

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from To

Commission file number: 1-3247

CORNING INCORPORATED

(Exact name of registrant as specified in its charter)

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New York 16-0393470
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York 14831
(Address of principal executive offices) (Zip Code)

607-974-9000

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

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

Yes No

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

Class	Outstanding as of October 13, 2017
Corning's Common Stock, \$0.50 par value per share	869,057,436 shares

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in millions, except per share amounts)

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

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Dividends declared per common share	\$ 0.155	\$ 0.135	\$ 0.465	\$ 0.405
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The accompanying notes are an integral part of these consolidated financial statements.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions)

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

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

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

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

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Convertible preferred stock, Series A – Par value \$100 per share; Shares authorized 3,100; Shares issued: 2,300	2,300	2,300
Common stock – Par value \$0.50 per share; Shares authorized 3.8 billion; Shares issued: 1,706 million and 1,691 million	853	846
Additional paid-in capital – common stock	14,013	13,695
Retained earnings	17,533	16,880
Treasury stock, at cost; Shares held: 837 million and 765 million	(16,236)	(14,152)
Accumulated other comprehensive loss	(1,146)	(1,676)
Total Corning Incorporated shareholders' equity	17,317	17,893
Noncontrolling interests	66	67
Total equity	17,383	17,960
 Total Liabilities and Equity	 \$ 28,094	 \$ 27,899

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

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

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

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

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with Corning’s consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2016 (“2016 Form 10-K”).

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

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

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

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification (“ASC”) Topic 606. The new revenue recognition standard relates to revenue from contracts with customers, which, along with amendments issued in 2015 and 2016, will supersede nearly all current U.S. GAAP guidance on this topic and eliminate industry-specific guidance. The underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Corning has evaluated its material contracts, and has concluded that the impact of adopting the standard on its financial statements and related disclosure will not be material. The standard, as amended, will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. We will adopt the standard on a modified retrospective basis in 2018.

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

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

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

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

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

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

2. Commitments, Contingencies and Guarantees

Asbestos Claims

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

Non-PCC Asbestos Claims Insurance Litigation

Corning is a defendant in certain cases alleging injuries from asbestos unrelated to PCC (the “non-PCC asbestos claims”) which had been stayed pending the confirmation of the Plan. The stay was lifted on August 25, 2016. Corning previously established a \$150 million reserve for these non-PCC asbestos claims. The estimated reserve represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more data becomes available; however, we cannot estimate any lesser or greater liabilities at this time. At September 30, 2017 and December 31, 2016, the amount of the reserve for these non-PCC asbestos claims was \$148 million and \$149 million, respectively.

Several of Corning’s insurers have commenced litigation in state courts for a declaration of the rights and obligations of the parties under insurance policies related to Corning’s asbestos claims. Corning has resolved these issues with a majority of its relevant insurers, and is vigorously contesting these cases with the remaining relevant insurers. Management is unable to predict the outcome of the litigation with these remaining insurers.

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Other Commitments and Contingencies

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

As of September 30, 2017 and December 31, 2016, contingent guarantees totaled a notional value of \$317 million and \$267 million, respectively. We believe a significant majority of these contingent guarantees will expire without being funded. We also were contingently liable for purchase obligations of \$230 million and \$231 million, at September 30, 2017 and December 31, 2016, respectively.

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

Corning is a defendant in various lawsuits, including environmental and product-related suits, and is subject to various claims that arise in the normal course of business. In the opinion of management, the likelihood that the ultimate disposition of these matters will have a material adverse effect on Corning's consolidated financial position, liquidity, or results of operations, is remote. Other than certain asbestos related claims, there are no other material loss contingencies related to litigation.

Corning has been named by the Environmental Protection Agency ("the Agency") under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 16 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At September 30, 2017 and December 31, 2016, Corning had accrued approximately \$40 million (undiscounted) and \$43 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

The ability of certain subsidiaries and affiliated companies to transfer funds is limited by provisions of foreign government regulations, affiliate agreements and certain loan agreements. At September 30, 2017, the amount of equity subject to such restrictions for consolidated subsidiaries and affiliated companies was not significant. While this amount is legally restricted, it does not result in operational difficulties since we have generally permitted subsidiaries to retain a majority of equity to support their growth programs.

3. Debt

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was \$4.4 billion and \$3.9 billion at September 30, 2017 and December 31, 2016, respectively, compared to recorded book values of \$4.0 billion at September 30, 2017 and \$3.6 billion at December 31, 2016. The Company measures the fair value of its long-term debt using Level 2 inputs based primarily on current market yields for its existing debt traded in the secondary market.

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

Debt Issuances

2017

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

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

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

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

4. Income Taxes

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

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

For the three months ended September 30, 2017, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

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

For the nine months ended September 30, 2017, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

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

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

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

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

- Rate differences on income (loss) of consolidated foreign companies, including the benefit of excess foreign tax credits resulting from the inclusion of foreign earnings in U.S. income;
- The impact of equity in earnings of nonconsolidated affiliates reported in the financial statements, net of tax; and
- The tax-free nature of the realignment of our equity interests in Dow Corning during the period, as well as the release of the deferred tax liability related to Corning's tax on Dow Corning's undistributed earnings as of the date of the transaction.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of an immaterial amount of current earnings that have very low or no tax cost associated with their repatriation. Our current analysis indicates that we have sufficient U.S. liquidity, including borrowing capacity, to fund foreseeable U.S. cash needs without requiring the repatriation of foreign cash. One time or unusual items may impact our ability or intent to keep our foreign earnings and cash indefinitely reinvested. While it remains impracticable to calculate the tax cost of repatriating our total unremitted foreign earnings, such cost could be material to the results of operations of Corning in a particular period.

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5. Earnings per Common Share

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

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

6. Inventories, Net of Inventory Reserves

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

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

7. Investments

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

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

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

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

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

Investments comprise the following (in millions):

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

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

Hemlock Semiconductor Group

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

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

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

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8. Goodwill and Other Intangible Assets

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

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

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

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

Other intangible assets are as follows (in millions):

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

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

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

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9. Employee Retirement Plans

The following table summarizes the components of net periodic benefit cost for Corning's defined benefit pension and postretirement health care and life insurance plans (in millions):

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

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

10. Other Liabilities

Other liabilities follow (in millions):

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

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

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

Asbestos Claims

Corning and PPG each owned 50% of the capital stock of PCC. Over a period of more than two decades, PCC and several other defendants were named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. Refer to Note 2 (Commitments, Contingencies and Guarantees) to the consolidated financial statements for additional information on the asbestos claims.

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11. Hedging Activities

Undesignated Hedges

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

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

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

Derivatives not
designated as
hedging
instruments

Foreign exchange contracts, other	676	890	Other current assets	7	11	Other accrued liabilities	(3)	(7)
Translated earnings contracts	15,211	16,711	Other current assets	175	423	Other accrued liabilities	(52)	(52)
			Other assets	82	146	Other liabilities	(338)	(277)
Total derivatives	\$ 16,818	\$ 18,609		\$ 284	\$ 581		\$ (401)	\$ (370)

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

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

Derivatives in hedging relationships	Effect of derivative instruments on the consolidated financial statements for the three months ended September 30,				
	Gain recognized in other comprehensive income (OCI)		Location of gain/(loss) reclassified from accumulated OCI into income (effective)	Gain/(loss) reclassified from accumulated OCI into income (effective) (1)	
	2017	2016		2017	2016
			Sales		\$ 1
Foreign exchange contracts	\$ 3	\$ 1	Cost of sales	\$ (1)	(13)
Total cash flow hedges	\$ 3	\$ 1		\$ (1)	\$ (12)

Derivatives in hedging relationships	Effect of derivative instruments on the consolidated financial statements for the nine months ended September 30,				
	Gain (loss) recognized in other comprehensive income (OCI)		Location of gain/(loss) reclassified from accumulated OCI into income (effective)	Gain/(loss) reclassified from accumulated OCI into income ineffective/effective (1)	
	2017	2016		2017	2016
			Sales	\$ 1	\$ 2
			Cost of sales	(11)	(27)
Foreign exchange contracts	\$ 36	\$ (63)	Other expense, net	(1)	(1)
Total cash flow hedges	\$ 36	\$ (63)		\$ (11)	\$ (26)

(1)

The amount of hedge ineffectiveness at September 30, 2017 and 2016 was insignificant.

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

Undesignated derivatives	Location of gain/(loss) recognized in income	Gain (loss) recognized in income			
		Three months ended		Nine months ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Foreign exchange contracts – balance sheet and loans	Other expense, net	\$ (7)	\$ (4)	\$ (19)	\$ (78)
Foreign currency hedges related to translated earnings	Translated earnings contract gain (loss), net	26	(237)	(193)	(2,295)
Total undesignated		\$ 19	\$ (241)	\$ (212)	\$ (2,373)

12. Fair Value Measurements

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

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

	September 30, 2017	Fair value measurements at reporting date using Quoted prices for active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Other current assets (1)(2)	\$ 488		\$ 194	\$ 294
Non-current assets:				
Other assets (1)	\$ 90		\$ 90	
Current liabilities:				
Other accrued liabilities (1)(3)	\$ 63		\$ 58	\$ 5
Non-current liabilities:				
Other liabilities (1)(3)	\$ 363		\$ 343	\$ 20

- (1) Derivative assets and liabilities include foreign exchange contracts which are measured using observable quoted prices for similar assets and liabilities.
- (2) Other assets include a contingent consideration asset which was measured by applying an option pricing model using projected future Corning Precision Materials' revenues.
- (3) Other accrued liabilities and other liabilities include contingent consideration that was measured using unobservable (Level 3) inputs. As of September 30, 2017 the fair value of the contingent consideration payables is \$25 million.

	December 31, 2016	Fair value measurements at reporting date using Quoted prices for active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Other current assets (1)	\$ 435		\$ 435	

Non-current assets:

Other assets (1)(2)	\$ 464	\$ 175	\$ 289
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Current liabilities:

Other accrued liabilities (1)	\$ 88	\$ 88	
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Non-current liabilities:

Other liabilities (1)	\$ 282	\$ 282	
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- (1) Derivative assets and liabilities include foreign exchange contracts which are measured using observable quoted prices for similar assets and liabilities.
- (2) Other assets include asset-backed securities which are measured using observable quoted prices for similar assets and a contingent consideration asset which was measured by applying an option pricing model using projected future Corning Precision Materials' revenues.

As a result of the acquisition of Samsung Corning Precision Materials in January 2014, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. Changes in the fair value of the contingent consideration in future periods are valued using an option pricing model and are recorded in Corning's results in the period of the change. As of September 30, 2017 and December 31, 2016, the fair value of the potential receipt of the contingent consideration in 2018 was \$294 million and \$289 million, respectively.

There were no significant financial assets and liabilities measured on a nonrecurring basis as of September 30, 2017 and December 31, 2016.

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13. Shareholders' Equity

Fixed Rate Cumulative Convertible Preferred Stock, Series A

Corning has 2,300 outstanding shares of Fixed Rate Cumulative Convertible Preferred Stock, Series A. The Preferred Stock is convertible at the option of the holder and the Company upon certain events, at a conversion rate of 50,000 shares of Corning's common stock per one share of Preferred Stock, subject to certain anti-dilution provisions. As of September 30, 2017, the Preferred Stock has not been converted, and none of the anti-dilution provisions have been triggered.

Share Repurchases

2016 Share Repurchases

In July 2016, Corning entered into an accelerated share repurchase agreement (the "2016 ASR agreement") under the 2015 Repurchase Program to repurchase Corning's common stock. Under the 2016 ASR agreement, Corning paid \$2.0 billion for a total of 86.7 million shares.

In addition to the 2016 ASR agreement, during the year ended December 31, 2016, the Company repurchased 110.4 million shares of common stock on the open market for approximately \$2.2 billion as part of its 2015 Repurchase Programs, resulting in a total of 197.1 million shares repurchased for \$4.2 billion during 2016.

2017 Share Repurchases

In December 2016, Corning's Board of Directors approved a \$4 billion share repurchase program with no expiration (the "2016 Repurchase Program"). In the nine months ended September 30, 2017, Corning entered into two separate accelerated share repurchase agreements under this program (the "2017 ASR agreements"). In the second quarter of 2017, Corning entered into and finalized an accelerated share repurchase agreement under which we paid \$500 million for a total of 17.1 million shares. In the third quarter of 2017, Corning entered into and finalized an additional accelerated share repurchase agreement under which we paid \$500 million for a total of 17.2 million shares.

In addition to the 2017 ASR agreements, during the three and nine months ended September 30, 2017, the Company repurchased 17.2 million and 37.6 million shares of common stock on the open market for approximately \$507.7

million and \$1.1 billion, respectively.

Accumulated Other Comprehensive Loss

In the three and nine months ended September 30, 2017 and 2016, the primary changes in accumulated other comprehensive loss were related to the foreign currency translation adjustment and unamortized actuarial gains (losses) for postretirement benefit plan components.

A summary of changes in the foreign currency translation adjustment component of accumulated other comprehensive loss is as follows (in millions) (1):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Beginning balance	\$ (871)	\$ (547)	\$ (1,275)	\$ (1,171)
Other comprehensive income (2)	49	235	435	860
Equity method affiliates (3)	4	10	22	9
Net current-period other comprehensive income	53	245	457	869
Ending balance	\$ (818)	\$ (302)	\$ (818)	\$ (302)

- (1) All amounts are after tax. Amounts in parentheses indicate debits to accumulated other comprehensive loss.
- (2) For the three months ended September 30, 2017, tax amounts are not significant. For the nine months ended September 30, 2017, amounts are net of total tax expense of \$47 million. For the three and nine months ended September 30, 2016, amounts are net of total tax expense of \$32 million and \$51 million, respectively.
- (3) Tax effects are not significant.

In the second quarter of 2016, a \$45 million cumulative foreign currency translation gain was released as a result of the realignment of Dow Corning and included in the gain on realignment of equity investment.

In the second quarter of 2016, a \$22 million cumulative foreign currency translation loss was released as a result of the contribution of our investment in PCE to the PCC litigation trust and included in selling, general and administrative expenses.

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A summary of changes in the unamortized actuarial gains (losses) for postretirement benefit plan component of accumulated other comprehensive loss is as follows (in millions) (1):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Beginning balance	\$ (330)	\$ (323)	\$ (347)	\$ (588)
Other comprehensive loss before reclassifications (2)		(31)		(64)
Amounts reclassified from accumulated other comprehensive income (2)		26	17	60
Equity method affiliates (3)				264
Net current-period other comprehensive (loss) income		(5)	17	260
Ending balance	\$ (330)	\$ (328)	\$ (330)	\$ (328)

- (1) All amounts are after tax. Amounts in parentheses indicate debits to accumulated other comprehensive loss.
- (2) For the three months ended September 30, 2017, tax effects are not significant. For the nine months ended September 30, 2017, amounts are net of total tax expense of \$10 million. For the three and nine months ended September 30, 2016, amounts are net of total tax benefit of (\$3) million and (\$4) million, respectively.
- (3) For the three and nine months ended September 30, 2017, tax effects are not significant. For the three and nine months ended September 30, 2016, tax effects are not significant and are net of total tax expense and \$19 million, respectively.

In the second quarter of 2016, a \$260 million cumulative unamortized actuarial loss, net of tax of \$19 million, was released as a result of the realignment of Dow Corning and included in the gain on realignment of equity investment.

In addition, for the nine months ended September 30, 2017, in the investment component of accumulated other comprehensive loss, a cumulative loss of \$14 million, mainly comprising income tax, was reclassified to the income statement.

14. Share-based Compensation

Stock Compensation Plans

The Company measures and recognizes compensation cost for all share-based payment awards made to employees and directors based on estimated fair values. Fair values for stock options were estimated using a multiple-point Black-Scholes valuation model. Share-based compensation cost for employee stock options and time-based restricted stock and restricted stock units was approximately \$10 million for the three months ended September 30, 2017 and 2016, respectively, and approximately \$35 million and \$33 million for the nine months ended September 30, 2017 and 2016, respectively. The income tax (expense) benefit from share-based compensation was not significant for the three and nine months ended September 30, 2017 and 2016.

Stock Options

Corning's stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued shares, or treasury shares, at the market price on the grant date and generally become exercisable three years from the grant date. The maximum term of non-qualified and incentive stock options is ten years from the grant date.

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The following table summarizes information concerning stock options outstanding including the related transactions under the stock option plans for the nine months ended September 30, 2017:

	Number of Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Options Outstanding as of December 31, 2016	31,507	\$ 19.40		
Granted	1,505	27.01		
Exercised	(12,915)	21.26		
Forfeited and Expired	(254)	23.21		
Options Outstanding as of September 30, 2017	19,843	18.72	4.66	\$ 222,313
Options Expected to Vest as of September 30, 2017	19,801	18.71	4.65	222,056
Options Exercisable as of September 30, 2017	15,173	17.47	3.47	188,890

The aggregate intrinsic value (market value of stock less option exercise price) in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price on September 30, 2017, which would have been received by the option holders had all option holders exercised their "in-the-money" options as of that date.

As of September 30, 2017, there was approximately \$8 million of unrecognized compensation cost related to stock options granted under the plans. The cost is expected to be recognized over a weighted-average period of 2 years. Compensation cost related to stock options was approximately \$1 million and \$2 million for the three months ended September 30, 2017 and 2016, respectively, and approximately \$11 million and \$10 million for the nine months ended September 30, 2017 and 2016, respectively.

Proceeds received from the exercise of stock options were \$275 million and \$86 million for the nine months ended September 30, 2017 and 2016, respectively. Proceeds received from the exercise of stock options were included in financing activities on the Company's Consolidated Statements of Cash Flows. The total intrinsic value of options exercised for the nine months ended September 30, 2017 and 2016 was approximately \$83 million and \$36 million, respectively.

The following inputs were used for the valuation of option grants under our stock option plans:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Expected volatility	34.2%	38.6%	34.2 - 36.1%	38.6 - 43.1%
Weighted-average volatility	34.2%	38.6%	34.2 - 36.1%	38.6 - 43.1%
Expected dividends	2.18%	2.34%	2.11 - 2.28%	2.34 - 2.94%
Risk-free rate	2.1%	1.4%	2.1 - 2.3%	1.4 - 1.6%
Average risk-free rate	2.1%	1.4%	2.1 - 2.3%	1.4 - 1.6%
Expected term (in years)	7.4	7.4	7.4 - 7.4	7.4 - 7.4
Pre-vesting departure rate	0.6%	0.6%	0.6 - 0.6%	0.6 - 0.6%

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

Incentive Stock Plans

Corning's incentive stock plan permits restricted stock and restricted stock unit grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration. Restricted stock and restricted stock units under the incentive stock plan are granted at the closing market price on the grant date, contingently vest over a period of generally three years. The fair value of each restricted stock grant or restricted stock unit awarded under the Incentive Stock Plan is based on the grant date closing price of the Company's stock.

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Time-Based Restricted Stock and Restricted Stock Units:

Time-based restricted stock and restricted stock units are issued by the Company on a discretionary basis, and are payable in shares of the Company's common stock upon vesting. The fair value is based on the closing market price of the Company's stock on the grant date. Compensation cost is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting.

The following table represents a summary of the status of the Company's non-vested time-based restricted stock and restricted stock units as of December 31, 2016, and changes which occurred during the nine months ended September 30, 2017:

	Shares (000's)	Weighted Average Grant-Date Fair Value
Non-vested shares and share units at December 31, 2016	4,640	\$ 20.15
Granted	1,576	27.67
Vested	(1,243)	20.65
Forfeited	(88)	22.13
Non-vested shares and share units at September 30, 2017	4,885	\$ 22.42

As of September 30, 2017, there was approximately \$51 million of unrecognized compensation cost related to non-vested time-based restricted stock and restricted stock units compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.5 years. Compensation cost related to time-based restricted stock and restricted stock units was approximately \$9 million and \$8 million for the three months ended September 30, 2017 and 2016, respectively, and approximately \$24 million and \$23 million for the nine months ended September 30, 2017 and 2016, respectively.

15. Reportable Segments

Our reportable segments are as follows:

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

All other segments that do not meet the quantitative threshold for separate reporting have been grouped as “All Other.” This group is primarily comprised of the results of the pharmaceutical technologies business and new product lines and development projects, as well as certain corporate investments such as Eurokera and Keraglass equity affiliates.

We prepared the financial results for our reportable segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We included the earnings of equity affiliates that are closely associated with our reportable segments in the respective segment’s net income. We have allocated certain common expenses among reportable segments differently than we would for stand-alone financial information. 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.

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Reportable Segments (in millions)

	Display Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
Three months ended September 30, 2017							
Net sales	\$ 768	\$ 917	\$ 277	\$ 373	\$ 223	\$ 49	\$ 2,607
Depreciation (1)	\$ 134	\$ 49	\$ 31	\$ 34	\$ 14	\$ 12	\$ 274
Amortization of purchased intangibles		\$ 11			\$ 6	\$ 1	\$ 18
Research, development and engineering expenses (2)	\$ 21	\$ 44	\$ 28	\$ 37	\$ 5	\$ 52	\$ 187
Income tax (provision) benefit	\$ (82)	\$ (52)	\$ (17)	\$ (36)	\$ (8)	\$ 28	\$ (167)
Net income (loss) (3)	\$ 203	\$ 102	\$ 34	\$ 72	\$ 17	\$ (55)	\$ 373

	Display Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
Three months ended September 30, 2016							
Net sales	\$ 902	\$ 795	\$ 264	\$ 295	\$ 214	\$ 37	\$ 2,507
Depreciation (1)	\$ 152	\$ 41	\$ 32	\$ 26	\$ 14	\$ 12	\$ 277
Amortization of purchased intangibles		\$ 10			\$ 5	\$ 2	\$ 17
Research, development and engineering expenses (2)	\$ 14	\$ 37	\$ 24	\$ 31	\$ 6	\$ 47	\$ 159
Income tax (provision) benefit	\$ (98)	\$ (49)	\$ (17)	\$ (21)	\$ (8)	\$ 21	\$ (172)
Net income (loss) (3)	\$ 279	\$ 84	\$ 35	\$ 42	\$ 16	\$ (47)	\$ 409

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	Display Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
Nine Months Ended September 30, 2017							
Net sales	\$ 2,252	\$ 2,617	\$ 815	\$ 1,010	\$ 654	\$ 131	\$ 7,479
Depreciation (1)	\$ 393	\$ 142	\$ 93	\$ 94	\$ 39	\$ 34	\$ 795
Amortization of purchased intangibles		\$ 33			\$ 16	\$ 4	\$ 53
Research, development and engineering expenses (2)	\$ 63	\$ 121	\$ 80	\$ 110	\$ 17	\$ 156	\$ 547
Income tax (provision) benefit	\$ (270)	\$ (149)	\$ (47)	\$ (88)	\$ (23)	\$ 83	\$ (494)
Net income (loss) (3)	\$ 663	\$ 285	\$ 97	\$ 176	\$ 48	\$ (166)	\$ 1,103

	Display Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
Nine Months Ended September 30, 2016							
Net sales	\$ 2,408	\$ 2,186	\$ 787	\$ 788	\$ 633	\$ 112	\$ 6,914
Depreciation (1)	\$ 452	\$ 125	\$ 97	\$ 81	\$ 42	\$ 34	\$ 831
Amortization of purchased intangibles		\$ 25			\$ 15	\$ 6	\$ 46
Research, development and engineering expenses (2)	\$ 49	\$ 110	\$ 75	\$ 96	\$ 18	\$ 139	\$ 487
Income tax (provision) benefit	\$ (277)	\$ (99)	\$ (52)	\$ (52)	\$ (22)	\$ 87	\$ (415)
Net income (loss) (3)	\$ 692	\$ 178	\$ 106	\$ 106	\$ 45	\$ (187)	\$ 940

(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 include direct project spending that 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. Expenses that are not allocated to the segments are included in the reconciliation of reportable net segment net income to consolidated net income below.

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A reconciliation of reportable segment net income to consolidated net income follows (in millions):

	Three months ended		Nine months ended	
	September 30, 2017	2016	September 30, 2017	2016
Net income of reportable segments	\$ 428	\$ 456	\$ 1,269	\$ 1,127
Net loss of All Other	(55)	(47)	(166)	(187)
Unallocated amounts:				
Net financing costs (1)	(27)	(26)	(79)	(84)
Stock-based compensation expense	(10)	(10)	(35)	(33)
Exploratory research	(24)	(27)	(71)	(82)
Corporate contributions	(7)	(15)	(29)	(38)
Gain on realignment of equity investment				2,676
Equity in earnings of affiliated companies (2)	30	22	140	126
Unrealized loss on foreign currency hedges related to translated earnings	(24)	(239)	(392)	(2,441)
Resolution of Department of Justice investigation				(98)
Income tax benefit	66	193	299	1,247
Other corporate items	13	(23)	(21)	(90)
Net income	\$ 390	\$ 284	\$ 915	\$ 2,123

- (1) Net financing costs include interest income, interest expense, and interest costs and investment gains and losses associated with benefit plans.
- (2) For the periods ending September 30, 2017, and the three months ending September 30, 2016, the amounts represent the equity earnings of HSG. Through May 31, 2016, the date of the strategic realignment of our equity interest in Dow Corning, this amount primarily represents the equity earnings from Dow Corning. Refer to Note 7, Investments, for additional information.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ORGANIZATION OF INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides a historical and prospective narrative on the Company's financial condition and results of operations. This interim MD&A should be read in conjunction with the MD&A in our 2016 Form 10-K. The various sections of this MD&A contain a number of forward-looking statements that involve a number of risks and uncertainties. Words such as "anticipates," "expects," "intends," "plans," "goals," "believes," "seeks," "estimates," "continues," "may," "will," "should," and such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, uncertain events or assumptions, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in "Risk Factors" in Part I, Item 1A of our 2016 Form 10-K, and as may be updated in our Forms 10-Q. Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of September 30, 2017.

Our MD&A includes the following sections:

- Overview
- Results of Operations
- Core Performance Measures
- Reportable Segments
- Capital Resources and Liquidity
- Critical Accounting Estimates
- New Accounting Standards
- Environment
- Forward-Looking Statements

OVERVIEW

Strategy and Capital Allocation Framework

In October 2015, Corning announced a strategy and capital allocation framework (the “Framework”) that reflects the Company’s financial and operational strengths, as well as its ongoing commitment to increasing shareholder value. The Framework outlines our leadership priorities, and articulates the opportunities we see across our businesses. We designed the Framework to create significant value for shareholders by focusing our portfolio and leveraging our financial strength. Under our Framework we target generating \$26 billion to \$30 billion of cash through 2019, returning more than \$12.5 billion to shareholders and investing \$10 billion to sustain our leadership positions and deliver growth.

Our probability of success increases as we invest in our world-class capabilities. Corning is concentrating approximately 80% of its research, development and engineering investment and capital spending on a cohesive set of three core technologies, four manufacturing and engineering platforms, and five market-access platforms. This strategy will allow us to quickly apply our talents and repurpose our assets as needed.

Summary of results for the three months and nine months ended September 30, 2017

Net sales in the three and nine months ended September 30, 2017 were \$2,607 million and \$7,479 million, respectively, compared to \$2,507 million and \$6,914 million in the same periods in 2016. The increase in both periods was driven by higher sales in the Optical Communications and Specialty Materials segments. Optical Communications segment sales increased \$122 million and \$431 million, respectively, due to higher sales of carrier and enterprise network products. Specialty Materials segment sales increased \$78 million and \$222 million, respectively, driven by higher sales of Corning Gorilla Glass and advanced optics products.

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In the third quarter of 2017, we generated net income of \$390 million, or \$0.39 per share, compared to net income of \$284 million, or \$0.26 per share, for the same period in 2016. The increase in net income of \$106 million, or 37%, was primarily driven by the following items (amounts presented after-tax):

- A decrease of \$135 million in unrealized losses from our translated earnings contracts;
- An increase of \$30 million in net income in the Specialty Materials segment, driven by an increase in net sales of Corning Gorilla Glass and advanced optics products;
- An increase of \$18 million in net income in the Optical Communications segment, due to higher sales of carrier and enterprise network products; and
- The absence of a \$17 million charge recorded in the third quarter of 2016 resulting from several small settlements in our defined benefit pension plan.

Partially offsetting these items was a decrease of \$76 million in net income in the Display Technologies segment, driven by LCD glass price declines of approximately 10%, the absence of a \$41 million gain resulting from the contingent consideration fair value adjustment recorded in the third quarter of 2016 and the impact of the weakening of the Japanese yen in the amount of \$25 million, partially offset by a small increase in volume, an increase of \$31 million from realized gains on our yen-denominated currency hedges and improvements in manufacturing efficiency.

The translation impact of fluctuations in foreign currency exchange rates, including the impact of hedges realized in the current quarter, did not materially impact Corning's consolidated net income in the three months ended September 30, 2017 when compared to the same period in 2016.

In the first three quarters of 2017, we generated net income of \$915 million or \$0.89 per share, compared to net income of \$2,123 million or \$1.81 per share for the same period in 2016. The decrease in net income of \$1,208 million was primarily driven by the following items (amounts presented after-tax):

- The absence of a \$2.7 billion non-taxable gain and \$105 million positive tax adjustment on the strategic realignment of our ownership interest in Dow Corning recorded in the second quarter of 2016;
- A decrease in net income of \$29 million in the Display Technologies segment, primarily driven by price declines of approximately 10%, the absence of a gain of \$35 million from the contingent consideration fair value adjustment during 2016 and the impact from the weakening of the Japanese yen and South Korean won in the amount of \$36 million; and
 - The absence of a gain of \$25 million on the contribution of our equity interests in PCC and PCE as partial settlement of the asbestos litigation recorded in the second quarter of 2016.

Partially offsetting these events were the following items:

- A decrease in unrealized losses from our translated earnings contracts in the amount of \$1.3 billion;
- The absence of a charge of \$86 million related to the resolution of an investigation by the U.S. Department of Justice and related costs;
- A decrease of \$56 million in restructuring, impairment and other charges, largely due to the absence of charges incurred in 2016 associated with restructuring activity and the disposal of long-lived assets;
- An increase in net income of \$107 million in the Optical Communications segment, due to higher sales of carrier and enterprise network products;
- An increase in net income of \$70 million in the Specialty Materials segment, driven by an increase in Corning Gorilla Glass and advanced optics products; and
- Lower acquisition-related expenses, down \$54 million, largely due to the absence of costs related to the realignment of our equity interests in Dow Corning completed in the second quarter of 2016, offset slightly by several small acquisitions occurring in 2017.

The translation impact of fluctuations in foreign currency exchange rates, including the impact of hedges realized in the current quarter, did not materially impact Corning's consolidated net income in the nine months ended September 30, 2017 when compared to the same period in 2016.

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2017 Corporate Outlook

In 2017, Corning will continue to advance its Framework initiatives. In the Display Technologies segment, we expect the rate of growth in both retail market and glass demand to be in the mid-single digit percentage. We believe the full-year 2017 LCD glass pricing environment will be favorable and better than last year, with expectations of price declines of approximately 10% or even less. In the Optical Communications segment, we anticipate sales to increase by more than 15% over 2016. In the Environmental Technologies segment, we expect sales to be up mid-single digits in percentage terms from 2016. We expect growth in the Specialty Materials segment to be more than 20% year-over-year, reflecting very strong customer deployment of Corning® Gorilla® Glass 5 and other Corning innovations. In the Life Sciences segment, we expect low-single digit sales growth, ahead of forecasted market growth rates.

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RESULTS OF OPERATIONS

Selected highlights for the three and nine months ended September 30, 2017 and 2016 follow (in millions):

	Three months ended		%	Nine months ended		%
	September 30,		change	September 30,		change
	2017	2016	17 vs. 16	2017	2016	17 vs. 16
Net sales	\$ 2,607	\$ 2,507	4%	\$ 7,479	\$ 6,914	8%
Gross margin (gross margin %)	\$ 1,056 41%	\$ 1,041 42%	1%	\$ 2,998 40%	\$ 2,756 40%	9%
Selling, general and administrative expenses (as a % of net sales)	\$ 372 14%	\$ 302 12%	23%	\$ 1,067 14%	\$ 1,104 16%	(3%)
Research, development and engineering expenses (as a % of net sales)	\$ 213 8%	\$ 187 7%	14%	\$ 620 8%	\$ 569 8%	9%
Equity in earnings of affiliated companies (as a % of net sales)	\$ 31 1%	\$ 19 1%	63%	\$ 148 2%	\$ 119 2%	24%
Translated earnings contract gain (loss), net (as a % of net sales)	\$ 26 1%	\$ (237) *	*	\$ (193) *	\$ (2,295) *	(92%)
Gain on realignment of equity investment (as a % of net sales)					\$ 2,676 39%	(100%)
Income before income taxes (as a % of net sales)	\$ 479 18%	\$ 257 10%	86%	\$ 1,091 15%	\$ 1,288 19%	(15%)
(Provision) benefit for income taxes (as a % of net sales)	\$ (89) *	\$ 27 1%	*	\$ (176) *	\$ 835 12%	*
Net income attributable to Corning Incorporated	\$ 390	\$ 284	37%	\$ 915	\$ 2,123	(57%)

(as a % of net sales) 15% 11% 12% 31%

*Percent change is not meaningful.

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Net Sales

The following table presents net sales by reportable segment (in millions):

	Three months ended			Nine months ended		
	September 30,		%	September 30,		%
	2017	2016	17 vs. 16	2017	2016	17 vs. 16
Display Technologies	\$ 768	\$ 902	(15%)	\$ 2,252	\$ 2,408	(6%)
Optical Communications	917	795	15%	2,617	2,186	20%
Environmental Technologies	277	264	5%	815	787	4%
Specialty Materials	373	295	26%	1,010	788	28%
Life Sciences	223	214	4%	654	633	3%
All Other	49	37	32%	131	112	17%
Total net sales	\$ 2,607	\$ 2,507	4%	\$ 7,479	\$ 6,914	8%

For the three months ended September 30, 2017, net sales increased by \$100 million, or 4% when compared to the same period in 2016. The primary sales drivers by segment were as follows:

- A decrease of \$134 million in the Display Technologies segment, driven by LCD glass price declines of approximately 10% and the negative impact from the weakening of the Japanese yen in the amount of \$51 million, partially offset by a small increase in volume;
- An increase of \$122 million in the Optical Communications segment, due to higher sales of carrier and enterprise network products;
- An increase of \$13 million in the Environmental Technologies segment, driven by an increase in demand in North America for heavy-duty diesel products and an increase of \$9 million in sales of automotive products due to worldwide growth;
- An increase of \$78 million in the Specialty Materials segment, driven by strong growth in sales of Corning Gorilla Glass products, combined with an increase in advanced optics products; and
- An increase of \$9 million in the Life Sciences segment.

For the nine months ended September 30, 2017, net sales increased by \$565 million, or 8%, when compared to the same period in 2016. The primary sales drivers by segment were as follows:

- A decrease of \$156 million in the Display Technologies segment, driven by price declines of approximately 10% and the negative impact from the weakening of the Japanese yen in the amount of \$51 million, partially offset by an increase in volume in the high-single digits in percentage terms;

- An increase of \$431 million in the Optical Communications segment, due to higher sales of carrier and enterprise network products, combined with the absence of production issues related to the implementation of new manufacturing software in the first quarter of 2016. Strong growth in the North American market drove the increase in carrier network products;
- An increase of \$28 million in the Environmental Technologies segment, driven by higher sales of automotive products due to market strength in Europe, China and Asia;
- An increase of \$222 million in the Specialty Materials segment, driven by strong growth in sales of Corning Gorilla Glass products, combined with an increase in advanced optics products; and
- An increase of \$21 million in the Life Sciences segment.

Movements in foreign exchange rates did not materially impact Corning's consolidated net sales in the three and nine months ended September 30, 2017, respectively, when compared to the same periods in 2016.

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.

Gross Margin

In the three months ended September 30, 2017, gross margin dollars increased \$15 million, or 1%, but gross margin as a percentage of net sales declined slightly when compared to the same period in 2016, driven by LCD glass price declines of approximately 10% and the impact of the weakening of the Japanese yen in the amount of \$34 million, which negatively impacted the Display Technologies segment. Gross margin increased in the remainder of our segments, up \$102 million, primarily driven by higher sales volume in the Specialty Materials and Optical Communications segments.

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In the nine months ended September 30, 2017, gross margin dollars increased by \$242 million, or 9%, and gross margin as a percentage of net sales remained consistent, when compared to the same period last year. Gross margin increased in the remainder of our segments, up \$328 million, primarily driven by higher sales volume in the Specialty Materials and Optical Communications segments. LCD glass price declines of approximately 10% and the impact of the weakening of the Japanese yen and South Korean won in the amount of \$44 million, which negatively impacted the Display Technologies segment, partially offset the increase.

Selling, General and Administrative Expenses

When compared to the third quarter of 2016, selling, general and administrative expenses increased by \$70 million, or 23%, in the three months ended September 30, 2017. The increase was due to the following items:

- The absence of a gain of \$49 million from the contingent consideration fair value adjustment recorded in the third quarter of 2016; and
- An increase in the Optical Communications segment and for our emerging businesses of \$17 million and \$7 million, respectively, driven by new business growth.

When compared to the first three quarters of 2016, selling, general and administrative expenses decreased by \$37 million, or 3%, in the nine months ended September 30, 2017. The decrease was due to the following items:

- A decrease of \$55 million in acquisition-related costs, driven by the absence of costs related to the realignment of our equity interests in Dow Corning completed in the second quarter of 2016, offset slightly by several small acquisitions occurring in 2017;
- A decrease of \$64 million in litigation, regulatory and other legal costs, driven by the absence of events occurring in the second quarter of 2016. In this period, we recorded litigation and other expenses related to the resolution of an investigation by the U.S. Department of Justice and an environmental matter in the amount of \$98 million, offset somewhat by the gain on the contribution of our equity interests in PCC and PCE as partial settlement of the asbestos litigation in the amount of \$56 million; and
- A decrease of \$45 million in the mark-to-market of our defined benefit pension plans.

Offsetting these events were the following items:

- The absence of \$39 million of gains from the contingent consideration fair value adjustments recorded in 2016;
- An increase of \$35 million in the Optical Communications segment due to costs associated with capacity expansion and growth initiatives; and
- An increase of \$17 million in the Specialty Materials segment.

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

Research, Development and Engineering Expenses

For the three and nine months ended September 30, 2017, research, development and engineering expenses increased by \$26 million, or 14%, and \$51 million, or 9%, respectively, when compared to the same periods last year, driven by the absence of the impact of a 2016 joint development agreement in the Display Technologies segment, as well as higher costs associated with new product launches and our emerging businesses. As a percentage of sales, these expenses increased slightly in the third quarter, and remained consistent in the first nine months of 2017, when compared to the same periods last year.

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Equity in Earnings of Affiliated Companies

The following provides a summary of equity in earnings of affiliated companies (in millions):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Dow Corning Corporation (1)				\$ 82
Hemlock Semiconductor Group	\$ 29	\$ 22	\$ 139	44
All other	2	(3)	9	(7)
Total equity earnings	\$ 31	\$ 19	\$ 148	\$ 119

(1) Results include equity earnings of the silicones business and Hemlock Semiconductor business of Dow Corning from January 1, 2016 through May 31, 2016.

Refer to Note 7 (Investments) to the consolidated financial statements for additional information.

Translated earnings contract gain (loss), net

Included in the line item Translated earnings contract gain (loss), net, is the impact of foreign currency hedges which hedge our translation exposure arising from movements in the Japanese yen, South Korean won, euro, New Taiwan dollar and Chinese yuan against the U.S. dollar and its impact on our net earnings. The following table provides detailed information on the impact of our translated earnings contract losses and gains:

(in millions)	Three Months Ended		Three Months Ended		Change	
	September 30, 2017		September 30, 2016		2017 vs. 2016	
	Income	Net	Income	Net	Income	Net
	before	income	before	income	before	income
	income	taxes	income	taxes	income	taxes
Hedges related to translated earnings:						
Realized gain, net	\$ 50	\$ 31	\$ 2	\$ 1	\$ 48	\$ 30
Unrealized loss, net	(24)	(15)	(239)	(150)	215	135
Total translated earnings contract gain (loss), net	\$ 26	\$ 16	\$ (237)	\$ (149)	\$ 263	\$ 165

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016		Change 2017 vs. 2016	
	Income before income taxes	Net income	Income before income taxes	Net income	Income before income taxes	Net income
(in millions)						
Hedges related to translated earnings:						
Realized gain, net	\$ 199	\$ 124	\$ 146	\$ 92	\$ 53	\$ 32
Unrealized loss, net	(392)	(247)	(2,441)	(1,539)	2,049	1,292
Total translated earnings contract loss, net	\$ (193)	\$ (123)	\$ (2,295)	\$ (1,447)	\$ 2,102	\$ 1,324

The gross notional value outstanding on our translated earnings contracts at September 30, 2017 and December 31, 2016 were as follows (in billions):

	September 30, 2017	December 31, 2016
Japanese yen-denominated hedges	\$ 13.5	\$ 14.9
South Korean won-denominated hedges	1.1	1.2
Euro-denominated hedges	0.4	0.3
Chinese yuan-denominated hedges	0.2	0.3
Total gross notional value outstanding	\$ 15.2	\$ 16.7

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Income Before Income Taxes

In the three and nine months ended September 30, 2017, the impact of fluctuations in foreign exchange rates did not materially impact Corning's consolidated income before income taxes when compared to the same periods in 2016.

(Provision)Benefit for Income Taxes

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

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

For the three months ended September 30, 2017, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

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

For the nine months ended September 30, 2017, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following benefits:

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

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

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

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

- Rate differences on income (loss) of consolidated foreign companies, including the benefit of excess foreign tax credits resulting from the inclusion of foreign earnings in U.S. income;
- The impact of equity in earnings of nonconsolidated affiliates reported in the financial statements, net of tax; and
- The tax-free nature of the realignment of our equity interests in Dow Corning during the period, as well as the release of the deferred tax liability related to Corning's tax on Dow Corning's undistributed earnings as of the date of the transaction.

Refer to Note 4 (Income Taxes) to the consolidated financial statements for additional information.

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Net Income Attributable to Corning Incorporated

As a result of the items discussed above, our net income and per share data is as follows (in millions, except per share amounts):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income attributable to Corning Incorporated	\$ 390	\$ 284	\$ 915	\$ 2,123
Net income attributable to Corning Incorporated used in basic earnings per common share calculation (1)	\$ 366	\$ 260	\$ 842	\$ 2,050
Net income attributable to Corning Incorporated used in diluted earnings per common share calculation (1)	\$ 390	\$ 284	\$ 915	\$ 2,123
Basic earnings per common share	\$ 0.41	\$ 0.27	\$ 0.93	\$ 1.96
Diluted earnings per common share	\$ 0.39	\$ 0.26	\$ 0.89	\$ 1.81
Weighted-average common shares outstanding - basic	883	978	905	1,046
Weighted-average common shares outstanding - diluted	1,009	1,102	1,031	1,170

(1) Refer to Note 5 (Earnings per Common Share) to the consolidated financial statements for additional information.

Comprehensive Income

For the three months ended September 30, 2017, comprehensive income decreased by \$90 million when compared to the same period in 2016, due to the negative impact of the change in foreign currency translation gains and losses of \$192 million, driven primarily by the Japanese yen, partially offset by the increase in net income of \$106 million.

For the nine months ended September 30, 2017, comprehensive income decreased by \$1.8 billion, when compared to the same period in 2016, driven by the following items:

- The decrease in net income attributable to Corning Incorporated of \$1,208 million;
- The negative impact of the change in foreign currency translation gains and losses of \$412 million, driven primarily by the Japanese yen; and
- The negative impact of the change in the amount of unamortized gains and losses for postretirement benefit plans of \$243 million driven by the release in the second quarter of 2016 of unamortized actuarial losses as a result of the realignment of our equity interests in Dow Corning.

Offsetting these decreases was an increase in net unrealized gains on designated hedges in the amount of \$72 million.

Refer to Note 13 (Shareholders' Equity) to the consolidated financial statements for additional information.

CORE PERFORMANCE MEASURES

In managing the Company and assessing our financial performance, we supplement certain measures provided by our consolidated financial statements with measures adjusted to exclude certain items, to arrive at core performance measures. We believe that reporting core performance measures provides investors greater transparency to the information used by our management team to make financial and operational decisions. Corning has adopted the use of constant currency reporting for the Japanese yen and South Korean won, and uses an internally derived yen-to-dollar management rate of ¥99 and won-to-dollar management rate of 1,100.

Net sales, equity in earnings of affiliated companies and net income are adjusted to exclude the impacts of changes in the Japanese yen and the South Korean won, gains and losses on our foreign currency hedges related to translated earnings, acquisition-related costs, discrete tax items, restructuring and restructuring-related charges, certain litigation-related expenses, pension mark-to-market adjustments and other items which do not reflect on-going operating results of the Company or our equity affiliates. Management's discussion and analysis on our reportable segments has also been adjusted for these items, as appropriate. These measures are not prepared in accordance with Generally Accepted Accounting Principles in the United States ("GAAP"). We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our core operating performance and how management evaluates our operational results and trends. These measures are not, and should not be viewed as a substitute for, GAAP reporting measures. With respect to the Company's outlooks for future periods, it is not able to provide reconciliations for these non-GAAP measures because the Company does not forecast the movement of the Japanese yen and South Korean won against the U.S. dollar, or other items that do not reflect ongoing operations, nor does it forecast items that have not yet occurred or are out of the Company's control. As a result, the Company is unable to provide outlook information on a GAAP basis.

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See “Use of Non-GAAP Financial Measures” for details on core performance measures. For a reconciliation of non-GAAP performance measures to their most directly comparable GAAP financial measure, please see “Reconciliation of Non-GAAP Measures” below.

RESULTS OF OPERATIONS – CORE PERFORMANCE MEASURES

Selected highlights from our continuing operations, excluding certain items, follow (in millions):

	Three months ended			Nine months ended		
	September 30,		%	September 30,		%
	2017	2016	change	2017	2016	change
			17 vs. 16			17 vs. 16
Core net sales	\$ 2,700	\$ 2,548	6%	\$ 7,775	\$ 7,159	9%
Core equity in earnings of affiliated companies	\$ 32	\$ 19	68%	\$ 78	\$ 138	(43)%
Core earnings	\$ 433	\$ 466	(7)%	\$ 1,271	\$ 1,240	3%

Core Net Sales

The following table presents core net sales by reportable segment (in millions):

	Three months ended			Nine months ended		
	September 30,		%	September 30,		%
	2017	2016	change	2017	2016	change
			17 vs. 16			17 vs. 16
Display Technologies	\$ 860	\$ 943	(9)%	\$ 2,547	\$ 2,652	(4)%
Optical Communications	917	795	15%	2,617	2,186	20%
Environmental Technologies	277	264	5%	815	787	4%
Specialty Materials	373	295	26%	1,010	788	28%
Life Sciences	223	214	4%	654	633	3%
All Other	50	37	35%	132	113	17%
Total core net sales	\$ 2,700	\$ 2,548	6%	\$ 7,775	\$ 7,159	9%

Core net sales increased by \$152 million, or 6%, and \$616 million, or 9%, in the three months and nine months ended September 30, 2017, respectively, when compared to the same periods in 2016. In all segments except Display Technologies, core net sales are consistent with GAAP net sales. Because a significant portion of revenues in the

Display Technologies segment are denominated in Japanese yen, this segment's net sales are adjusted to remove the impact of translating yen into dollars.

When compared to the third quarter of 2016, core net sales in the Display Technologies segment decreased by \$83 million, or 9%, in the third quarter of 2017, driven by LCD glass price declines of approximately 10%, partially offset by a small increase in volume. When compared to the first nine months of 2016, core net sales in the Display Technologies segment decreased by \$105 million, or 4%, in the first nine months of 2017, driven by LCD glass price declines of approximately 10%, partially offset by an increase in volume in the high-single digits in percentage terms.

Core Equity in Earnings of Affiliated Companies

The following provides a summary of core equity in earnings of affiliated companies (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Dow Corning Corporation (1)				\$ 98
Hemlock Semiconductor Group	\$ 29	\$ 22	\$ 67	44
All other	3	(3)	11	(4)
Total core equity earnings	\$ 32	\$ 19	\$ 78	\$ 138

(1) Results include core equity earnings of the silicones business and Hemlock Semiconductor business of Dow Corning from January 1, 2016 through May 31, 2016.

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Core Earnings

In the three months ended September 30, 2017, we generated core earnings of \$433 million or \$0.43 per share, compared to core earnings generated in the three months ended September 30, 2016 of \$466 million, or \$0.42 per share. The decrease of \$33 million was primarily due to lower core earnings in the Display Technologies segment, down \$43 million, and in emerging businesses, down \$10 million, combined with an increase in corporate spending of approximately \$20 million. Higher core earnings in the Optical Communications and Specialty Materials segments, up \$13 million and \$27 million, respectively, partially offset the decrease.

In the nine months ended September 30, 2017, we generated core earnings of \$1,271 million or \$1.23 per share, compared to core earnings generated in the nine months ended September 30, 2016 of \$1,240 million, or \$1.06 per share. The increase of \$31 million, or \$0.17 per share, was driven by the following items:

- An increase in core earnings of \$102 million in the Optical Communications segment, due to higher sales of carrier and enterprise network products, combined with the absence of the production issues in the first half of 2016 related to the implementation of new software; and
- An increase in core earnings of \$53 million in the Specialty Materials segment, driven by an increase in Corning Gorilla Glass and advanced optics products.

Offsetting these increases were the absence of the equity earnings of \$102 million from Dow Corning's silicones business due to our 2016 realignment of our ownership interest in Dow Corning, and lower core earnings in the Display Technologies and Environmental Technologies segments.

Included in core earnings for the three months and nine months ended September 30, 2017 is net periodic pension expense in the amounts of \$12 million and \$37 million, respectively, and for the same periods in 2016, \$13 million and \$38 million, respectively.

Refer to Note 9 (Employee Retirement Plans) to the Consolidated Financial Statements for additional information.

Core Earnings per Common Share

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Core earnings attributable to Corning Incorporated	\$ 433	\$ 466	\$ 1,271	\$ 1,240
Less: Series A convertible preferred stock dividend	24	24	73	73
Core earnings available to common stockholders - basic	409	442	1,198	1,167
Add: Series A convertible preferred stock dividend	24	24	73	73
Core earnings available to common stockholders - diluted	\$ 433	\$ 466	\$ 1,271	\$ 1,240
Weighted-average common shares outstanding - basic	883	978	905	1,046
Effect of dilutive securities:				
Stock options and other dilutive securities	11	9	11	9
Series A convertible preferred stock	115	115	115	115
Weighted-average common shares outstanding - diluted	1,009	1,102	1,031	1,170
Core basic earnings per common share	\$ 0.46	\$ 0.45	\$ 1.32	\$ 1.12
Core diluted earnings per common share	\$ 0.43	\$ 0.42	\$ 1.23	\$ 1.06

Reconciliation of Non-GAAP Measures

We utilize certain financial measures and key performance indicators that are not calculated in accordance with GAAP to assess our financial and operating performance. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of income or statement of cash flows, or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure as calculated and presented in accordance with GAAP in the statement of income or statement of cash flows.

Core net sales, core equity in earnings of affiliated companies and core earnings are non-GAAP financial measures utilized by our management to analyze financial performance without the impact of items that are driven by general economic conditions and events that do not reflect the underlying fundamentals and trends in the Company's operations.

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The following tables reconcile our non-GAAP financial measures to their most directly comparable GAAP financial measure (amounts in millions except percentages and per share amounts):

	Three Months Ended September 30, 2017					
	Net sales	Equity earnings	Income before taxes	Net income	Effective tax rate (a)	Per share
As reported - GAAP	\$ 2,607	\$ 31	\$ 479	\$ 390	18.6%	\$ 0.39
Constant-yen (1)	92	1	81	62		0.06
Constant-won (1)	1		(6)	(4)		
Translated earnings contract gain (2)			(28)	(18)		(0.02)
Acquisition-related costs (3)			21	14		0.01
Discrete tax items and other tax-related adjustments (4)				(2)		
Translation gain on Japanese yen-denominated debt (12)			(14)	(9)		(0.01)
Core performance measures	\$ 2,700	\$ 32	\$ 533	\$ 433	18.8%	\$ 0.43

(a) Based upon statutory tax rates in the specific jurisdiction for each event.

	Three Months Ended September 30, 2016					
	Net sales	Equity earnings	Income before taxes	Net income	Effective tax (benefit) rate (a)	Per share
As reported - GAAP	\$ 2,507	\$ 19	\$ 257	\$ 284	(10.5%)	\$ 0.26
Constant-yen (1)	40		47	30		0.03
Constant-won (1)	1		(4)	(3)		
Translated earnings contract loss (2)			237	149		0.14
Acquisition-related costs (3)			15	11		0.01
				6		0.01

Discrete tax items and other tax-related adjustments (4)						
Restructuring, impairment and other charges (6)			11	9		0.01
Impacts from the acquisition of Samsung Corning Precision Materials (8)			(49)	(41)		(0.04)
Pension mark-to-market adjustment (9)			26	17		0.02
Taiwan power outage (11)			5	4		
Core performance measures	\$ 2,548	\$ 19	\$ 545	\$ 466	14.5%	\$ 0.42

(a) Based upon statutory tax rates in the specific jurisdiction for each event.

See Part 1, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, Reconciliation of Non-GAAP Measures, “Items which we exclude from GAAP measures to arrive at core performance measures” for the descriptions of the footnoted reconciling items.

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The following tables reconcile our non-GAAP financial measures to their most directly comparable GAAP financial measure (amounts in millions except percentages and per share amounts):

	Nine Months Ended September 30, 2017					
	Net	Equity	Income	Net	Effective	Per
	sales	earnings	before	income	tax	share
			income	tax	rate (a)	
			taxes	income		
As reported – GAAP	\$ 7,479	\$ 148	\$ 1,091	\$ 915	16.1%	\$ 0.89
Constant-yen (1)	294	2	266	201		0.19
Constant-won (1)	2		(20)	(15)		(0.01)
Translated earnings contract loss (2)						