalent" to the benefit provided by Medicare will receive a subsidy from the federal government. The Company adopted FSP No. FAS 106-1 effective April 30, 2004 and FSP No. FAS 106-2 effective July 1, 2004. The Company has determined that the benefits provided under its postretirement health care plan are "actuarially equivalent" with those provided under the Act. The adoption of FSP No. FAS 106-1 and FSP No. FAS 106-2 did not have a material impact on the Company's consolidated financial statements. See Note 15 for further information related to the impact of these FSP's.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 3 - ACQUISITIONS AND DIVESTITURES

On April 1, 2005, the Company consolidated its Japanese operations in a transaction involving Dow Corning Asia Ltd. ("DCAL"), a wholly-owned subsidiary, Dow Corning Toray Silicone Co. Ltd. ("DCTS"), a subsidiary owned 65% by the

Company, and Toray Industries, Inc. ("TI"), an independent company that owns the 35% minority interest in DCTS. The Company contributed property, plant, and equipment, working capital, and other net assets of DCAL valued at $90.0 to DCTS in exchange for additional shares of DCTS. DCTS recorded the contribution of assets at the Company's historical carrying value. In addition, TI contributed cash of $48.6 to DCTS in exchange for additional shares of DCTS. Upon completion of the transaction, DCTS was renamed Dow Corning Toray Company Ltd. ("DCT"), and the Company retained a 65% ownership interest in DCT. However, because the fair value per share issued to TI exceeded the value per share issued to the Company based upon the carrying value of the assets contributed by DCAL, the Company recognized a pre-tax gain of $21.2. This gain is reported in the "Gain on issuance of subsidiary stock" line in the Company's consolidated statement of income.

On September 30, 2004, the Company, through DCTS, purchased the net assets of the Silicone Division of Nippon Unicar Co., Ltd. ("NUC"). NUC is located in Tokyo, Japan and is a manufacturer of specialty chemicals and silicone products. The net assets were purchased by DCTS for cash of approximately $92.0 and consisted primarily of working capital items, intangible assets and property, plant and equipment. The Company recorded $3.0 of goodwill as a result of the transaction. The results of operations for the acquisition were included in the consolidated statement of income beginning in the three month period ended December 31, 2004. Purchase accounting for this acquisition was finalized during the three month period ended December 31, 2004.

On September 2, 2004, the Company, through its wholly owned subsidiary Dow Corning Enterprises, Inc. ("DCEI"), sold its 50% ownership interest in SDC Technologies Inc. ("SDC") for $10.0. The Company recognized a gain of approximately $7.1 on the sale. SDC is a California-based developer of proprietary, high-performance coating systems for application to plastics and glass.

On July 1, 2003, DCEI purchased 20% of the outstanding stock of DC Dongjue Silicone Group Company Ltd. ("DCDSG"), bringing DCEI's total ownership of DCDSG to 60%. Previously, in November 2001, DCEI and New Energy Chemicals Group Ltd. formed DCDSG as a corporate joint venture. At that time, DCEI was the minority interest shareholder, owning 25% of the outstanding stock and the joint venture was accounted for on an equity basis. In January 2003, DCEI increased its ownership to 40%. The July 1, 2003 purchase resulted in an aggregate purchase price of $6.4, of which $4.6 was recognized as goodwill. The Company has consolidated the results of DCDSG in the consolidated financial statements since July 1, 2003.

On June 16, 2003, the Company purchased all of the outstanding stock of Simcala, Inc. ("Simcala"), a silicon metal manufacturer located near Montgomery, Alabama. The consideration paid for the stock was approximately $15.5. In addition, immediately prior to the transaction closing, Simcala redeemed the stock of its executive management for consideration of approximately $1.5. Also, Dow Corning provided intercompany loans of approximately $13.3 to Simcala, $7.1 of which was for the purpose of retiring Simcala's outstanding debt and $6.2 of which was for the purpose of securing Simcala's obligations under outstanding industrial development revenue bonds. Purchase accounting for this acquisition was finalized during the three month period ended June 30, 2004.

On February 27, 2003, the Company purchased substantially all of the assets of Tyco Electronics, Inc., a wholly owned subsidiary of Tyco International Inc. for a purchase price of $9.4. Tyco Electronics, Inc.'s primary facility is located in Menlo Park, California. The transaction resulted in goodwill of $0.6.

NOTE 3 - ACQUISITIONS AND DIVESTITURES (Continued)

On January 23, 2003, DCEI purchased substantially all of the assets of Sterling Semiconductor, Inc., a wholly owned subsidiary of Uniroyal Technology Corporation, for a purchase price of $11.5. On December 4, 2002, DCEI purchased substantially all of the assets of GAN Semiconductor, Inc., of Sunnyvale, California for a purchase price of $4.9. Included in the purchase was $2.9 of in-process research and development, which was charged to "Other" expense. The transaction resulted in goodwill of $0.3. Dow Corning has consolidated the assets acquired from GAN Semiconductor, Inc. and Sterling Semiconductor, Inc. in Midland, Michigan, forming Dow Corning Compound Semiconductor Solutions, LLC.

NOTE 4 - GLOBAL RESTRUCTURING

The Company implemented a restructuring program during 2004, consisting of separation of employees and the withdrawal of certain fixed assets from service. During the year ended December 31, 2004, the Company incurred pre-tax expense of $34.9 primarily for one-time termination benefits related to the workforce reduction of approximately 212 employees. Results for the year ended December 31, 2004 also included a pre-tax charge of $2.7 for non-cash restructuring activity related to curtailment and special termination benefits. See Note 15 for additional information regarding the global workforce reduction effect on defined benefit pension plans and the U.S. retiree medical plan. Additionally, the Company recorded charges of $6.4 related to the impairment of its manufacturing site located in Yamakita, Japan, and classified the related fixed assets as long-lived assets to be disposed of by sale. These restructuring charges were reported in the "Restructuring costs" line in the Company's consolidated statement of income for the year ended December 31, 2004.

As of December 31, 2005, the Company's liability for restructuring had been reduced to zero. The restructuring activity for the years ended December 31, 2005 and 2004 is illustrated in the following table:

Year Ended December 31, 2005		Year Ended December 31, 2004	
Beginning of year balance	$ 5.4	Beginning of year balance	$ -
Restructuring charges	-	Restructuring charges	44.0
Cash payments	(3.8)	Cash payments	(29.5)
Non-cash adjustments	(1.6)	Non-cash adjustments	(9.1)
Balance - December 31, 2005	$ -	Balance - December 31, 2004	$ 5.4

NOTE 5 - UNRESTRICTED INVESTMENTS

The carrying amounts of unrestricted investments reflected under the caption "Marketable securities" in the current and noncurrent sections of the consolidated balance sheets at December 31, 2005 and 2004 totaled $1,090.6 and $355.8, respectively. These unrestricted investments consist principally of obligations backed by the U. S. Government or one of its agencies and corporate and municipal issue bonds. These investments have been classified as "available for sale" in conformity with SFAS No. 115. The Company does not invest in securities that are below investment grade. Fair values are determined based on quoted market prices or, if quoted market prices are not available, on market prices of comparable instruments. For purposes of computing realized gain or loss on the disposition of unrestricted investments, the specific identification method is used.

The Company reviews all marketable securities to determine if any decline in value is other than temporary. The analysis includes a review of the amount and duration of the decline in value of a security and a comparison between the amount and duration of the decline in value of the security and that of similar securities in the same market sector. The Company has reviewed the investments that have a gross unrealized loss as of December 31, 2005 and has concluded that the decline in value is not other than temporary.

NOTE 5 - UNRESTRICTED INVESTMENTS (Continued)

The amortized cost, gross unrealized gains, gross unrealized losses, and market value of the unrestricted investments consisted of the following as of December 31, 2005 and 2004:

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	M
Debt Securities:				
U.S. government agency obligations	$ 50.0	$ -	$ (0.4)	$
Corporate bonds	102.6	-	(0.4)	
Municipal bonds	934.5	-	-	
Total Debt Securities	$1,087.1	$ -	$ (0.8)	$1
Foreign Equity Securities	2.1	2.2	-	
Total Marketable Securities	$1,089.2	$ 2.2	$ (0.8)	$1

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	M
Debt Securities:				
U.S. government agency obligations	$ 60.0	$ -	$ (0.8)	$
Corporate bonds	68.8	-	(0.2)	
Municipal bonds	224.8	-	-	
Total Debt Securities	$ 353.6	$ -	$ (1.0)	$
Foreign Equity Securities	1.5	1.7	-	

Total Marketable Securities	$ 355.1	$ 1.7	$ (1.0)	$

The contractual maturities of the debt securities included in unrestricted investments consisted of the following at December 31, 2005 and 2004:

	2005	2004
Mature in one year or less	$1,081.8	$ 288.5
Mature after one year through five years	4.5	64.1
Mature after five years	-	-
Total debt securities	$1,086.3	$ 352.6

NOTE 6 - INVENTORIES

The value of inventories is determined using lower of cost or market as the basis. Produced goods are valued using a first-in, first-out (FIFO) cost flow methodology, while purchased materials and supplies are valued using an average cost flow methodology.

The following table provides a breakdown of inventories at December 31, 2005 and 2004.

	December 31, 2005	December 31, 2004
Produced goods	$ 400.3	$ 329.5
Purchased materials	74.1	61.8
Maintenance and supplies	32.2	33.7
Total Inventory	$ 506.6	$ 425.0

NOTE 6 - INVENTORIES (Continued)

Produced goods include both work-in-process and finished goods. Due to the nature of the Company's operations, it is impractical to classify inventory between work-in-process and finished goods as such classifications can be interchangeable for certain inventoriable items. Purchased materials primarily consist of the Company's raw material inventories. Maintenance and supplies included in inventory primarily represent spare component parts that are critical to the Company's manufacturing processes.

NOTE 7 - INCOME TAXES

The components of income before income taxes and minority interests as of December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	
Income Before Income Taxes and Minority Interests:			
Domestic	$ 550.1	$ 215.6	$
Foreign	262.2	166.3	
Total Income Before Income Taxes and Minority Interests	$ 812.3	$ 381.9	$

The components of the income tax provision as of December 31, 2005, 2004 and 2003 are as follows:

	2005		
	Current	Deferred	Total
Provision (Credit) for Income Taxes:			
Domestic	$ 98.8	$ 62.8	$ 161.6
Foreign	64.1	28.1	92.2
Total Provision (Credit) for Income Taxes	$ 162.9	$ 90.9	$ 253.8

	2004		
	Current	Deferred	Total
Provision (Credit) for Income Taxes:			
Domestic	$ 71.9	$ 15.8	$ 87.7
Foreign	50.5	(13.0)	37.5
Total Provision (Credit) for Income Taxes	$ 122.4	$ 2.8	$ 125.2

	2003		
	Current	Deferred	Total
Provision (Credit) for Income Taxes:			
Domestic	$ 25.7	$ 24.9	$ 50.6
Foreign	45.3	(1.6)	43.7
Total Provision (Credit) for Income Taxes	$ 71.0	$ 23.3	$ 94.3

NOTE 7 - INCOME TAXES (Continued)

The tax effects of the principal temporary differences as of December 31, 2005 and 2004 giving rise to deferred tax assets and liabilities were as follows:

	2005	2004
Deferred Tax Assets:		
Implant costs	$ 586.3	$ 619.5
Accruals and other	67.0	138.1
Postretirement benefit obligations	192.7	183.1
Inventories	28.8	28.5
Long-term debt	31.7	22.2
Tax loss carryforwards	160.6	192.8
Total Deferred Tax Assets	1,067.1	1,184.2
Deferred Tax Liabilities:		
Property, plant and equipment	(196.4)	(197.8)
Net Deferred Tax Asset Prior to Valuation Allowance	870.7	986.4
Less: Valuation Allowance	(1.6)	(3.1)
Net Deferred Tax Asset	$ 869.1	$ 983.3

Management believes that it is more likely than not that the net deferred tax asset will be realized. This belief is based on criteria established in SFAS No. 109. The criteria that management considered in making this determination were historical and projected operating results, the ability to utilize tax planning strategies and the period of time over which the tax benefits can be utilized.

Tax effected operating loss carryforwards at December 31, 2005 amounted to $160.6 compared to $192.8 at the end of 2004. All of the tax effected operating loss carryforwards are subject to expiration in 2007 or have an indefinite carryforward period. Substantially all tax effected operating loss carryforwards were generated by the Company's subsidiary in the United Kingdom. There is an unlimited carryforward of net operating losses in the United Kingdom and management has determined that no valuation allowance is needed for these net operating losses.

The valuation allowance of $1.6 is attributable to the inability to utilize net operating loss carryforwards from the Company's subsidiaries of $0.5 in Australia, and $1.1 in Ireland. The operating loss carryforward in Australia is subject to expiration in 2007. The operating loss carryforward in Ireland has an indefinite carryforward period.

Cash paid during the year for income taxes, net of refunds received, was $156.8 in 2005, $103.7 in 2004 and $66.5 in 2003.

The income tax provision at the effective rate differs from the income tax provision at the United States federal statutory tax rate in effect during December 31, 2005, 2004 and 2003 for the reasons illustrated in the following table:

	2005	2004	2003
Income Tax Provision at Statutory Rate	$ 284.3	$ 133.6	$ 97.0
Foreign provisions and related items	0.4	(11.5)	(0.4
Extra territorial income	(14.7)	(7.2)	(5.9
Domestic manufacturing deduction	(4.8)	-	-
U.S. tax effect of foreign earnings and dividends	(21.2)	12.3	(2.5
State income taxes	27.4	1.1	3.2
Tax exempt interest income	(4.7)	(1.9)	(2.2
Other, net	(12.9)	(1.2)	5.1
Total Income Tax Provision at Effective Rate	$ 253.8	$ 125.2	$ 94.3
Effective Rate	31.2%	32.8%	34.0%

NOTE 7 - INCOME TAXES (Continued)

The Company has completed its evaluation of FSP No. FAS 109-2 with respect to all foreign subsidiaries. As of December 31, 2005, the Company had repatriated approximately $246.7 of earnings from eleven foreign subsidiaries under this provision. The total net tax expense associated with these remittances was approximately $12.7. Income of $4.5 was recognized during the year ended December 31, 2005, and expense of $17.2 was recognized during the year ended December 31, 2004, as the result of these remittances.

During the year ended December 31, 2005, the Company recorded a deferred income tax asset of $9.8 on $46.4 of undistributed earnings that will be repatriated in the foreseeable future. In addition, the Company recorded a deferred income tax liability of $1.1 on $10.9 of undistributed earnings that are not considered to be permanently reinvested. As of December 31, 2005, income and remittance taxes have not been recorded on $166.2 of undistributed earnings of foreign subsidiaries, either because any taxes on dividends would be offset substantially by foreign tax credits or because the Company intends to reinvest those earnings indefinitely.

NOTE 8 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses forward exchange contracts and options to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities. Changes in the fair value of these items are recorded in earnings to offset the foreign exchange gains and losses of the monetary assets and liabilities. The maturities of these contracts and options do not exceed one year. The carrying amounts, which represent fair values, of these forward contracts and options were net unrealized gains of $5.3 and net unrealized losses of $19.1 at December 31, 2005 and 2004, respectively. The fair value of the Company's forward exchange contracts and options is based principally on quoted market prices. The results of these hedges are reflected in the consolidated statements of income as "Other nonoperating income (expense), net." Cash flows from such derivatives are a component of cash flows from operating

activities in the consolidated statements of cash flows.

The Company also uses forward contracts and options to hedge the exposure to changes in the prices of commodities, primarily natural gas. The carrying amounts, which represent fair values, of these forward contracts and options were net unrealized gains of $13.5 as of December 31, 2005. The forward contracts and options outstanding at December 31, 2005 hedge forecasted transactions expected to occur within the next 27 months. Net unrealized gains and losses on these contracts are recorded as a component of "Accumulated other comprehensive income (loss)" in the Company's balance sheet until the underlying hedged item impacts earnings. Net gains of $10.1 ($6.4 after tax) are expected to be reclassified from Accumulated other comprehensive income (loss) to the consolidated statements of income as "Cost of sales" during the next 12 months. Cash flows from such derivatives are a component of cash flows from operating activities in the consolidated statements of cash flows.

Forward exchange options are also used to hedge specific firm commitments or forecasted transactions by locking in exchange rates for such anticipated cash flows. Gains and losses on these instruments are recorded as a component of other comprehensive income until the forecasted transaction occurs. There were no outstanding instruments at December 31, 2005 designated as hedges of specific firm commitments or forecasted transactions. At December 31, 2004, the carrying amounts of such options, which represent fair values, were net unrealized losses of $0.1.

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

The following table provides a breakdown of property, plant and equipment balances at December 31, 2005 and 2004:

	Estimated Useful Life (Years)	2005	2004
Land	-	$ 94.0	$ 100.0
Land improvements	11-20	130.8	140.0
Buildings	10-33	802.0	790.3
Machinery and equipment	3-25	3,428.6	3,724.8
Construction-in-progress	-	117.9	50.5
Total property, plant and equipment		4,573.3	4,805.6
Accumulated depreciation		(3,249.8)	(3,382.7)
Net property, plant and equipment		$ 1,323.5	$ 1,422.9

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company recorded depreciation expense of $206.2, $207.9 and $242.5 for the years ended December 31, 2005, 2004 and 2003, respectively. In the first quarter of 2004, the Company changed its estimate of the service lives of

certain depreciable assets to increase the useful economic life beyond the original service life assigned to these assets. The Company made this decision based on design factors, which were confirmed by actual operating experience. The change in accounting estimate reduced expenses by approximately $6.4 ($4.0 net of tax) for the year ended December 31, 2004.

The amount of interest capitalized as a component of the cost of capital assets constructed for the years ended December 31, 2005, 2004 and 2003 was $4.3 ($2.7 after tax), $3.1 ($2.0 after tax) and $6.6 ($4.2 after tax), respectively.

NOTE 10 - GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, 2005 and 2004, the gross and net amounts of intangible assets, excluding goodwill were:

	2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and licenses	$ 10.9	$ (1.9)	$ 9.0
Customer/Distributor relationships	19.9	(3.6)	16.3
Completed technology	12.5	(1.2)	11.3
Pension intangible asset	57.9	-	57.9
Other	17.6	(9.0)	8.6
Total	$ 118.8	$ (15.7)	$ 103.1

	2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and licenses	$ 11.8	$ (1.8)	$ 10.0
Customer/Distributor relationships	17.9	(0.6)	17.3
Completed technology	14.5	(0.3)	14.2
Pension intangible asset	20.5	-	20.5
Other	29.4	(10.0)	19.4
Total	$ 94.1	$ (12.7)	$ 81.4

The Company recorded amortization expense related to these intangible assets of $5.4, $2.7 and $1.4 for the years ended December 31, 2005, 2004 and 2003, respectively. The estimated aggregate amortization expense to be recorded in each of the next five succeeding years is as follows:

2006	$5.0
2007	$5.0
2008	$4.9
2009	$4.8
2010	$3.3

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Beginning balance	$ 75.9	$ 67.8
Change from acquisitions	-	3.0
Translation	(9.8)	5.1
Total ending balance	$ 66.1	$ 75.9

NOTE 10 - GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The Company tests the carrying value of goodwill for impairment annually, as required by SFAS No. 142, "Goodwill and Other Intangible Assets." The Company completed its tests for impairment of goodwill during the three month period ended September 30, 2005. No impairments were identified as a result of the tests performed.

In the three month period ended September 30, 2004, the Company acquired the Silicone Division of NUC (see Note 3). The Company assigned the following amounts and estimated useful lives to the intangible assets identified in this transaction:

	Amount Assigned	Weighted-Average Life (Years)
Customer/Distributor relationships	$ 17.9	7.0
Completed technology	14.5	14.0
Patents	5.9	14.0
Total	$ 38.3	10.7

None of the intangible assets acquired from NUC have significant residual value. The amount assigned to the intangible assets is amortized on a straight-line basis over the applicable estimated useful lives. No research and development assets were acquired from NUC as part of the transaction. Goodwill of $3.0 was recognized by the Company from the NUC acquisition.

NOTE 11 - RESTRICTED ASSETS

The composition of restricted investments as of December 31, 2005 and 2004 are as follows:

	2005	2004
Restricted Securities:		
U.S. government obligations	$ 1.2	$ 3.0

U.S. government agency obligations	5.7	7.2
Mortgage-backed and asset-backed securities	2.3	2.8
Corporate bonds	7.6	9.7
Foreign bonds	1.1	-
Foreign bank deposit	0.8	1.8
Money market funds	7.2	31.3
Total Restricted Securities	$ 25.9	$ 55.8

The contractual maturities of restricted securities at December 31, 2005 and 2004 are as follows:

	2005	2004
Mature in one year or less	$ 10.4	$ 37.4
Mature after one year through five years	7.2	9.0
Mature after five years	8.3	9.4
Total restricted securities	$ 25.9	$ 5.8

Restricted assets consist principally of obligations backed by the U.S. Government or one of its agencies and corporate and municipal issue bonds, which have been classified as "available for sale" in conformity with SFAS No. 115. The aggregate carrying value of the marketable securities classified as restricted assets approximates the fair market value. Fair values are determined based on quoted market prices or, if quoted market prices are not available, on market prices of comparable instruments. For purposes of computing realized gain or loss on the disposition of restricted assets, the specific identification method is used. Restricted assets are included in the caption "Restricted investments" in the "Other Assets" section of the consolidated balance sheets.

The Company has Letters of Credit outstanding of $23.1 and $28.7 at December 31, 2005 and 2004, respectively, for which the Company has legally restricted funds to serve as collateral for the purpose of reducing the effective cost of those letters of credit. As of December 31, 2005 and 2004, the Company had $24.4 and $30.3, respectively, of funds restricted to support these obligations. In addition, the Company had foreign bank deposits of $0.8 and $1.8 at December 31, 2005 and 2004, respectively, included in restricted assets.

NOTE 11 - RESTRICTED ASSETS (Continued)

In order to comply with certain environmental regulations, as of December 31, 2005 and 2004, the Company maintained $0.7 and $23.7, respectively in certain trusts in order to provide financial assurance for the potential payment of aggregate estimated closure, post-closure, corrective action and potential liability costs associated with the operation of hazardous waste storage facilities at certain plant sites (see Note 17 for further discussion). Those amounts are included in the caption "Restricted investments" in the consolidated balance sheets.

NOTE 12 - NOTES PAYABLE AND CREDIT FACILITIES

Notes payable include amounts outstanding under short-term lines of credit and were $11.7 and $5.6 at December 31, 2005 and 2004, respectively. The carrying amounts of these short-term borrowings approximated their fair value.

DCT maintains an accounts receivable securitization facility with its primary bank. The discount rate under this facility is TIBOR plus 0.25%. Pursuant to this facility, DCT has sold accounts receivable in the amount of $129.6 to such bank in exchange for $129.6 during 2005, and $197.7 was sold to such bank in exchange for $197.6 in 2004. Under the facility, DCT retains no interest in the accounts receivable. However, it maintains insurance to protect 95% of the receivables liquidated under the program; premiums for such insurance of $0.3 and $0.2 were paid in 2005 and 2004, respectively. As of December 31, 2005 and 2004, $0.0 and $27.3, respectively, remained outstanding under the facility.

On December 16, 2004, the Company entered into a $500.0 unsecured revolving credit agreement with a syndicate of commercial banks, which expires on December 16, 2009. This agreement replaced the $500.0 364-day revolving credit agreement dated June 1, 2004. The new revolving credit agreement allows for borrowing in various currencies for general corporate purposes of the Company and its subsidiaries. These credit facilities require the payment of commitment fees. As of December 31, 2005, these credit lines were unused.

In addition, the Company had unused and committed credit facilities for use by foreign subsidiaries at December 31, 2005 and 2004 with various U.S. and foreign banks totaling $107.9 and $130.3, respectively. These credit facilities require the payment of commitment fees. The Company intends to renew these facilities at their respective maturities. These facilities are available in support of working capital requirements.

NOTE 13 - DEFERRED REVENUE

During the year ended December 31, 2005, the Company, through a consolidated subsidiary, entered into long-term product sales agreements with certain customers. Under these agreements, customers are obligated to purchase minimum quantities of product at specified prices. The product sales agreements have an aggregate value of $2,150.7 and extend over 10 years with delivery to customers commencing on January 1, 2006. Revenue associated with the agreements will be recognized using the average sales price over the life of the agreements. Differences between amounts invoiced to customers under the agreements and the amounts recognized using the average price methodology will be reported as deferred revenue in the consolidated balance sheets.

Under the agreements, customers were required to make non-refundable advanced cash payments of $111.4 during 2005 and are required to make additional advanced payments of $111.4 during 2006. The amounts are recorded as deferred revenue and will be recognized as income ratably on a per kilogram basis as products are shipped over the life of the agreements. In the event that certain product delivery timelines are not met, subject to specific conditions outlined in the agreements, customers may be entitled to damages up to the amount of the advanced cash payments. As of December 31, 2005, $111.4 in advanced payments had been received, of which $8.0 of deferred revenue has been classified as "Other current liabilities" and $103.4 has been classified as "Deferred revenue" in the consolidated balance sheets. The advanced payments received during the year ended December 31, 2005 have been classified as cash flows from operating activities on the consolidated statements of cash flows.

NOTE 14 - LONG-TERM DEBT

Long-term debt at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Long-Term Debt		
Fixed rate note due 2005		
6.50% at December 31, 2004	$ -	$ 2.8
Fixed rate note due 2006		
4.70% at December 31, 2005	7.3	8.6
Variable rate notes due 2007		
2.98% at December 31, 2005	1.2	2.2
Fixed rate notes due 2007		
5.85% at December 31, 2005	2.5	9.4
Fixed rate note due 2015		
6.36% at December 31, 2004	-	11.2
Variable rate bonds due 2019		
4.41% at December 31, 2005	5.5	5.8
Other obligations and capital leases		
5.39-6.40% at December 31, 2005	33.5	28.5
Total Long-Term Debt	50.0	68.5
Less - payments due within one year	10.7	8.3
Total Long-Term Debt Due after one year	$ 39.3	$ 60.2

The fair value of the Company's long-term debt, including the portion due within one year, approximated its book value of $50.0 at December 31, 2005. At December 31, 2004, the fair value of the long-term debt, including the portion due within one year, approximated the book value of $68.5.

Annual aggregate maturities of the long-term debt of the Company are: $10.7 in 2006, $3.6 in 2007, $1.7 in 2008, $1.8 in 2009, $2.0 in 2010 and $30.2 thereafter.

Cash paid during the year for interest was $5.1 in 2005, $679.3 in 2004 and $5.4 in 2003. Cash paid for interest in 2004 includes the payment of $673.8 in accrued interest on pre-petition debt, payables, and other liabilities upon the Company's emergence from Chapter 11 in June 2004.

NOTE 15 - PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company maintains defined benefit employee retirement plans covering most domestic and certain non-U.S. employees. The Company also has various defined contribution and savings plans covering certain employees. The components of pension expense for the Company's domestic and foreign plans are set forth below for the years ended December 31, 2005, 2004 and 2003:

	U.S. Plans			Non
	2005	2004	2003	2005
Defined Benefit Plans:				
Service cost	$ 23.7	$ 20.2	$ 19.7	$ 17.9
Interest cost on projected benefit obligations	59.8	58.7	58.6	24.2
Expected return on plan assets	(54.5)	(51.2)	(55.7)	(23.8)
Net amortization of losses	19.1	17.0	9.9	6.1
Curtailments, settlements and special termination benefits	-	5.2	-	(0.2)
Total Pension Expense	$ 48.1	$ 49.9	$ 32.5	$ 24.2

	Total		
	2005	2004	2003
Defined Benefit Plans:			
Service cost	$ 41.6	$ 37.4	$ 34.0
Interest cost on projected benefit obligations	84.0	81.2	77.6
Expected return on plan assets	(78.3)	(74.2)	(74.3)
Net amortization of losses	25.2	21.9	12.5
Curtailments, settlements and special termination benefits	(0.2)	7.2	-
Total Pension Expense	$ 72.3	$ 73.5	$ 49.8

The Company made matching contributions under various defined contribution plans of $16.8, $17.0 and $18.9 for the years ended December 31, 2005, 2004 and 2003, respectively.

During the year ended December 31, 2005, the Company terminated the defined benefit plan of a Japanese subsidiary. Upon the plan termination, employees became participants in the defined benefit plan of DCT. The plan termination resulted in a net gain from curtailment and settlement of $0.2.

On April 5, 2004, Dow Corning announced a global workforce reduction, which was primarily the result of internal restructuring. The Company accounted for the workforce reduction under the guidelines of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." During the year ended December 31, 2004, the Company recognized pre-tax charges related to its defined benefit plans of $2.7 for special termination benefits and the effect of curtailment. In addition, the Company accounted for the effects of the workforce reduction on its U.S. Retiree Medical Plan by recognizing a pre-tax charge of $0.7 for special termination benefits and pre-tax income of $0.7 for curtailment.

The Company settled a portion of its obligation under defined benefit plans during 2004 through lump sum payments to participants and annuity arrangements with third-party financial institutions. The reduction in these obligations was accounted for as settlements under SFAS No. 88 and resulted in settlement expense of $4.5 from early recognition of unrealized actuarial losses.

NOTE 15 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)

The majority of the Company's defined benefit employee retirement plans have a measurement date of December 31 of the applicable year. The following table reconciles the defined benefit plans' funded status with amounts recognized in the Company's consolidated balance sheets at December 31, 2005 and 2004, respectively as part of other assets and other long-term liabilities:

	U.S. Plans		Non-U.S. Plans		
	2005	2004	2005	2004	
Net Accrued Pension Liability:					
Projected benefit obligation in excess of plan assets	$ (336.0)	$ (351.9)	$ (227.2)	$ (189.5)	$
Unrecognized net loss	274.9	254.1	175.1	152.6	
Unrecognized prior service costs	37.6	19.7	15.3	1.7	
Unrecognized net transition obligation	-	-	0.5	1.0	
Minimum pension liability	(137.2)	(146.4)	(122.2)	(82.9)	
Intangible asset	45.7	19.7	12.2	0.8	
Net Accrued Pension Liability	$ (115.0)	$ (204.8)	$ (146.3)	$ (116.3)	$

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for defined benefit plans with accumulated benefit obligations in excess of plan assets for the years ended December 31, 2005 and 2004 are as follows:

	U.S. Plans		Non-U.S. Plans		
	2005	2004	2005	2004	
Projected benefit obligation	$1,093.5	$1,026.6	$ 512.1	$ 465.0	$1
Accumulated benefit obligation	918.0	899.1	351.7	403.3	1
Fair value of plan assets	757.3	674.8	296.4	285.1	1

The following table provides a reconciliation of beginning and ending balances of the projected benefit obligation as of December 31, 2005 and 2004:

	U.S. Plans		Non-U.S. Plans		
	2005	2004	2005	2004	

Projected Benefit Obligation:					
Projected benefit obligation, beginning of year	$1,026.7	$ 968.2	$ 518.8	$ 450.0	$1
Service cost	23.7	20.2	17.9	17.2	
Interest cost	59.8	58.7	24.2	22.5	
Actuarial losses	24.2	45.5	85.1	12.8	
Foreign currency exchange rate changes	-	-	(57.4)	36.1	
Benefits paid and settlements	(61.9)	(72.9)	(27.3)	(21.0)	
Curtailments and special termination benefits	-	(1.4)	(1.4)	(1.2)	
Plan amendments	21.0	8.4	15.5	-	
Other	-	-	2.4	2.4	
Projected benefit obligation, end of year	$1,093.5	$1,026.7	$ 577.8	$ 518.8	$1

NOTE 15 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)

The following table provides a reconciliation of the beginning and ending balances of the fair value of plan assets as of December 31, 2005 and 2004:

	U.S. Plans		Non-U.S. Plans		
	2005	2004	2005	2004	
Fair Value of Plan Assets:					
Fair value of plan assets, beginning of year	$ 674.8	$ 614.9	$ 329.2	$ 270.7	$1
Actual return on plan assets	41.9	64.0	61.1	28.5	
Foreign currency exchange rate changes	-	-	(38.4)	23.4	
Employer contributions	102.5	68.8	16.4	24.9	
Participant contributions	-	-	2.0	2.0	
Benefits paid and settlements	(61.9)	(72.9)	(27.3)	(21.0)	
Other	-	-	-	0.7	
Fair value of plan assets, end of year	$ 757.3	$ 674.8	$ 343.0	$ 329.2	$1

For the United States defined benefit plan, as of December 31, 2005 and 2004, the fair value of plan assets included 65% of equity securities and 35% of debt securities. The plan targets an asset allocation of 60-70% equity securities and 30-40% debt securities. The plan's expected long-term rate of return is primarily based on historical returns of similarly diversified passive portfolios and expected results from active investment management.

Given the relatively long horizon of the Company's aggregate obligation, its investment strategy is to improve and maintain the funded status of its U.S.

and non-U.S. plans over time without exposure to excessive asset value volatility. The Company manages this risk primarily by maintaining actual asset allocations between equity and fixed income securities for the plans within a specified range of its target asset allocation. In addition, the Company ensures that diversification across various investment subcategories within each plan are also maintained within specified ranges.

All of the Company's pension assets are managed by outside investment managers and held in trust by third-party custodians. The selection and oversight of these outside service providers is the responsibility of investment committees and their advisors. The selection of specific securities is at the discretion of the investment manager and is subject to the provisions set forth by written investment management agreements and related policy guidelines regarding permissible investments and risk control practices.

The Company's funding policy is to contribute to defined benefit plans when pension laws and economics either require or encourage funding. Of the defined benefit plans maintained by the Company, the U.S. plans covering the parent company are the largest plans. Contributions to the U.S. defined benefit plans for the year ended December 31, 2005 totaled $102.5. Contributions of approximately $55.0 are planned for the U.S. plans in 2006.

Of the defined contribution and savings plans maintained by the Company, the U.S. plan covering the parent company is the largest plan. Employer matching contributions for the U.S. defined contribution plan for the year ended December 31, 2005 totaled $11.4. The Company expects to make contributions of approximately $12.0 during 2006.

NOTE 15 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)

The weighted-average assumptions used to determine the benefit obligation and to determine the net benefit costs are shown in the following table. Discount rates and rates of increase in future compensation are weighted based upon the projected benefit obligations of the respective plans. The expected long-term rate of return on plan assets is weighted based on total plan assets for each plan at year end. The long-term rate of return on plan assets assumption is determined considering historical returns and expected future asset allocation and returns for each plan.

	Benefit Obligations at December 31				
	U.S. Plans		Non-U.S. Plans		Total
	2005	2004	2005	2004	2005
Discount rate	5.75%	6.00%	4.40%	5.05%	5.28%
Rate of increase in future compensation levels	4.25%	4.25%	4.10%	4.10%	4.20%
Expected long-term rate of return on plan assets	8.50%	8.75%	6.96%	7.13%	8.02%

Net Periodic Pension Cost for the Year Ended December 31

	U.S. Plans		Non-U.S. Plans		Total
	2005	2004	2005	2004	2005
Discount rate	6.00%	6.25%	5.05%	4.97%	5.68%
Rate of increase in future compensation levels	4.25%	4.25%	4.10%	4.06%	4.20%
Expected long-term rate of return on plan assets	8.75%	8.75%	7.13%	7.10%	8.22%

The Company uses a bond mapping analysis, which matches cash flows from a hypothetical portfolio of corporate bonds against the estimated future benefit payments of the U.S. defined benefit plans, to arrive at an effective discount rate. The discount rates for non-U.S. defined benefit plans are based on benchmark rate indices specific to the respective countries and durations similar to those of the plans' liabilities.

The Company expects to pay benefits under its defined benefit plans in future periods as detailed in the following table. The expected benefits have been estimated based on the same assumptions used to measure the Company's benefit obligation as of December 31, 2005 and include benefits attributable to future employee service.

	Estimated Future Benefit Payments		
	U.S. Plans	Non-U.S. Plans	Total
2006	$ 60.0	$ 17.3	$ 77.3
2007	59.2	19.5	78.7
2008	58.9	22.6	81.5
2009	58.8	22.3	81.1
2010	59.2	23.3	82.5
2011 - 2015	320.5	136.7	457.2

In addition to providing pension benefits, the Company, primarily in the United States, provides certain health care and life insurance benefits for most retired employees. The cost of providing these benefits to retirees outside the United States is not significant. Net periodic postretirement benefit cost includes the following components for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Net Periodic Postretirement Benefit Cost:			
Service cost	$ 4.8	$ 4.4	$ 3
Interest cost	16.3	15.9	18
Amortization of prior service benefits	(5.6)	(4.6)	(0
Amortization of actuarial losses	3.9	2.3	1
Other	1.7	-	-
Total Net Periodic Postretirement Benefit Cost	$ 21.1	$ 18.0	$ 22

NOTE 15 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)

The following table presents a reconciliation of the beginning and ending balances as of December 31, 2005 and 2004 of the accumulated postretirement benefit obligation, as well as the accrued postretirement benefit cost recognized in the Company's consolidated balance sheets as part of other long-term liabilities.

	2005	20
Accumulated Postretirement Benefit Obligation:		
Accrued postretirement benefit obligation at beginning of year	$ 281.8	$ 2
Service cost	4.8	
Interest cost	16.3	
Actuarial loss (gain)	(9.1)	
Curtailment and special termination benefits	-	
Plan change	(12.2)	
Benefits paid	(19.7)	(
Accumulated Postretirement Benefit Obligation at End of Year	261.9	2
Unrecognized prior service benefit	49.2	
Unrecognized net loss	(70.4)	(
Total Accrued Postretirement Benefit Obligation	$ 240.7	$ 2

The Company adopted FSP No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," effective April 30, 2004. FSP No. FAS 106-2 of the same title superseded this FSP in June 2004. The adoption of these FSP's reduced the accumulated post retirement benefit obligation related to the Company's retiree health care and life insurance benefit plans by $6.1 at April 30, 2004. In addition, the adoption of these FSP's reduced the net periodic benefit cost recognized for these plans by $0.5 during the year ended December 31, 2004.

The health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 10.0% in 2005 and was assumed to decrease gradually to 5.0% in 2011 and remain at that level thereafter. For retirees under age 65, plan features limit the health care cost trend rate assumption to a maximum of 8.0% for years 1994 and later. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation by 2.7% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2005 by 5.4%. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by 2.4% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2005 by 6.3%.

The discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 6.0% at December 31, 2005 and 2004,

respectively.

The Company funds most of the cost of the postretirement health care and life insurance benefits as incurred. Benefit payments to retirees totaled $19.7 for the year ended December 31, 2005. The Company expects to pay future benefits under its postretirement health care and life insurance benefit plan as detailed in the following table. The expected payments have been estimated based on the same assumptions used to measure the Company's postretirement benefit obligations as of December 31, 2005.

	Estimated Future Postretirement Benefit Payments
2006	$ 20.2
2007	20.2
2008	20.1
2009	20.1
2010	20.0
2011 - 2015	99.2

NOTE 16 - PROCEEDING UNDER CHAPTER 11

Prior to 1992, the Company was engaged in the manufacture and sale of silicone gel breast implants and the raw material components of those products. In January 1992, the Company ceased production of these products following a request by the United States Food and Drug Administration that breast implant producers voluntarily halt the sale of silicone gel breast implants. Between 1991 and 1995, the Company experienced a substantial increase in the number of lawsuits against the Company relating to breast implants.

By May 1995, the Company was named in thousands of lawsuits filed by, or on behalf of, individuals who claim to have, or have had, breast implants. As a result, on May 15, 1995 (the "Filing Date"), the Company voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code (the "Bankruptcy Code") with the U.S. Bankruptcy Court for the Eastern District of Michigan, Northern Division (the "Bankruptcy Court") in order to resolve the Company's breast implant liabilities and related matters (the "Chapter 11 Proceeding"). The Company emerged from the Chapter 11 Proceeding on June 1, 2004 (the "Effective Date") and is currently in the process of implementing its plan of reorganization.

Plan of Reorganization

In 1999, the Company, with the Committee of Tort Claimants, a committee appointed in the Chapter 11 Proceeding to represent products liability claimants, filed a joint plan of reorganization (the "Joint Plan of Reorganization") and a related disclosure statement. In November 1999, the Bankruptcy Court issued an order confirming the Joint Plan of Reorganization. The Joint Plan of Reorganization became effective on the Effective Date. The Joint Plan of Reorganization provides funding for the resolution of breast implant and other products liability litigation covered by the Chapter 11 Proceeding through several settlement options or through litigation and for the satisfaction of commercial creditor claims.

Breast Implant and Other Products Liability Claims

Products liability claims to be resolved by settlement will be administered by a settlement facility (the "Settlement Facility"), and products liability claims to be resolved by litigation will be defended by a litigation facility (the "Litigation Facility"). Products liability claimants choosing to litigate their claims will be required to pursue their claims through litigation against the Litigation Facility. Under the Joint Plan of Reorganization, the present value of the total amount of payments by the Company committed to resolve products liability claims will not exceed $2.35 billion valued as of the Effective Date. Of this amount, no more than $400.0 will be used to fund the Litigation Facility. Payments made by the Company will be placed in a trust and withdrawn by the Settlement Facility to pay eligible settling claimants and to cover the Settlement Facility's operating expenses. Amounts will also be withdrawn from the trust as necessary to fund the resolution of claims via the Litigation Facility and the operational expenses of the Litigation Facility.

Funding the Settlement and Litigation Facilities

The Company has an obligation to fund the Settlement Facility and the Litigation Facility (collectively, the "Facilities") over a 16-year period, commencing at the Effective Date. The Company anticipates that it will be able to meet its remaining payment obligations to the Facilities utilizing cash flow from operations, insurance proceeds and/or prospective borrowings. Under certain circumstances, the Company will also have access to a ten-year unsecured revolving credit commitment, established by Dow Chemical and Corning, to assist in the timely funding of the Facilities. During the first five years after the Effective Date, the maximum aggregate amount available to the Company under this revolving credit commitment is $300.0, thereafter decreasing by $50.0 per year. Borrowings under this revolving credit commitment will only be permitted in the event that the Company is unable to meet its remaining obligations to fund the Facilities. As of December 31, 2005, the Company had not drawn any amounts against the revolving credit commitment.

Funds will be paid by the Company (a) to the Settlement Facility with respect to products liability claims, as such claims are processed and allowed by the Settlement Facility, and (b) via the Settlement Facility with respect to products liability claims processed through the Litigation Facility, as such claims are resolved. Insurance settlements are paid by the Company's insurers directly to the Settlement Facility on behalf of the Company. The amount of funds paid by or on behalf of the Company are subject to annual and aggregate funding limits. The Company has made payments of $1,424.2 to the Settlement Facility through December 31, 2005.

Based on funding agreements relating to the amount and timing of the Company's remaining payment obligations to the Settlement Facility, future payments to the Settlement Facility will be made on a periodic basis until such payment obligations are met. These funding agreements restrict the application of payments made by the Company in advance of their due dates (the "Early Payments"). Under these funding agreements, the Company receives credit for the future value equivalent, at the due date of the scheduled payment obligations, of the Early Payments using a discount rate of 7%. The actual amounts payable and the timing of such payments by the Company are uncertain and will be affected by, among others, the rate at which claims are resolved by the Facilities, the rate at which insurance proceeds are received by the Company from its insurers and the degree to which the Company receives credit for the future value equivalent of Early Payments. The ultimate amount of additional future value equivalent credit is subject to confirmation by the claims administrator of the Settlement Facility.

NOTE 16 - PROCEEDING UNDER CHAPTER 11 (Continued)

Insurance

The Company had a substantial amount of unexhausted products liability insurance coverage with respect to breast implant lawsuits and claims. Many of the Company's insurers reserved the right to deny coverage, in whole or in part. Litigation between the Company and its insurers ("Litigating Insurers") regarding coverage for products liability was conducted between 1993 and 1999, and resulted in judicial rulings substantially in favor of the Company's position (the "Insurance Litigation"). A majority of the Litigating Insurers have reached settlements with the Company. The Company is continuing settlement negotiations with the remaining Litigating Insurers and other insurers that were not involved in the Insurance Litigation. In addition, certain previously settling insurers have claimed a reimbursement right with respect to a portion of previously paid insurance proceeds.

Insurance Allocation Agreement between the Company and Dow Chemical

A number of the products liability insurance policies relevant to claims against the Company name the Company and Dow Chemical as co-insureds (the "Shared Insurance Assets"). A portion of the Shared Insurance Assets may, under certain conditions, become payable by the Company to Dow Chemical under an insurance allocation agreement, as amended, between the Company and Dow Chemical (the "Insurance Allocation Agreement"). The Insurance Allocation Agreement was reached between Dow Chemical and the Company in order to resolve issues related to the amount of the Shared Insurance Assets that would be available to the Company for resolution of its products liability claims. Under the Insurance Allocation Agreement, 25% of certain of the Shared Insurance Assets will be paid by the Company to Dow Chemical subsequent to the Effective Date. However, the amount of Shared Insurance Assets that will be payable to Dow Chemical by the Company under the Insurance Allocation Agreement will not exceed approximately $285.0. In addition, a portion of any such amounts paid to Dow Chemical, to the extent not used by Dow Chemical to pay certain products liability claims, will be paid over to the Company after the expiration of a 17.5-year period commencing on the Effective Date. Furthermore, the Company recognized an obligation of $35.0 to Dow Chemical related to additional insurance coverage under which the Company and Dow Chemical are co-insureds. The Company previously recorded an estimate of amounts of insurance proceeds payable or to be paid to Dow Chemical (the "Co-insurance payable"). As a result of certain insurance settlements and an amendment to the Insurance Allocation Agreement between the Company and Dow Chemical, as of December 31, 2005, the Co-insurance payable has been reduced to $46.8.

Commercial Creditor Issues

The Joint Plan of Reorganization provides funding to satisfy commercial creditor claims, including accrued interest. The Joint Plan of Reorganization, as amended pursuant to a May 21, 2004 ruling of the U.S. District Court for the Eastern District of Michigan (the "District Court"), provides that each of the Company's commercial creditors (the "Commercial Creditors") would receive in cash the sum of (a) an amount equal to the principal amount of their claims and (b) interest on such claims. As of December 31, 2005, the Company has paid

approximately $1.5 billion in principal and the undisputed portion of interest payable to the Commercial Creditors of the Company.

The actual amount of interest that will ultimately be paid to these Commercial Creditors is uncertain due to pending litigation in the U.S. Court of Appeals for the Sixth Circuit (the "Court of Appeals"). As previously reported between 1999 and 2004, there have been a number of Bankruptcy Court and District Court rulings related to the interest rate that should be applied to claims of the Commercial Creditors from the Filing Date through the Effective Date ("Pendency Interest"). The Commercial Creditors and the Company disagree on the interpretation and application of these rulings to determine the amount of Pendency Interest. This disagreement is currently the subject of appeals by certain Commercial Creditors, the Committee of Unsecured Creditors, and the Company to the Court of Appeals.

The Company's position is that non-default rates of interest for floating rate obligations should be determined in accordance with the formulas in the relevant contracts, except that the aggregate amount of interest cannot be less than that resulting from the application of a fixed rate of 6.28% through June 1, 2004. The undisputed interest portion was calculated by application of this position (the "Undisputed Portion"). As of September 29, 2004, the position of certain Commercial Creditors, joined by the Committee of Unsecured Creditors, is that, in addition to the Undisputed Portion, interest in excess of $140.0, plus an unquantified amount of certain fees, costs and expenses, should be added to the claims filed by holders of the fixed and floating rate obligations. As of December 31, 2005 and 2004, the amount of interest included in the caption "Accrued interest" recorded in the consolidated balance sheets related to the Company's potential obligation to pay additional interest to its Commercial Creditors in the Chapter 11 Proceeding was $66.3 and $63.5, respectively. The Court of Appeals heard oral arguments regarding this issue on July 27, 2005. The Company is uncertain as to when the Court of Appeals will issue its ruling regarding Pendency Interest.

Reorganization Costs

The Company has incurred and will continue to incur costs associated with (a) the matters related to the Chapter 11 Proceeding that will be resolved by the District Court and the Court of Appeals, and (b) the implementation of the Joint Plan of Reorganization. The aggregate amount of these costs, which are being expensed as incurred, are recorded in the caption "Other nonoperating income (expense), net" in the consolidated statements of income. For the years ended December 31, 2005, 2004 and 2003, the Company's reorganization costs included legal expenses of $2.0, $5.1 and $3.9, respectively, and administrative expenses of $1.4, $2.1 and $1.5, respectively.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Chapter 11 Related Matters

Insurance Receivable

Of the total "Anticipated implant insurance receivable" of $265.4 as of December 31, 2005, $55.2 related to insurance that has not yet been settled with certain of the Litigating Insurers, which are subject to the Insurance

Litigation rulings, and $210.2 represented amounts to be received by the Company pursuant to settlements with other of the Company's insurance carriers. Of the total "Anticipated implant insurance receivable" of $307.8 as of December 31, 2004, $73.5 related to insurance that has not yet been settled with certain of the Litigating Insurers and $234.3 represented amounts to be received by the Company pursuant to settlements with other of the Company's insurance carriers.

The principal uncertainties that exist with respect to the realization of the "Anticipated implant insurance receivable" include the ultimate cost of resolving implant litigation and claims, the results of settlement negotiations with insurers, and the extent to which insurers may become insolvent in the future. Management believes that, while uncertainties regarding this asset continue to exist, these uncertainties are not reasonably likely to result in a material adverse change to the Company's financial position or results of operations, and that it is probable that this asset will ultimately be realized. This belief is further supported by the fact that the Company received insurance recoveries of $1,310.8 from September 1, 1994 through December 31, 2005, and entered into settlements with certain insurers for future reimbursement.

Implant Reserve

As of December 31, 2005 and 2004, the Company's "Implant reserve" recorded in the consolidated balance sheets was $1,813.5 and $1,884.9, respectively, to reflect the Company's estimated remaining obligation to fund the resolution of breast implant claims pursuant to the Company's Chapter 11 plan of reorganization and other breast implant litigation related matters (see Note 16 for further discussion). During the years ended December 31, 2005 and 2004, the Company recorded $21.0 and $12.1, respectively, in the caption "Other nonoperating income (expense), net" to reflect a credit for the future value equivalent credit of Early Payments from restricted insurance proceeds to the Settlement Facility of $346.3 and $306.0, respectively.

Accrued Interest

As of December 31, 2005 and 2004, the amount of interest included in the caption "Accrued interest" recorded in the consolidated balance sheets related to the Company's potential obligation to pay interest to the Commercial Creditors in the Chapter 11 Proceeding was $66.3 and $63.5, respectively. The actual amount of interest that will be paid to these creditors is uncertain and will ultimately be resolved through continued proceedings in the Court of Appeals (see Note 16 for further discussion). The Company's results reflected interest expense for the amount of interest potentially payable to the Commercial Creditors of $3.1 ($2.0 after tax) and $95.5 ($60.2 after tax) for the years ended December 31, 2005 and 2004, respectively.

Co-Insurance Payable

As of December 31, 2005 and 2004, the amount payable pursuant to the "Insurance Allocation Agreement" recorded in the consolidated balance sheets was $46.8 and $48.9, respectively. Of the total amount payable, $10.6 and $2.1 were recorded as "Other current liabilities" in the consolidated balance sheets as of December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, $36.2 and $46.8, respectively, were included in the caption "Co-insurance payable" in the Company's consolidated balance sheets (see Note 16 for further discussion).

Tax Matters

In May 1999, the Company received a Statutory Notice of Deficiency (the "Notice") from the United States Internal Revenue Service ("IRS"). The Notice asserts tax deficiencies totaling approximately $65.3 relating to the Company's consolidated federal income tax returns for the 1995 and 1996 calendar years. Management believes that the deficiencies asserted by the IRS are excessive and is vigorously contesting the IRS' claims. Management anticipates that this matter will be resolved by the District Court which retains jurisdiction over items that occurred during the Chapter 11 Proceeding and believes that such resolution will not have a material adverse impact on the Company's consolidated financial position or results of operations. The Company is engaged in discussions with the IRS in an effort to resolve this matter.

In August 2004, the Company received a Notice of Proposed Adjustment (the "Adjustment Notice") from the IRS related to the Company's consolidated federal income tax returns for the 1997, 1998, and 1999 calendar years. If the IRS prevails with respect to the issues identified in the Adjustment Notice, the amount of a resulting tax deficiency would total approximately $116.9. Management believes that the deficiencies asserted by the IRS are excessive and is vigorously contesting the IRS' claims. Management believes that the resolution of the issues identified in the Adjustment Notice will not have a material adverse impact on the Company's consolidated financial position or results of operations.

NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

Risks and Uncertainties

While the Company does not anticipate a need to further revise amounts recorded in its consolidated financial statements for these Chapter 11 related matters, as additional facts and circumstances develop, it is at least reasonably possible that amounts recorded in the Company's consolidated financial statements may be revised. Future revisions, if required, could have a material effect on the Company's financial position or results of operations in the period or periods in which such revisions are recorded. Since any specific future developments, and the impact such developments might have on amounts recorded in the Company's consolidated financial statements, are unknown at this time, an estimate of possible future adjustments cannot be made.

Environmental Matters

The Company had been advised by the United States Environmental Protection Agency ("EPA") or by similar state and non-U.S. national regulatory agencies that the Company, together with others, is a Potentially Responsible Party ("PRP") with respect to a portion of the cleanup costs and other related matters involving a number of abandoned hazardous waste disposal sites. Management believes that there are 16 sites at which the Company may have some liability, although management expects to settle the Company's liability for eight of these sites for de minimis amounts. Based upon preliminary estimates by the EPA or the PRP groups formed with respect to these sites, the aggregate liabilities for all PRP's at those sites at which management believes the Company may have more than a de minimis liability is $5.8. Management cannot estimate the aggregate liability for all PRP's at all of the sites at which management expects the Company has a de minimis liability.

The Company records accruals for environmental matters when it is probable

that a liability has been incurred and the Company's costs can be reasonably estimated. The amount accrued for environmental matters as of December 31, 2005 and 2004, was $2.9. In addition, receivables of $0.1 for probable third-party recoveries have been recorded related to these environmental matters.

As additional facts and circumstances develop, it is at least reasonably possible that either the accrued liability or the recorded receivable related to environmental matters may be revised. While there are a number of uncertainties with respect to the Company's estimate of its ultimate liability for cleanup costs at these hazardous waste disposal sites, management believes that any costs incurred in excess of those accrued will not have a material adverse impact on the Company's consolidated financial position or results of operations. This opinion is based upon the number of identified PRP's at each site, the number of such PRP's that are believed by management to be financially capable of paying their share of the ultimate liability, and the portion of waste sent to the sites for which management believes the Company might be held responsible based on available records.

As a result of financial provisions recorded with respect to breast implant liabilities, the Company has been unable to meet certain federal and state environmental statutory financial ratio tests. Consequently, in order for the Company to continue to operate hazardous waste storage facilities at certain plant sites, the states involved have required the Company to establish trusts to provide for aggregate estimated closure, post-closure, corrective action and potential liability costs. Interest on the funds held in trust will be available to the Company under certain circumstances, and the amount required to be held in trust may vary annually. During the year ended December 31, 2005, the Company satisfied the financial ratio requirements specified by the State of Michigan and $23.2 reverted to the Company. Funds of $0.7 remain restricted in environmental trusts to fulfill requirements in other states as of December 31, 2005. At such time as the Company satisfies the above referenced financial ratio tests, or the Company no longer needs or closes the permitted facilities, the funds then remaining in these trusts will revert to the Company.

Other Regulatory Matters

Companies that manufacture and sell chemical products may experience risks under current or future laws and regulations, which may result in significant costs and liabilities. The Company routinely conducts health, toxicological and environmental tests of its products. The Company cannot predict what future legal, regulatory or other actions, if any, may be taken regarding the Company's products or the consequences of their production and sale. Such actions could result in significant losses, and there can be no assurance that significant losses would not be incurred. However, based on currently available information, the Company's management does not believe that any such actions would have a material adverse effect on the Company's financial condition or results of operations.

Leases

The Company leases certain real and personal property under agreements that generally require the Company to pay for maintenance, insurance and taxes. Rental expense was $34.3 in 2005, $32.2 in 2004 and $35.2 in 2003. The minimum future rental payments required under noncancellable operating leases at December 31, 2005, in the aggregate, are $121.8 including the following amounts due in each of the next five years: 2006 - $36.2, 2007 - $29.8, 2008 - $22.1, 2009 - $8.3 and 2010 - $7.2.

NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

Guarantees

Guarantees arise during the ordinary course of business from relationships with customers, employees and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. Non-performance under a contract by the guaranteed party triggers the obligation of the Company. The maximum amount of potential future payments under such guarantees of the Company was $6.3 and $7.9 at December 31, 2005 and 2004, respectively, primarily related to guarantees of housing loan obligations of certain employees of the Company's subsidiaries in Japan. Such guarantees have various expiration dates and typically span approximately 20 years. The Company's estimated potential obligation under these guarantees is not material to the consolidated financial statements and no liability has been recorded on the Company's consolidated balance sheets for the years ended December 31, 2005 and 2004.

The Company also has guarantees related to its performance under certain operating lease arrangements and the residual value of leased assets. If certain operating leases are terminated by the Company, it guarantees a portion of the residual value loss, if any, incurred by the lessors in disposing of the related assets. Expiration dates vary, and certain leases contain renewal options. The maximum amount of future payments the Company was potentially obligated to make for guarantees of residual values of leased assets was $3.8 and $5.3 at December 31, 2005 and 2004, respectively. Management believes that, based on facts and circumstances, the Company's estimated potential obligation under its residual value lease guarantees is not material to the Company's consolidated financial statements and as such, no liability has been recorded on the Company's consolidated balance sheets for the years ended December 31, 2005 and 2004.

Warranties

In the normal course of business to facilitate sales of its products, the Company has issued product warranties, and it has entered into contracts and purchase orders that often contain standard terms and conditions that typically include a warranty. The Company's warranty activities do not have a material impact on the Company's consolidated financial position or results of operations.

NOTE 18 - RELATED PARTY TRANSACTIONS

The Company has transactions in the normal course of business with its shareholders, Dow Chemical and Corning, and their affiliates. The following tables summarize related party transactions and balances with the Company's shareholders.

	Year Ended December 31,		
	2005	2004	2003
Sales to Dow Chemical	$ 9.5	$ 8.6	$ 8.2
Sales to Corning	8.7	7.4	7.5
Purchases from Dow Chemical	61.9	54.6	44.9

	December 31,	
	2005	2004

Accounts Receivable from Dow Chemical	$ 1.6	$ 1.2
Accounts Receivable from Corning	0.6	0.8
Accounts Payable to Dow Chemical	5.1	4.2

In addition, non-wholly owned subsidiaries of the Company have transactions in the normal course of business with their minority shareholders. The following tables summarize related party transactions and balances between these non-wholly owned subsidiaries and their minority owners.

	Year Ended December 31,		
	2005	2004	2003
Sales to minority owners	$ 162.1	$ 80.1	$ 63.1
Purchases from minority owners	10.3	7.3	6.6

	December 31,	
	2005	2004
Accounts receivable from minority owners	$ 34.1	$ 26.5
Accounts payable to minority owners	4.1	3.0

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

Management believes the costs of such purchases and the prices for such sales were competitive with purchases from other suppliers and sales to other customers.

In addition, DCT loans excess funds to its minority shareholder Toray Industries, Inc. The amount of loans receivable at December 31, 2005 and 2004 was $5.9 and $29.3, respectively. These balances are included in "Notes and other receivables" in the consolidated balance sheets. Management believes that interest earned from this loan arrangement is at rates commensurate with market rates for companies of similar credit standing.

DOW CORNING CORPORATION AND SUBSIDIARES
SUPPLEMENTARY DATA - QUARTERLY FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 2005 AND 2004 (Unaudited)

(in millions of dollars except share data)

Quarter Ended:	March 31	June 30	September 30
2005			

	Net sales	$ 982.5	$ 1,007.1	$ 946.4
	Gross profit	345.8	357.5	318.5
	Net income	135.9	154.2	116.4
	Net income per share	54.36	61.68	46.56
	Dividends declared per share	-	12.00	-
2004				
	Net sales	$ 814.3	$ 851.9	$ 829.7
	Gross profit	229.5	278.4	262.5
	Net income	52.2	35.7	79.9
	Net income per share	20.88	14.28	31.96
	Dividends declared per share	-	-	-

SAMSUNG CORNING PRECISION
GLASS CO., LTD.

As of December 31, 2005 and 2004 and for the
years ended December 31, 2005, 2004 and 2003

SAMSUNG CORNING PRECISION GLASS CO., LTD.
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As of December 31, 2005 and 2004
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Samsung Corning Precision Glass Co., Ltd.

In our opinion, the accompanying balance sheets and the related statements of income and cash flows present fairly, in all material respects, the financial position of Samsung Corning Precision Glass Co., Ltd. (the "Company") at December 31, 2005 and December 31, 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles which, as described in Note 2, are generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
January 13, 2006

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Balance Sheets
December 31, 2005 and 2004
(in thousands, except share and per share amounts)

	2005
Assets	
Current assets	

Cash and cash equivalents	$ 162,749	$
Accounts and notes receivable		
Customers, net of allowance for doubtful accounts of $1,898 and $1,200	77,965	
Related parties	110,098	
Inventories	27,338	
Prepaid value added tax	17,834	
Other current assets	4,227	
Total current assets	400,211	
Property, plant and equipment, net	1,819,808	
Other non-current assets	27,841	
Total assets	$ 2,247,860	$
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 56,877	$
Short-term borrowings	-	
Accounts payable		
Trade accounts payable	7,910	
Non-trade accounts payable	46,886	
Related parties	136,294	
Income taxes payable	126,019	
Accrued bonus payable	31,085	
Other current liabilities	10,621	
Total current liabilities	415,692	
Long-term debt	28,396	
Accrued severance benefits, net	7,155	
Deferred income tax liabilities	78,506	
Total liabilities	529,749	
Commitments and contingencies		
Stockholders' equity		
Preferred stock: par value $8.51 per share, 153,190 shares authorized, 41,000 shares issued and outstanding	349	
Common stock: par value $8.35 per share, 3,640,000 shares authorized, 2,400,000 shares issued and outstanding	20,040	
Retained earnings	1,528,270	
Accumulated other comprehensive income	169,452	
Total stockholders' equity	1,718,111	
Total liabilities and stockholders' equity	$ 2,247,860	$

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

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Statements of Income
Years ended December 31, 2005, 2004 and 2003

(in thousands)

	2005	2004	
Net sales			
Related parties	$ 876,182	$ 525,527	$
Other	784,099	571,324	
	1,660,281	1,096,851	
Cost of sales	426,535	276,599	
Gross profit	1,233,746	820,252	
Selling and administrative expenses	54,023	38,050	
Research and development expenses	39,386	30,706	
Royalty expenses to related parties	81,233	52,260	
Operating income	1,059,104	699,236	
Other income (expense):			
Interest income	4,432	3,006	
Interest expense	(4,112)	(2,365)	
Foreign exchange gain (loss), net	14,070	7,498	
Donations	(15,124)	(5,333)	
Other income (expense), net	128	(690)	
Income before income taxes	1,058,498	701,352	
Provision for income taxes	210,895	140,715	
Net income	$ 847,603	$ 560,637	$

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

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Statements of Cash Flows
Years ended December 31, 2005, 2004 and 2003
(in thousands)

	2005	2004	
Cash flows from operating activities			
Net income	$ 847,603	$ 560,637	$
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	183,341	111,077	
Foreign exchange (gain) loss, net	(13,155)	(8,373)	
Deferred income tax expense	31,488	20,619	
Other, net	3,218	3,819	
Changes in operating assets and liabilities			

Trading securities	-	-	
Accounts and notes receivable	(67,059)	(41,745)	
Inventories	(9,202)	(981)	
Prepaid VAT and other current assets	(3,123)	1,614	
Accounts payable and other current liabilities	59,029	63,406	
Net cash provided by operating activities	1,032,140	710,073	
Cash flows from investing activities			
Purchases of property, plant and equipment	(559,184)	(661,541)	
Refund of leasehold deposits	1,574	(7,091)	
Other, net	(1,132)	(2,219)	
Net cash used in investing activities	(558,742)	(670,851)	
Cash flows from financing activities			
Net decrease in short-term borrowings	(29,296)	14,089	
Proceeds from issuance of long-term debt	-	91,183	
Repayment of long-term debt	(25,287)	(25,229)	
Payment of cash dividend	(315,028)	(147,668)	
Net cash used in financing activities	(369,611)	(67,625)	
Effect of exchange rate changes on cash and cash equivalents	13,647	6,790	
Net increase (decrease) in cash and cash equivalents	117,434	(21,613)	
Cash and cash equivalents			
Beginning of year	45,315	66,928	
End of year	$ 162,749	$ 45,315	$
Supplemental cash flow information			
Cash paid for interest	$ 3,857	$ 2,275	$
Cash paid for income taxes	160,865	65,325	

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

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

1. Organization and Nature of Operations

Samsung Corning Precision Glass Co., Ltd. (the "Company") was incorporated on April 20, 1995 under the laws of the Republic of Korea in accordance with a joint venture agreement between Corning Incorporated ("Corning") located in the U.S.A. and domestic companies in Korea.

As of December 31, 2005, the issued and outstanding number of common shares of the Company is 2,400,000, 50% of which are owned by Corning Hungary Data Services Limited Liability Company, 42.6% by Samsung Electronics Co., Ltd. and 7.4% by another domestic shareholder.

The Company operates in one business segment, the production and marketing of precision flat glass substrates. Glass substrates provided by the Company are used to make TFT-LCD (Thin-Film Transistor Liquid Crystal Display) panels for notebook computers, LCD monitors, LCD TVs and other handheld devices such as digital cameras, PDAs and navigators. The Company's major customers are Korean LCD panel makers such as Samsung Electronics Co., Ltd., LG Philips LCD Co., Ltd. and BOE Hydis Technology Co., Ltd. The Company's current market is primarily limited to companies incorporated in Korea.

2. Summary of Significant Accounting Policies

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Significant accounting policies followed by the Company in the preparation of the accompanying financial statements are summarized below.

Basis of Presentation
The accounting records of the Company are expressed in Korean Won and are maintained in accordance with the laws and regulations of the Republic of Korea.

Foreign Currencies
The Company operates primarily in Korean Won, its local and functional currency. The Company has chosen the U.S. Dollar as its reporting currency. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 52, Foreign Currency Translation, revenues and expenses have been translated into U.S. Dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the exchange rates on the balance sheet date. Equity accounts have been translated at historical rates. The resulting translation gain or loss adjustments are recorded directly as a separate component of stockholders' equity. Transaction gains or losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the income statement as incurred. Assets and liabilities denominated in currencies other than the functional currency are translated at the exchange rates at the balance sheet date and the related exchange gains or losses are recorded in the statement of income.

Revenue Recognition
The Company derives its revenue from the sale of precision flat glass substrates to its customers, primarily located in Korea. The Company recognizes its revenue when persuasive evidence of an arrangement exists, the products or the services have been delivered and all risks of ownership have been transferred to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured. This typically occurs upon delivery of the products to the customers, as the majority of the customers are large Korean manufacturers of LCD panels who enter into general supply agreements with the Company and place large orders of products for delivery on a regular basis. Sales revenue is recorded net of discounts and rebates.

Use of Estimates
The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the accompanying financial statements and disclosures. The most

significant estimates and assumptions relate to the useful life of property, plant and equipment, allowance for uncollectible accounts receivable, contingent liabilities, inventory valuation, impairment of long-lived assets and allocated expenses. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

Financial Instruments

The amounts for cash and cash equivalents, short-term financial instruments, accounts receivable, certain other assets, accounts payable, certain accrued and other liabilities, short-term loan and long-term debt are reported at their fair value due to their short maturities or market interest rates. Obligations due to or receivables from related parties have no ascertainable fair value as no market exists for such instruments.

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents include cash, demand deposits and short-term investments with an original maturity of three months or less at the time of acquisition.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the weighted-average method, which approximates the first-in, first-out method.

Property and Depreciation

Property, plant and equipment ("PP&E") are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Buildings	From 20 to 40 years
Machinery and equipment	From 1.5 to 8 years
Vehicle, tools, furniture and fixtures	From 2 to 8 years

Expenditures that enhance the value or materially extend the useful life of the facilities are capitalized as additions to property, plant and equipment. Costs of normal, recurring or periodic repairs and maintenance activities are charged to expense as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group against future undiscounted cash flows expected to be generated from the asset or asset group. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss equates the difference between the estimated fair value and the carrying value.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the

Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all employees and directors were to terminate their employment with the Company as of the balance sheet date.

The Company has funds deposited at the Korean National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

In addition, accrued severance benefits are funded at approximately 60% and 57% as of December 31, 2005 and 2004, respectively, through a group severance insurance plan and are presented as a deduction from accrued severance benefits.

Research and Development Costs

Research and development expenditures which include costs in relation to new product, development, research, process improvement and product use technology are expensed as incurred and included in operating expenses.

Income Taxes and Investment Tax Credit

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on the said temporary differences by applying the enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely than not that they will be realized. The total income tax provision includes the current tax expense under the applicable tax regulations and the change in the balance of deferred tax assets and liabilities during the year.

The Company is eligible to use investment tax credits that are temporarily allowed for qualified plant and equipment expenditures. The investment tax credit is recognized as a reduction of tax expense in the year in which the qualified plant and equipment expenditure is incurred.

Derivative Instruments

The Company has entered into foreign exchange forward contracts to manage its exposure to the fluctuations in foreign exchange rates. The risk being hedged is the fluctuation in future cash flows from the Company's sales as a result of the changes in exchange rate between the Japanese Yen and Korean Won. The Company's foreign exchange forward contracts are denominated in Japanese Yen and for periods consistent with the terms of the underlying sales transactions, generally one year or less. Since the Company's foreign exchange forward contracts are made in the normal course of business and not speculative in nature, they are designated as cash flow hedging instruments.

All derivative instruments are recorded at fair value. Effective changes in the fair value of the derivative instruments designated as cash flow hedging instruments are recorded in accumulated other comprehensive income

(or loss). Amounts are reclassified from accumulated other comprehensive income (or loss) when the underlying hedged transactions impact earnings. If the transaction being hedged fails to occur, the gain or loss on the associated financial instruments are recorded immediately in earnings. As of December 31, 2005 and 2004, there were no outstanding balances of forward foreign exchange contracts.

Cash flows associated with the derivative instruments are classified consistent with the cash flows from the transactions being hedged.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standard Board ("FASB") issued SFAS No. 151, Inventory Costs, which amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This standard requires items such as idle facility expense, excessive spoilage, double freight, and rehandling costs to be recognized as current-period charges. In addition, this standard requires allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 151 to have a material impact on its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles were required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The Company does not expect the adoption of SFAS No. 154 to have a material effect on its financial position or results of operations.

3. Inventories

Inventories consist of the following:

(in thousands)	2005	2004
Finished goods	$ 9,357	$ 6,570
Semi-finished goods	11,628	4,009
Raw materials	3,035	2,920
Auxiliary materials	3,318	4,019
	$ 27,338	$ 17,518

4. Property, Plant and Equipment

Property, plant and equipment comprise the following:

(in thousands)	2005	2004
Building	$ 643,140	$ 413,274
Machinery and equipment	997,468	590,778
Vehicle, tools, furniture and fixtures	85,222	56,501
	1,725,830	1,060,553
Less: accumulated depreciation	(329,726)	(212,129)
	1,396,104	848,424
Land	51,057	49,501
Construction-in-progress	372,647	580,150
	$ 1,819,808	$1,478,075

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

5. Transactions with Related Parties

In the normal course of business, the Company sells its products to Samsung Electronics Co., Ltd., Corning and Samsung Corning Co., Ltd. ("SSC", a Korean-based company in which Samsung and Corning each own a 50% interest), purchases semi-finished goods from Corning and purchases property, plant and equipment from Samsung affiliates and Corning. In addition, the Company pays a 5% royalty on net sales amounts of certain products to Corning and Corsam Glasstec R&D Center, in which Corning and SSC each own a 50% interest. A summary of these transactions and related receivable and payable balances as of December 31 is as follows:

2005 (in thousands)	Sales (1)	Purchases (2)	Cost & Expenses	Receivables
Samsung affiliates				
Samsung Electronics Co., Ltd.	$ 800,703	$ -	$ 12,514	$ 69,217
Samsung Corporation	32	92,052	686	-
Samsung Engineering Co., Ltd.	-	120,305	573	-
Others	467	30,304	33,362	203
	801,202	242,661	47,135	69,420
Corning	71,199	115,645	68,568	40,559
Samsung Corning Co., Ltd.	3,781	-	6,858	119
Corsam Glasstec R&D Center	-	-	16,247	-
	$ 876,182	$ 358,306	$ 138,808	$ 110,098

2004 (in thousands)	Sales (1)	Purchases (2)	Cost & Expenses	Receivables
Samsung affiliates				
Samsung Electronics Co., Ltd.	$ 441,146	$ 25,652	$ 5,970	$ 37,800
Samsung Corporation	18	97,466	34	4
Samsung Engineering Co., Ltd.	-	118,962	-	-
Others	394	11,638	26,581	158
	441,558	253,718	32,585	37,962
Corning	76,327	95,811	41,808	11,533
Samsung Corning Co., Ltd.	7,642	114	6,360	869
Corsam Glasstec R&D Center	-	-	10,452	-
	$ 525,527	$ 349,643	$ 91,205	$ 50,364

2003 (in thousands)	Sales (1)	Purchases (2)	Cost & Expenses	Receivables
Samsung affiliates				
Samsung Electronics Co., Ltd.	$ 260,355	$ 2,763	$ 717	$ 22,384
Samsung Corporation	14	86,354	123	11
Samsung Engineering Co., Ltd.	-	77,940	8	-
Others	375	2,887	13,317	128
	260,744	169,944	14,165	22,523
Corning	25,934	67,976	22,119	4,759
Samsung Corning Co., Ltd.	4,280	6,283	6,015	220
Corsam Glasstec R&D Center	-	-	5,530	-
	$ 290,958	$ 244,203	$ 47,829	$ 27,502

(1) Gain and loss on foreign exchange forward contracts are included.
(2) Purchases of property, plant and equipment are included.

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

6. Long-term Debt

Long-term debt at December 31, 2005 and 2004 consists of the following:

(in thousands)	Annual interest rate	2005
Foreign currency debt		
Facilities finance, due through 2005	Libor + 2.5%	$ -
Floating Rate Notes issued,		

due through 2005	Libor + 0.77%	-
due through 2007	Libor + 0.60%	85,273
		85,273
	Less: Current maturities	(56,877)
		$ 28,396

The schedules of principal payments of long-term debt are as follows:

For the year ending December 31	(in thousands)
2006	$ 56,877
2007	28,396
	$ 85,273

The Floating Rate Notes issued in 2005 includes a covenant requiring the Company to maintain its total liabilities to not exceed 170% of its tangible net worth as defined in the related agreement. Another covenant requires Samsung affiliates to directly maintain at least 30% of the aggregate issued and outstanding common shares of the Company and management control of the Company.

7. Income Taxes

Income tax expense consists of the following:

(in thousands)	2005	2004	2003
Current	$ 179,407	$ 120,096	$ 49,988
Deferred	31,488	20,619	9,948
	$ 210,895	$ 140,715	$ 59,936

The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company:

(in thousands)	2005	2004	2003
Income before taxes	$ 1,058,498	$ 701,352	$ 354,703
Statutory tax rate	27.5%	29.7%	29.7%
Expected taxes at statutory rate	291,087	208,302	105,347
Permanent differences			
- Tax exemption for foreign investment	(71,555)	(51,199)	(34,575
- Tax rate changes	7,892	5,640	(792
- Tax credits, net of surtax effect	(13,733)	(21,495)	(9,931
- Others, net	(2,796)	(533)	(113
Income tax expense	$ 210,895	$ 140,715	$ 59,936
Effective tax rate	19.92%	20.1%	16.9%

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

The statutory tax rate is 27.5% for 2005 and 29.7% for 2004 and 2003, but the applicable tax rate is 20.74%, 22.40% and 19.95% for 2005, 2004 and 2003, respectively, due to tax exemption benefits for a foreign invested company under the Korean Tax Preference Control Law ("TPCL"). In accordance with the TPCL and the approval of the Korean government, the Company is exempted fully from the corporate income taxes on the taxable income arising from the sales of manufactured goods in proportion to the percentage of qualified foreign shareholder's equity for seven years and 50% exemption for the subsequent three years. The 100% exemption expired in 2003 and the 50% exemption expired in 2005.

As a result of the revision of the Korean Corporation Tax Law, the statutory tax rate applicable from the beginning of 2005 was reduced to 27.5%. The Company recognized its deferred tax assets and liabilities as of December 31, 2005 and 2004 based on the revised tax rate and the expiring schedule of tax exemption for foreign investment.

Significant components of deferred income tax assets and liabilities are as follows:

(in thousands)	2005	2004
Deferred income tax assets		
Inventories	$ 1,504	$ 446
Accrued bonus payables	994	-
Other	293	278
	2,791	724
Deferred income tax liabilities		
Property, plant and equipment	$ (76,792)	$ (35,187)
Reserve for technology development	(3,893)	(4,218)
Other	-	(11)
	(80,685)	(39,416)
Deferred income tax liabilities, net	$ (77,894)	$ (38,692)

8. Stockholders' Equity

The components of and changes in stockholders' equity are as follows:

(in thousands)	2005	2004	20
Preferred Stock	$ 349	$ 349	$
Common Stock	$ 20,040	$ 20,040	$ 20

Retained Earnings:			
Balance at the beginning of year	$ 995,695	$ 582,726	$ 352
Net income	847,603	560,637	294
Dividends paid to preferred shareholders	(3,678)	(2,488)	(1
Dividends paid to common shareholders	(311,350)	(145,180)	(63
Balance at end of year	$ 1,528,270	$ 995,695	$ 582
Accumulated Other Comprehensive (Income) Loss:			
Balance at the beginning of year	$ 125,322	$ (4,230)	$
Foreign currency translation adjustment	44,130	129,552	(4
Balance at end of year	$ 169,452	$ 125,322	$ (4
Total Stockholders' Equity	$ 1,718,111	$ 1,141,406	$ 598

SAMSUNG CORNING PRECISION GLASS CO., LTD.
Notes to Financial Statements

Total comprehensive income is as follows:

(in thousands)	2005	2004	20
Net income	$ 847,603	$ 560,637	$ 294
Foreign currency translation adjustment	44,130	129,552	(4
Total comprehensive income	$ 891,733	$ 690,189	$ 289

Preferred Stock
There were 41,000 shares of non-voting preferred stock with a par value of $8.51 issued and outstanding as of December 31, 2005 and 2004. Each share is entitled to non-cumulative dividends at the rate of 5% on par value. In addition, if the dividend ratio of common stock exceeds that of preferred stock, the additional dividend on preferred stock may be declared by a resolution of the general shareholders' meeting.

Retained Earnings
Retained earnings as of December 31, 2005 and 2004 comprised of the following:

(in thousands)	2005	2004
Appropriated		

Legal reserve	$ 9,733	$ 9,733
Reserve for business development	30,800	30,800
Reserve for research and manpower development	14,164	11,600
Voluntary reserve	4,157	4,157
	58,854	56,290
Unappropriated	1,469,416	939,405
	$ 1,528,270	$ 995,695

Legal Reserve
The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of the retained earnings as a legal reserve equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company's shareholders.

Reserve for Business Development
Pursuant to the Corporate Income Tax Law of Korea, the Company is allowed to appropriate a portion of the retained earnings as a reserve for business development. This reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company's shareholders.

Reserve for Research and Manpower Development
Pursuant to the former Korean Tax Exemption and Reduction Control Law and the Korean Tax Preference Control Law, the Company appropriates a portion of the retained earnings as a reserve for research and manpower development. This reserve is not available for dividends until it is used for the specified purpose or reversed.

Voluntary Reserve
The Company appropriates a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

9. Commitments and Contingencies

Credit Facilities
The Company has overdraft facilities up to $5,432 thousand, general loan facilities up to $49,378 thousand and trade financing facility up to $5,000 thousand with local banks as of December 31, 2005. As of December 31, 2005, there are no outstandings under credit facilities.

Business and Credit Risk Concentration
The Company sells its products on a credit basis to its customers including certain related parties. Management estimates the collectibility of accounts receivable based on the financial condition of the customers and prevailing economic trends. Based on management's estimates, the Company

established allowances for doubtful accounts receivable which management believes are adequate. Concentrations of credit risk with respect to accounts receivable are limited to the credit worthiness of the Company's customers. Four of the five major customers of the Company are domestic TFT-LCD makers incorporated in Korea and another is a domestic Color-Filter maker incorporated in Korea. Trade accounts receivables from these five major customers are 83% and 90% of total trade accounts receivable of the Company as of December 31, 2005 and 2004, respectively, and revenues from these five major customers constitute 94%, 90% and 95% of total revenues of the Company for the years ended December 31, 2005, 2004 and 2003, respectively.

In addition, a substantial portion of the Company's long-term debt is denominated in foreign currencies, giving rise to financial exposure to fluctuations in currency exchange rates.

Pending Litigation

As of December 31, 2005, the Company is a co-defendant in a lawsuit filed by Seoul Guarantee Insurance Co. and 14 other creditors (the "Creditors") for alleged breach of an agreement that the Company and thirty other Samsung affiliates (collectively "Samsung affiliates") entered into with the Creditors in September 1999. According to the Agreement, Samsung affiliates agreed to sell 3.5 million shares of Samsung Life Insurance Co., Ltd. ("SLI") by December 31, 2000, which were transferred to the Creditors in connection with the petition for court receivership of Samsung Motor Inc. ("SMI"). In the event that the sales proceeds fall short of $2.42 billion, Samsung affiliates have agreed to compensate the Creditors for the shortfall, by other means, including Samsung affiliates' participation in any equity offering or subordinated debentures to be issued by the Creditors. Any excess proceeds over $2.42 billion are to be distributed to Samsung affiliates.

As of December 31, 2005, the shares of SLI have not been sold. The suit asks for actual and punitive damages of $4.68 billion plus penalty interest.

The Company believes that although the outcome of these matters is uncertain, they would not result in a material ultimate loss for the Company. Accordingly, no provision for potential losses arising from this claim is reflected in the accompanying financial statements.

10. Subsequent event (Unaudited)

In the Board of Directors meeting and Extraordinary General Shareholder's meeting on January 17, 2006, the Company resolved to issue 15 million shares of common stock at W10,000 per share on February 2, 2006.

Item 15(b) Exhibit 21

Corning Incorporated and Subsidiary Companies

Subsidiaries of the Registrant as of December 31, 2005 are listed below:

CCS Holdings, Inc.	Delaware
CCS Technology, Inc.	Delaware
Corning (Australia) Partnership Holdings, GP	Australia

Corning (Shanghai) Co., Ltd.	China
Corning Asahi Video Products Company (Partnership)	Delaware
Corning Cabelcon A/S	Denmark
Corning Cable Systems International Ltd.	Cayman Islands
Corning Cable Systems LLC	North Carolina
Corning Cable Systems Brand, Inc.	Delaware
Corning Cable Systems Polska Sp. Z o.o.	Poland
Corning Costar Holding, LLC	Delaware
Corning Display Technologies Taiwan Co., Ltd.	Taiwan
Corning Gilbert Inc.	Delaware
Corning Holding GmbH	Germany
Corning Hungary Data Services, LLC	Hungary
Corning International Corporation	Delaware
Corning International Holding, LLC	Delaware
Corning International KK	Japan
Corning Japan KK	Japan
Corning Limited	United Kingdom
Corning Mauritius	Mauritius
Corning NetOptix, Inc.	Delaware
Corning Noble Park, LLC	Australia
Corning Oak Holding Inc.	Delaware
Corning Products South Africa (Pty) Ltd.	South Africa
Corning Property Management Corporation	Delaware
Corning S.A.S.	France
Corning Specialty Materials Inc.	Delaware
Corning Treasury Services Limited	Ireland
Corning Tropel Corporation	Delaware
Costar Europe Ltd.	Delaware
Optical Fiber Corporation	Delaware

Companies accounted for under the equity method as of December 31, 2005 are listed below:

Advanced Cable Systems Corporation	Japan
Cormetech, Inc.	Delaware
Dow Corning Corporation	Michigan
Eurokera North America, Inc.	Delaware
Eurokera S.N.C.	France
Keraglass S.N.C.	France
Pittsburgh Corning Europe N.V.	Belgium
Samsung Corning Co., Ltd.	Korea
Samsung Corning Precision Glass Co., Ltd.	Korea

Summary financial information on Corning's equity basis companies is included in Note 8 (Investments) to the Consolidated Financial Statements in this Annual Report on Form 10-K/A. Certain subsidiaries, which considered in the aggregate as a single subsidiary, that would not constitute a significant subsidiary, per Regulation S-X, Article 1, as of December 31, 2005, have been omitted from this exhibit.

Item 15(c) Exhibit 12

Corning Incorporated and Subsidiary Companies
Computation of Ratio of Earnings (Losses) to Combined Fixed Charges and Preferred Dividends:
(In millions, except ratios)

	Fiscal Ye		
	Dec. 31, 2005 (Restated)	Dec. 31, 2004 (Restated)	Dec. 20 (Rest
Income (loss) from continuing operations before taxes on income	$ 559	$ (1,604)	$
Adjustments:			
Distributed income of equity investees	302	139	
Amortization of capitalized interest	4	5	
Fixed charges net of capitalized interest	130	151	
Earnings (loss) before taxes and fixed charges as adjusted	$ 995	$ (1,309)	$
Fixed charges:			
Interest incurred	$ 132	$ 151	$
Portion of rent expense which represents an appropriate interest factor	22	18	
Amortization of debt costs	3	4	
Total fixed charges	157	173	
Capitalized interest	(27)	(22)	
Total fixed charges net of capitalized interest	$ 130	$ 151	$
Preferred dividends:			
Preferred dividend requirement			
Ratio of pre-tax income to income before minority interest and equity earnings			
Pre-tax preferred dividend requirement			
Total fixed charges	$ 157	$ 173	$
Fixed charges and pre-tax preferred dividend requirement	$ 157	$ 173	$
Ratio of earnings to fixed charges	6.3x	*	
Ratio of earnings to combined fixed charges and preferred dividends	6.3x	*	

* Loss before taxes and fixed charges as adjusted were inadequate to cover total fixed charges by approximately $1,458 million and $650 million and inadequate to cover fixed charges and pre-tax preferred dividend requirement by approximately $1,458 million and $650 million at December 31, 2004 and 2003, respectively.

Item 15(c) Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-41244, 333-57082, and 333-100302) and Forms S-8 (Nos. 33-55345, 33-58193, 333-24337, 333-26049, 333-26151, 333-41246, 333-61975, 333-61983, 333-91879, 333-95963, 333-60480, 333-82926, 333-87128, 333-106265, and 333-109405) of Corning Incorporated of our report dated February 24, 2006, except for Note 2 of the consolidatd financial statements, Note 1 on the financial statement schedule, and the matter discussed in the penultimate paragraph of Management's Report on Internal Control Over Financial Reporting, as to which the date is May 9, 2006, relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K/A.

/s/ PricewaterhouseCoopers LLP
New York, New York
May 9, 2006

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Wendell P. Weeks, certify that:

1. I have reviewed this amendment to annual report on Form 10-K/A of Corning Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ Wendell P. Weeks

Wendell P. Weeks
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, James B Flaws, certify that:

1. I have reviewed this amendment to annual report on Form 10-K/A of Corning Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements

were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ James B. Flaws

James B. Flaws
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Wendell P. Weeks, President and Chief Executive Officer of Corning Incorporated (the "Company") and James B. Flaws, Vice Chairman and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the amendment to Annual Report of the Company on Form 10-K/A for the annual period ended December 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) that information contained in such Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2006

/s/ Wendell P. Weeks

Wendell P. Weeks
President and Chief Executive Officer

/s/ James B. Flaws

James B. Flaws
Vice Chairman and Chief Financial Officer

CORNING INCORPORATED

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned director and/or officer of Corning Incorporated, a New York corporation (the "Corporation"), does hereby make, constitute and appoint Katherine A. Asbeck, William D. Eggers and James B. Flaws and each or any one of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as director and/or officer of the Corporation to (1) a Form 10-K, Annual Report, pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), for the fiscal year ended December 31, 2005, or other applicable form, including any and all exhibits, schedules, amendments, supplements and supporting

documents thereto, to be filed by the Corporation with the Securities and Exchange Commission (the "SEC"), as required under the 1934 Act; (2) one or more Registration Statements, on Form S-8, or other applicable forms, and all amendments, including post-effective amendments, thereto, to be filed by the Corporation with the SEC in connection with the registration under the Securities Act of 1933, as amended (the "1933 Act"), of securities of the Corporation, and to file the same, with all exhibits thereto and other supporting documents, with the SEC; and (3) one or more Registration Statements on Form S-3, or other applicable forms, establishing a universal shelf under Rule 415 of the 1933 Act, and any and all amendments or supplements thereto (including post-effective amendments), or any Registration Statements relating to the same offering of securities that are filed pursuant to Rule 462(b) of the 1933 Act, and to file the same, with all exhibits thereto and other supporting documents, with the SEC.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JOHN SEELY BROWN

John Seely Brown

CORNING INCORPORATED

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned director and/or officer of Corning Incorporated, a New York corporation (the "Corporation"), does hereby make, constitute and appoint Katherine A. Asbeck, William D. Eggers and James B. Flaws and each or any one of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as director and/or officer of the Corporation to (1) a Form 10-K, Annual Report, pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), for the fiscal year ended December 31, 2005, or other applicable form, including any and all exhibits, schedules, amendments, supplements and supporting documents thereto, to be filed by the Corporation with the Securities and Exchange Commission (the "SEC"), as required under the 1934 Act; (2) one or more Registration Statements, on Form S-8, or other applicable forms, and all amendments, including post-effective amendments, thereto, to be filed by the Corporation with the SEC in connection with the registration under the Securities Act of 1933, as amended (the "1933 Act"), of securities of the Corporation, and to file the same, with all exhibits thereto and other supporting documents, with the SEC; and (3) one or more Registration Statements on Form S-3, or other applicable forms, establishing a universal shelf under Rule 415 of the 1933 Act, and any and all amendments or supplements thereto (including post-effective amendments), or any Registration Statements relating

to the same offering of securities that are filed pursuant to Rule 462(b) of the 1933 Act, and to file the same, with all exhibits thereto and other supporting documents, with the SEC.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JAMES B. FLAWS

James B. Flaws

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ GORDON GUND

Gordon Gund

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JOHN M. HENNESSY

John M. Hennessy

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JAMES R. HOUGHTON

James R. Houghton

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JAMES J. O'CONNOR

James J. O'Connor

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ JEREMY R. KNOWLES

Jeremy R. Knowles

CORNING INCORPORATED

POWER OF ATTORNEY

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documents, with the SEC.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ DEBORAH D. RIEMAN

Deborah D. Rieman

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ H. ONNO RUDING

H. Onno Ruding

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ EUGENE C. SIT

Eugene C. Sit

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ WILLIAM D. SMITHBURG

William D. Smithburg

CORNING INCORPORATED

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned director and/or officer of Corning Incorporated, a New York corporation (the "Corporation"), does hereby make, constitute and appoint Katherine A. Asbeck, William D. Eggers and James B. Flaws and each or any one of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as

director and/or officer of the Corporation to (1) a Form 10-K, Annual Report, pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), for the fiscal year ended December 31, 2005, or other applicable form, including any and all exhibits, schedules, amendments, supplements and supporting documents thereto, to be filed by the Corporation with the Securities and Exchange Commission (the "SEC"), as required under the 1934 Act; (2) one or more Registration Statements, on Form S-8, or other applicable forms, and all amendments, including post-effective amendments, thereto, to be filed by the Corporation with the SEC in connection with the registration under the Securities Act of 1933, as amended (the "1933 Act"), of securities of the Corporation, and to file the same, with all exhibits thereto and other supporting documents, with the SEC; and (3) one or more Registration Statements on Form S-3, or other applicable forms, establishing a universal shelf under Rule 415 of the 1933 Act, and any and all amendments or supplements thereto (including post-effective amendments), or any Registration Statements relating to the same offering of securities that are filed pursuant to Rule 462(b) of the 1933 Act, and to file the same, with all exhibits thereto and other supporting documents, with the SEC.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ HANSEL E. TOOKES II

Hansel E. Tookes II

CORNING INCORPORATED

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned director and/or officer of Corning Incorporated, a New York corporation (the "Corporation"), does hereby make, constitute and appoint Katherine A. Asbeck, William D. Eggers and James B. Flaws and each or any one of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as director and/or officer of the Corporation to (1) a Form 10-K, Annual Report, pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), for the fiscal year ended December 31, 2005, or other applicable form, including any and all exhibits, schedules, amendments, supplements and supporting documents thereto, to be filed by the Corporation with the Securities and Exchange Commission (the "SEC"), as required under the 1934 Act; (2) one or more Registration Statements, on Form S-8, or other applicable forms, and all amendments, including post-effective amendments, thereto, to be filed by the Corporation with the SEC in connection with the registration under the Securities Act of 1933, as amended (the "1933 Act"), of securities of the Corporation, and to file the same, with all exhibits thereto and other supporting documents, with the SEC; and (3) one or more Registration Statements on Form S-3, or other applicable forms, establishing a universal shelf under

Rule 415 of the 1933 Act, and any and all amendments or supplements thereto (including post-effective amendments), or any Registration Statements relating to the same offering of securities that are filed pursuant to Rule 462(b) of the 1933 Act, and to file the same, with all exhibits thereto and other supporting documents, with the SEC.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ PETER F. VOLANAKIS

Peter F. Volanakis

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ PADMASREE WARRIOR

Padmasree Warrior

CORNING INCORPORATED

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 1st of February, 2006.

/S/ WENDELL P. WEEKS

Wendell P. Weeks

The following exhibits are included only in copies of the 2005 Annual Report on Form 10-K filed with Securities and Exchange Commission ("SEC") or are incorporated by reference herein. Any document incorporated by reference is identified by a parenthetical reference to the SEC filing which included such document.

3 (i) 1	Restated Certificate of Incorporation dated December 6, 2000, filed with the Secretary of State of the State of New York on January 22, 2001 (Incorporated by reference to Exhibit 3(i) of Corning's Annual Report on Form 10-K for the year ended December 31, 2000).
3 (i) 2	Certificate of Amendment to Restated Certificate of Incorporation filed with the Secretary of State of the State of New York on August 5, 2002 (Incorporated by reference to Exhibit 99.1 to Corning's Form 8-K filed on August 7, 2002).
3 (ii) 1	Bylaws of Corning effective as of December 6, 2000 (Incorporated by reference to Exhibit 3(ii) of Corning's Annual Report on Form 10-K for the year ended December 31, 2000).
3 (ii) 2	Amendment to Article III, Section 9, of Bylaws of Corning effective as of February 5, 2003 (Incorporated by reference to Exhibit 3(ii)2 of Corning's Annual Report on Form 10-K for the year ended December 31, 2003).
4	Rights Agreement of Corning dated as of June 5, 1996 (Incorporated by reference to Exhibit 1 to Corning's Form 8-K filed on July 10, 1996).
10.1	1994 Employee Equity Participation Program (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 16, 1994 for April 28, 1994 Annual Meeting of Shareholders).
10.2	1998 Variable Compensation Plan (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.3	1998 Worldwide Employee Share Purchase Plan (Incorporated by reference to Exhibit 2 of Corning Proxy Statement, Definitive 14A filed March 9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.4	1998 Employee Equity Participation Program (Incorporated by reference to Exhibit 3 of Corning Proxy Statement, Definitive 14A filed March 9, 1998 for April 30, 1998 Annual Meeting of Shareholders).
10.5	2002 Worldwide Employee Share Purchase Plan (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 7, 2002 for April 25, 2002 Annual Meeting of Shareholders).
10.6	2000 Employee Equity Participation Program and 2003 Amendments (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
10.7	2003 Variable Compensation Plan (Incorporated by reference to Exhibit 2 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
10.8	2003 Equity Plan for Non-Employee Directors (Incorporated by reference to Exhibit 3 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).

10.9	Form of Officer Severance Agreement dated as of February 1, 2004 between Corning Incorporated and each of the following four individuals: James B. Flaws, James R. Houghton, Peter F. Volanakis and Wendell P. Weeks (Incorporated by reference to Exhibit 10.1 of Corning's 10-Q filed May 4, 2004).
10.10	Officer Severance Agreement dated as of February 1, 2004 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.2 of Corning's 10-Q filed May 4, 2004).
10.11	Change In Control Agreement dated as of February 1, 2004 between Corning Incorporated and James R. Houghton (Incorporated by reference to Exhibit 10.3 of Corning's 10-Q filed May 4, 2004).
10.12	Form of Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of October 4, 2000 between Corning Incorporated and the following two individuals: James B. Flaws and Peter F. Volanakis (Incorporated by reference to Exhibit 10.4 of Corning's 10-Q filed May 4, 2004).
10.13	Form of Change In Control Amendment dated as of October 4, 2000 between Corning Incorporated and the following two individuals: James B. Flaws and Peter F. Volanakis (Incorporated by reference to Exhibit 10.5 of Corning's 10-Q filed May 4, 2004).
10.14	Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of June 1, 2001 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.6 of Corning's 10-Q filed May 4, 2004).
10.15	Change In Control Agreement dated as of June 1, 2001 between Corning Incorporated and Joseph A. Miller, Jr. (Incorporated by reference to Exhibit 10.7 of Corning's 10-Q filed May 4, 2004).
10.16	Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.8 of Corning's 10-Q filed May 4, 2004).
10.17	Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.9 of Corning's 10-Q filed May 4, 2004).
10.18	Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants (Incorporated by reference to Exhibit 10.1 of Corning's 10-Q filed October 28, 2004).
10.19	Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Retention Grants (Incorporated by reference to Exhibit 10.2 of Corning's 10-Q filed October 28, 2004).
10.20	Form of Corning Incorporated Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.3 of Corning's 10-Q filed October 28, 2004).
10.21	Form of Corning Incorporated Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.4 of Corning's 10-Q filed October 28, 2004).
10.22	2005 Employee Equity Participation Program (Incorporated by reference

to Exhibit I of Corning Proxy Statement, Definitive 14A filed March 1, 2005 for April 28, 2005 Annual Meeting of Shareholders).

10.23 Five-Year Revolving Credit Agreement with Citibank, N.A.; J.P. Morgan Chase Bank, N.A.; Bank of America, N.A.; Bank of Tokyo-Mitsubishi, Ltd.; Wachovia Bank, National Association; Barclays Bank PLC; and Deutsche Bank A.G. New York Branch dated March 17, 2005 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed April 26, 2005).

14 Corning Incorporated Code of Ethics for Chief Executive Officer and Senior Financial Officer (Incorporated by reference to Appendix H-3 of Corning's 2006 definitive Proxy Statement).

24 Powers of Attorney.

Copies of these exhibits may be obtained by writing to Ms. Denise Hauselt, assistant general counsel and secretary, Corning Incorporated, MP-HQ-E2-10, Corning, New York 14831.