CORNING INC /NY
Form 10-Q
July 30, 2008
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from ___________to____________

Commission file number 1-3247

CORNING INCORPORATED

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code607-974-9000

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

Yes X No

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

Large accelerated filer	X	Accelerated filer
Non-accelerated filer		Smaller reporting company

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

Yes No X

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

1,577,916,249 shares of Corning s Common Stock, $0.50 Par Value, were outstanding as of July 15, 2008.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in millions, except per share amounts)

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Net sales	$ 1,692	$ 1,418	$ 3,309	$ 2,725
Cost of sales	840	759	1,613	1,475
Gross margin	852	659	1,696	1,250
Operating expenses:				
Selling, general and administrative expense	260	229	502	443
Research, development and engineering expenses	163	137	314	267
Amortization of purchased intangibles	3	2	5	5
Restructuring, impairment and other credits (Note 2)		(2)	(1)	(2)
Asbestos settlement charge (credit) (Note 3)	9	76	(318)	186
Operating income	417	217	1,194	351
Interest income	22	35	52	72
Interest expense	(15)	(20)	(33)	(41)
Loss on repurchase of debt, net (Note 4)				(15)
Other income, net	39	57	40	89
Income before income taxes	463	289	1,253	456
Benefit (provision) for income taxes (Note 5)	2,388	(19)	2,322	(75)
Income before minority interests and equity earnings	2,851	270	3,575	381
Minority interests		(1)	1	(1)
Equity in earnings of affiliated companies, net of impairments (Note 9)	360	220	664	436
Net income	$ 3,211	$ 489	$ 4,240	$ 816
Basic earnings per common share (Note 6)	$ 2.05	$ 0.31	$ 2.71	$ 0.52
Diluted earnings per common share (Note 6)	$ 2.01	$ 0.30	$ 2.65	$ 0.51
Dividends declared per common share	$ 0.05		$ 0.10	

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

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except per share amounts)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 2,175	$ 2,216
Short-term investments, at fair value	1,332	1,300
Total cash, cash equivalents and short-term investments	3,507	3,516
Trade accounts receivable, net of doubtful accounts and allowances - $22 and $20	958	856
Inventories (Note 8)	726	631
Deferred income taxes (Note 5)	168	54
Other current assets	289	237
Total current assets	5,648	5,294
Investments (Note 9)	3,264	3,036
Property, net of accumulated depreciation - $4,796 and $4,459	6,944	5,986
Goodwill and other intangible assets, net (Note 10)	303	308
Deferred income taxes (Note 5)	2,579	202
Other assets	442	389
Total Assets	$ 19,180	$ 15,215
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 76	$ 23
Accounts payable	831	609
Other accrued liabilities (Notes 3 and 11)	1,051	1,880
Total current liabilities	1,958	2,512
Long-term debt (Note 4)	1,474	1,514
Postretirement benefits other than pensions	739	744
Other liabilities (Notes 3 and 11)	1,280	903
Total liabilities	5,451	5,673
Commitments and contingencies (Note 3)		
Minority interests	48	46
Shareholders equity:		
Common stock Par value $0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,608 million and 1,598 million	804	799
Additional paid-in capital	12,447	12,281
Retained earnings (accumulated deficit)	1,080	(3,002)
Treasury stock, at cost; Shares held: 37 million and 30 million	(659)	(492)
Accumulated other comprehensive income (loss) (Note 16)	9	(90)
Total shareholders equity	13,681	9,496
Total Liabilities and Shareholders Equity	$ 19,180	$ 15,215

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

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six months ended June 30, 2008	2007
Cash Flows from Operating Activities:		
Net income	$ 4,240	$ 816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	319	299
Amortization of purchased intangibles	5	5
Asbestos settlement (credit) charge	(318)	186
Restructuring, impairment and other credits	(1)	(2)
Loss on repurchases of debt		15
Stock compensation charges	78	71
Gain on sale of business		(19)
Undistributed earnings of affiliated companies	(385)	(168)
Deferred tax benefit	(2,473)	
Restructuring payments	(10)	(20)
Customer deposits, net of (credits) issued	(137)	(66)
Employee benefit payments in excess of expense	(37)	(92)
Changes in certain working capital items:		
Trade accounts receivable	(46)	(107)
Inventories	(73)	(68)
Other current assets	(52)	(84)
Accounts payable and other current liabilities, net of restructuring payments	(104)	(127)
Other, net	(21)	29
Net cash provided by operating activities	985	668
Cash Flows from Investing Activities:		
Capital expenditures	(864)	(466)
Acquisitions of businesses, net of cash received		(4)
Net proceeds (payments) from sale or disposal of assets	2	(10)
Short-term investments acquisitions	(1,194)	(949)
Short-term investments liquidations	1,140	1,630
Net cash (used in) provided by investing activities	(916)	201
Cash Flows from Financing Activities:		
Net repayments of short-term borrowings and current portion of long-term debt	(12)	(10)
Retirements of long-term debt		(238)
Proceeds from issuance of common stock, net	15	13
Proceeds from the exercise of stock options	74	69
Repurchase of common stock	(125)	
Dividends paid	(158)	
Net cash used in financing activities	(206)	(166)
Effect of exchange rates on cash	96	14
Net (decrease) increase in cash and cash equivalents	(41)	717
Cash and cash equivalents at beginning of period	2,216	1,157
Cash and cash equivalents at end of period	$ 2,175	$ 1,874

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

Certain amounts for 2007 were reclassified to conform with the 2008 presentation.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (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, 2007 (2007 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.

Other Income, Net

Other income, net in Corning s consolidated statements of income includes items such as royalty income, foreign exchange gains and losses, and miscellaneous income and expense. Significant amounts for the periods presented are as follows:

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Royalty income from Samsung Corning Precision	$ 50	$ 34	$ 93	$ 63
Foreign currency exchange and hedge (losses) / gains	(6)	13	(34)	27
Gain on sale of Corning s submarine cabling business		19		19

New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, however, the FASB provided a one year deferral for implementation of the standard for non-financial assets and liabilities. Corning adopted SFAS 157 effective January 1, 2008, for all financial assets and liabilities as required. Refer to Note 14 (Fair Value Measurements) to the consolidated financial statements for additional information about adoption. In November 2007, the FASB provided a one-year deferral for implementation of this standard for certain non-financial assets and liabilities. Corning does not expect the standard to have a material impact on its consolidated results of operations and financial condition when the standard is fully adopted in 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 allows entities a one-time election to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value (the fair value option). SFAS 159 is effective for fiscal years beginning after November 15, 2007. Corning has not elected the fair value option for any assets or liabilities under SFAS 159.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (revised - 2007) (SFAS 141(R)). SFAS 141(R) is a revision to previously existing guidance on accounting for business combinations. The statement retains the fundamental concept of the purchase method of accounting, and introduces new requirements for the recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests. The statement is effective for fiscal years beginning after December 15, 2008. Corning does not expect adoption of this standard to have a material impact on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). The Statement requires that noncontrolling interests be reported as stockholders equity, a change that will affect Corning s financial statement presentation of minority interests in its consolidated subsidiaries. The Statement also establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary as long as that ownership change does not result in deconsolidation. SFAS 160 is required to be applied prospectively in 2009, except for the presentation and disclosure requirements which are to be applied retrospectively. The statement is effective for fiscal years beginning after December 15, 2008. Corning is currently evaluating the impact of SFAS 160 and, except for certain reclassifications required upon adoption of this standard, does not expect the adoption of the standard to have a material impact to its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. This Statement is effective for financial statements issued for periods beginning after November 15, 2008, with early application encouraged. This statement amends and expands the disclosure requirements in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and other related literature. Corning believes that the updated disclosures will not have a material impact on its consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This Statement is effective for financial statements issued for periods beginning after December 15, 2008. This statement conforms certain assumption requirements between SFAS 142, Goodwill and Intangibles with SFAS 141(R), Business Combinations with respect to estimating the useful life of an intangible asset. In addition, the Statement requires certain additional disclosures about intangible assets. Corning believes that the adoption of this FSP will not have a material impact on its consolidated results of operations and financial condition.

In June 2008, the FASB issued Emerging Issue Task Force (EITF) Issue No. 03-6-1 Determining Whether Instruments Granted in Share-Based Transactions are Participating Securities , effective for financial statements issued for fiscal years beginning after December 15, 2008. Under this EITF, the FASB addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, thereby impacting the calculation of earnings per share. If it is determined that the share-based payment is a participating security, the two-class method of calculating EPS may be required. Corning believes that this EITF will not have a material impact on its consolidated financial statements.

2. Restructuring, Impairment, and Other Credits

2008 Activities

The following table summarizes the restructuring, impairment, and other charges and (credits) as of and for the six months ended June 30, 2008 (in millions):

	Reserve at January 1, 2008	Revisions to existing plans	Net charges/ (reversals)	Cash payments	Reserve at June 30, 2008
Restructuring activity:					
Employee related costs	$ 12	$ (1)	$ (1)	$ (6)	$ 5
Other charges	22			(4)	18
Total restructuring charges	$ 34	$ (1)	$ (1)	$ (10)	$ 23

Cash payments for employee-related costs will be substantially complete by the end of 2008, while payments for exit activities will be substantially complete by the end of 2012.

2007 Activities

The following table summarizes the restructuring, impairment, and other charges and (credits) as of and for the six months ended June 30, 2007 (in millions):

	Reserve at January 1, 2007	Revisions to existing plans	Net charges/ (reversals)	Cash Payments in 2007	Reserve at June 30, 2007
Restructuring activity:					
Employee related costs	$ 40	$ 1	$ 1	$ (15)	$ 26
Other charges	36	(3)	(3)	(5)	28
Total restructuring activity	$ 76	$ (2)	$ (2)	$ (20)	$ 54

3. Commitments and Contingencies

Asbestos Settlement

Pittsburgh Corning Corporation. Corning and PPG Industries, Inc. (PPG) each own 50% of the capital stock of Pittsburgh Corning Corporation (PCC). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. At the time PCC filed for bankruptcy protection, there were approximately 12,400 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC s asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC s asbestos products. Corning is also currently named in approximately 10,350 other cases (approximately 41,600 claims) alleging injuries from asbestos and similar amounts of monetary damages per claim. Those cases have been covered by insurance without material impact to Corning to date. As described below, several of Corning s insurance carriers have filed a legal proceeding concerning the extent of any insurance coverage for these claims. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

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On March 28, 2003, Corning announced that it had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against it and PCC, which might arise from PCC products or operations (the 2003 Plan). The 2003 Plan would have required Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, contribute 25 million shares of Corning common stock, and pay a total of $140 million in six annual installments (present value $131 million at March 2003), beginning one year after the plan s effective date, with 5.5 percent interest from June 2004. In addition, the 2003 Plan provided that Corning would assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance.

On December 21, 2006, the Bankruptcy Court issued an order denying confirmation of the 2003 Plan for reasons it set out in a memorandum opinion. Several parties, including Corning, filed motions for reconsideration. These motions were argued on March 5, 2007, and the Bankruptcy Court reserved decision.

On January 10, 2008, some of the parties in the proceeding advised the Bankruptcy Court that they had made substantial progress on an amended plan of reorganization (the Amended PCC Plan) that resolved issues raised by the Court in denying the confirmation of the 2003 Plan and that would therefore make it unnecessary for the Bankruptcy Court to decide the motion for reconsideration. On March 27, 2008 and May 22, 2008, the parties further informed the Bankruptcy Court on the progress toward the Amended PCC Plan. The Bankruptcy Court ordered the parties to submit the Amended PCC Plan on July 25, 2008 and on that date the parties informed the Court that they were making progress on the Amended PCC Plan and anticipated filing such plan on August 1, 2008.

As a result of progress in the parties continuing negotiations, Corning believes the Amended PCC Plan now represents the most probable outcome of this matter and expects that such a proposed Amended PCC Plan will be filed with the Court. At the same time, Corning believes the probability that the 2003 Plan will become effective has diminished and that plan no longer serves as the basis for the Company s best estimate of liability. Key provisions of an Amended PCC Plan that have been discussed appear to be acceptable to the parties and address the concerns expressed by the Bankruptcy Court. Accordingly, in the first quarter of 2008, Corning adjusted its Asbestos Settlement Liability to reflect components of the Amended PCC Plan. The proposed settlement under the Amended PCC Plan requires Corning to contribute its equity interest in PCC and PCE and to contribute a fixed series of cash payments, recorded at present value on June 30, 2008. Corning will have the option to use its shares rather than cash, but the liability is fixed by dollar value and not number of shares.

The Amended PCC Plan does not include non-PCC asbestos claims that may be or have been raised against Corning. Corning has recorded an additional amount for such claims in its estimated asbestos settlement liability. The liability for non-PCC claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the injunction issued by the PCC Bankruptcy Court. The estimated liability represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more Company specific data becomes available.

The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be $684 million at June 30, 2008, compared with an estimate of liability under the original 2003 Plan of $1,002 million at December 31, 2007. In the first quarter of 2008, Corning recorded a credit to asbestos settlement expense of $327 million as a result of the increase in likelihood of a settlement under the Amended PCC Plan and a corresponding decrease in the likelihood of a settlement under the 2003 Plan. In the second quarter of 2008, Corning recorded a charge of $9 million to reflect the change in value of the estimated liability under an Amended PCC Plan. That entire settlement obligation is classified as a non-current liability as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC Plan is ultimately confirmed and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning s investment in PCE (currently recorded as a non-current other equity method investment).

In the three and six months ended June 30, 2007, Corning recorded asbestos settlement expense under the terms of the 2003 Plan of $76 million and $186 million, respectively, to adjust the estimated fair value of the components of the proposed asbestos settlement at that time. Of the $1,002 million estimated liability at December 31, 2007 based on the 2003 Plan, $833 million was included in other accrued liabilities as a current liability, and $169 million was recorded within the other liabilities component in our consolidated balance sheets.

The Amended PCC Plan is subject to a number of contingencies. The parties have yet to reach final agreement on a number of terms and conditions that must be negotiated before an Amended PCC Plan acceptable to Corning can be filed. There may be objections from opposing parties once the Amended PCC Plan is filed. The approval of the Amended PCC Plan by the Bankruptcy Court is not certain. For these and other reasons, Corning s liability for these asbestos matters may be subject to changes in subsequent quarters. The estimate of the cost of resolving the non-PCC asbestos claims may also be subject to change as developments occur. Management continues to believe that the likelihood of the uncertainties surrounding these proceedings causing a material adverse impact to Corning s financial statements is remote.

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

Other Commitments and Contingencies

In the normal course of our business, we do not routinely provide significant third-party guarantees. When provided, these guarantees have various terms, and none of these guarantees are individually significant. Generally, third party guarantees provided by Corning are limited to certain financial guarantees including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones.

We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning). The funding of the Dow Corning $150 million credit facility is subject to events connected to the Dow Corning Bankruptcy Plan. Refer to Note 7 (Investments) to the consolidated financial statements in our 2007 Form 10-K for a discussion of contingent liabilities associated with Dow Corning.

As of June 30, 2008, contingent guarantees totaled a notional value of $297 million, compared with $325 million at December 31, 2007. We also were contingently liable for purchase obligations of $376 million and $262 million, at June 30, 2008 and December 31, 2007, respectively. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

Product warranty liability accruals at June 30, 2008 and December 31, 2007 were $24 million and $19 million, respectively.

Corning is a defendant in various lawsuits, including environmental, product-related suits, the Dow Corning and PCC matters, discussed in Note 7 (Investments) to the consolidated financial statements in our 2007 Form 10-K and in Part II Item 1, Legal Proceedings, and is subject to various claims which arise in the normal course of business. In the opinion of management, the likelihood that the ultimate disposition of these matters will have a material adverse effect on Corning s consolidated financial position, liquidity, or results of operations, is remote.

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 19 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning s policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At June 30, 2008, and December 31, 2007, Corning had accrued approximately $19 million for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company s liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

4. Debt

There were no significant debt transactions in the first and second quarters of 2008.

In the first quarter of 2007, we paid $238 million to redeem $223 million principal amount of our 6.25% Euro notes due 2010. We recognized a loss of $15 million upon the early redemption of these notes.

5. Income Taxes

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Provision (benefit) for income taxes	$ (2,388)	$ 19	$ (2,322)	$ 75
Effective tax (benefit) rate	(515.8)%	6.6%	(185.3)%	16.4%

For the three months ended June 30, 2008, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following items:

- The release of $2.4 billion of valuation allowances resulting from a change in judgment about the realizability of deferred tax assets in future years, described below.
- The impact of not recording net tax expense on income generated in the U.S.
- The benefit of tax holidays and investment credits in foreign jurisdictions.
- The impact of discrete items for which no tax benefit was recorded, including litigation-related items totaling $21 million. Refer to Note 3 (Commitments and Contingencies) for additional information about asbestos settlement litigation. Discrete items and the valuation allowance release decreased our effective tax rate by 529.2 percentage points.

In addition to the items noted above, the tax provision for the six months ended June 30, 2008, reflected the impact of additional discrete items for which no tax expense was recorded including an asbestos settlement credit of $327 million. For the six months ended June 30, 2008, discrete items and the valuation allowance release decreased our effective tax rate by 199.2 percentage points.

For the three months ended June 30, 2007, the effective tax rate reflected the following items:

- The impact of not recording tax benefits (expenses) on losses (income) generated in the U.S. until management could determine that an appropriate level of profitability could be reached and sustained in the U.S.
- The benefit of tax holidays and investment credits in Taiwan.
- The release of a $17 million reserve related to a favorable tax ruling from the Taiwanese government received in the second quarter of 2007.
- The impact of discrete items for which no tax benefit was recorded including asbestos settlement expense of $76 million and a gain on the sale of our European submarine cabling business. Refer to Note 3 (Commitments and Contingencies) for additional information about the asbestos settlement. Discrete items and the tax reserve release decreased our effective tax rate by 5.4 percentage points for the three months ended June 30, 2007.

In addition to the items noted above, the tax provision for the six months ended June 30, 2007, reflected the impact of additional discrete items for which no tax benefit was recorded including asbestos settlement expense of $110 million and a loss on the repurchase of debt of $15 million. For the six months ended June 30, 2007, discrete items increased our effective tax rate by 1.9 percentage points.

As more fully described in Note 6 (Income Taxes) to the consolidated financial statements in our 2007 Form 10-K, all of our U.S. deferred tax assets had full valuation allowances at December 31, 2007. In the second quarter, we concluded that it is more likely than not that we will realize substantially all of our U.S. deferred tax assets because we expect to generate sufficient levels of income in the U.S. As a result, we released $2.4 billion of valuation allowances on our U.S. deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes (SFAS 109), we considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed.

The evaluation of the realizability of deferred tax assets is inherently subjective. Following are the key items that provided positive evidence to support the release of the valuation allowance for a large portion of our deferred tax assets in the second quarter of 2008:

- Positive pre-tax income in the U.S. for the first half of 2008 and the preceding year.
- The impact of positive results in the Display Technologies operating segment and the royalty income generated from the foreign locations in this segment. A significant factor in our forecasts of future U.S. tax profitability is the amount of assumed royalties to be paid by our Display Technologies businesses to the U.S. At December 31, 2007, concerns about U.S. economic uncertainty led us to conclude that positive evidence supporting the realization of our U.S. deferred tax assets was not sufficient at that time. In spite of U.S. recessionary concerns, performance of our Display Technologies segment in 2008 has been very strong. Our manufacturing facilities in this segment have operated at or near capacity for the first half of 2008. We have also accelerated capital spending plans to increase capacity in anticipation of a stronger display market in future years.
- The number of years remaining to utilize our net operating loss carryforwards. Corning has approximately 16 years remaining to utilize the majority of our net operating loss carryforwards.
- Increased confidence in our forecasted income levels for the immediate year and future years which are supported by detailed sensitivity analyses. Our five-year planning process which is completed annually in the second quarter, considers a number of possible scenarios which support the future realization of our U.S. deferred tax assets.

Certain shorter-lived deferred tax assets such as those represented by capital loss carry forwards and state tax net operating loss carry forwards, as well as other federal and state tax credits, will remain with a valuation allowance recorded against them as of June 30, 2008, as it is not more likely than not that we will earn income of the character required to utilize these assets before they expire. The amount of deferred tax assets that have remaining valuation allowances at June 30, 2008 was $234 million.

The net deferred tax assets are included in our balance sheet as follows (in millions):

	June 30, 2008	December 31, 2007
Current assets	$ 168	$ 54
Noncurrent assets	2,579	202
Noncurrent liabilities	(21)	(21)
Net deferred tax assets	$ 2,726	$ 235

In accordance with SFAS 109, for the remainder of 2008 we will continue to decrease (or increase) a valuation allowance to offset U.S. income tax expense (or benefit) that would otherwise be recorded on income (or losses) in the U.S. and therefore, reflect no net U.S. income tax expense in the third and fourth quarters of 2008. An adjustment would be required if results for the third and fourth quarters of 2008 differ significantly from our expectations.

For the three months ended June 30, 2008 and 2007, we recorded tax expense on income generated in the U.S. of $44 million and $2 million, respectively, which were fully offset by releases of valuation allowance. For the six months ended June 30, 2008 and 2007, we recorded tax expense (benefit) on income (losses) generated in the U.S. of $210 million and $(12) million, respectively, which were fully offset by releases (increases) of valuation allowance. All amounts include the impact of discrete items described above.

At June 30, 2008, it is reasonably possible that we may recognize tax benefits within the next 12 months due to a possible tax recovery from the Canadian Revenue Agency. We believe the tax recovery will be in the range of $40 million to $45 million.

Certain foreign subsidiaries in China and Taiwan are operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out in years (2008 through 2013) according to the specific terms and schedules of the relevant taxing jurisdictions. The impact of the tax holidays on our effective tax rate is a reduction in the rate of 10 percentage points and 22 percentage points for the three months ended June 30, 2008 and 2007, respectively, and a reduction in the rate of 7 and 17 percentage points for the six months ended June 30, 2008 and 2007, respectively.

6. Earnings per Common Share

The reconciliation of the amounts used in the basic and diluted earnings per common share computations follows (in millions, except per share amounts):

	Three months ended June 30, 2008			2007		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
Basic earnings per common share	$ 3,211	1,569	$ 2.05	$ 489	1,567	$ 0.31
Effect of dilutive securities:						
Stock options and other dilutive securities		31			38	
Diluted earnings per common share	$ 3,211	1,600	$ 2.01	$ 489	1,605	$ 0.30

	Six months ended June 30, 2008			2007		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
Basic earnings per common share	$ 4,240	1,567	$ 2.71	$ 816	1,564	$ 0.52
Effect of dilutive securities:						
Stock options and other dilutive securities		32			38	
Diluted earnings per common share	$ 4,240	1,599	$ 2.65	$ 816	1,602	$ 0.51

The following potential common shares were excluded from the calculation of diluted earnings per common share due to their anti-dilutive effect or, in the case of stock options, because their exercise price was greater than the average market price for the periods presented (in millions):

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Stock options and other dilutive securities excluded from the calculation of diluted earnings per common share	38	35	38	35

7. Significant Customers

For the three months ended June 30, 2008, Corning s sales to AU Optronics Corporation (AUO) and Chi Mei Optoelectronics Corporation (Chi Mei), two customers of our Display Technologies segment, represented 13% and 10%, respectively, of the Company s consolidated net sales. For the three months ended June 30, 2007, Corning s sales to AUO represented 12% of the Company s consolidated net sales.

For the six months ended June 30, 2008, Corning s sales to AUO and Chi Mei, represented 13% and 11%, respectively, of the Company s consolidated net sales. For the six months ended June 30, 2007, Corning s sales to AUO represented 11% of the Company s consolidated net sales.

8. Inventories

Inventories comprise the following (in millions):

	June 30, 2008	December 31, 2007
Finished goods	$ 283	$ 232
Work in process	149	141
Raw materials and accessories	127	111
Supplies and packing materials	167	147
Total inventories	$ 726	$ 631

9. Investments

Investments comprise the following (in millions):

	Ownership Interest (1)	June 30, 2008	December 31, 2007
Affiliated companies accounted for by the equity method			
Samsung Corning Precision Glass Co., Ltd.	50%	$ 1,991	$ 1,863
Dow Corning Corporation	50%	1,009	931
All other	25%-50%	260	238
		3,260	3,032
Other investments		4	4
Total		$ 3,264	$ 3,036

(1) Amounts reflect Corning s direct ownership interests in the respective affiliated companies. Corning does not control any of these entities.

Related party information for these investments in affiliates follows (in millions):

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Related Party Transactions:				
Corning sales to affiliates	$ 8	$ 10	$ 23	$ 18
Corning purchases from affiliates	$ 9	$ 9	$ 22	$ 14
Dividends received from affiliates	$ 76	$ 119	$ 279	$ 268
Royalty income from affiliates	$ 51	$ 35	$ 94	$ 66
Corning transfers of assets, at cost, to affiliates	$ 51	$ 30	$ 99	$ 58

As of June 30, 2008, balances due to and due from affiliates were $8 million and $41 million, respectively. As of December 31, 2007, balances due to and due from affiliates were $7 million and $35 million, respectively.

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

Summarized results of operations for our two significant investments accounted for by the equity method follow:

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

Samsung Corning Precision is a South Korea-based manufacturer of primarily liquid crystal display glass for flat panel displays.

Samsung Corning Precision s results of operations follow (in millions):

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Statement of Operations:				
Net sales	$ 960	$ 574	$ 1,815	$ 1,058
Gross profit	$ 682	$ 389	$ 1,251	$ 722
Net income	$ 505	$ 270	$ 954	$ 506
Corning s equity in earnings of Samsung Corning Precision	$ 250	$ 132	$ 462	$ 245
Related Party Transactions:				
Corning purchases from Samsung Corning Precision	$ 5	$ 5	$ 14	$ 6
Corning sales to Samsung Corning Precision		$ 2	$ 7	$ 2
Dividends received from Samsung Corning Precision			$ 151	$ 143
Royalty income from Samsung Corning Precision	$ 50	$ 34	$ 93	$ 63
Corning transfers of machinery and equipment to Samsung Corning Precision at cost (1)	$ 51	$ 30	$ 99	$ 58

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

Corning and the Samsung Group each own 50% of the common stock of Samsung Corning Precision Glass Co., Ltd.

As of June 30, 2008, balances due to and due from Samsung Corning Precision were $6 million and $37 million, respectively. As of December 31, 2007, balances due to and from Samsung Corning Precision were $6 million and $31 million, respectively.

On December 31, 2007, Samsung Corning Precision acquired all of the outstanding shares of Samsung Corning Co., Ltd. (Samsung Corning). After the transaction, Corning retained its 50% interest in Samsung Corning Precision. Samsung Corning Precision accounted for the transaction at fair value while Corning accounted for the transaction at historical cost.

As of June 30, 2008, Samsung Corning Precision was one of approximately thirty co-defendants in a lawsuit filed by Seoul Guarantee Insurance Co. and 13 other creditors. Refer to the Samsung Corning Co., Ltd. section of Note 7 (Investments) to the consolidated financial statements in our 2007 Form 10-K for additional information.

Samsung Corning Co., Ltd. (Samsung Corning)

Samsung Corning was a South Korea-based manufacturer of glass panels and funnels for cathode ray tube (CRT) television and display monitors. Until December 31, 2007, Corning had a 50% interest in Samsung Corning. Samsung Electronics Company, Ltd. and affiliates owned the remaining 50% interest in Samsung Corning. On December 31, 2007, Samsung Corning Precision acquired all of the outstanding shares of Samsung Corning. After the transaction, Corning retained its 50% interest in Samsung Corning Precision.

Samsung Corning s results of operations follow (in millions):

	Three months ended June 30, 2007	Six months ended June 30, 2007
Statement of Operations:		
Net sales	$ 161	$ 322
Gross profit	$ 5	$ 14
Net loss	$ (33)	$ (36)
Corning s equity in losses of Samsung Corning	$ (17)	$ (18)
Related Party Transactions:		
Royalty income from Samsung Corning	$ 1	$ 3

Dow Corning Corporation (Dow Corning)

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Statement of Operations:				
Net sales	$ 1,384	$ 1,231	$ 2,659	$ 2,409
Gross profit	$ 470	$ 444	$ 879	$ 875
Net income	$ 188	$ 177	$ 348	$ 361
Corning s equity in earnings of Dow Corning	$ 94	$ 88	$ 174	$ 180
Related Party Transactions:				
Corning purchases from Dow Corning	$ 4	$ 3	$ 8	$ 6
Dividends received from Dow Corning	$ 52	$ 65	$ 103	$ 65

Balances due to Dow Corning were $2 million and $1 million as of June 30, 2008 and December 31, 2007, respectively.

At June 30, 2008, Dow Corning s marketable securities included approximately $1.3 billion of auction rate securities, net of a temporary impairment of $43 million in the second quarter. As a result of this temporary impairment, unrealized losses of $32 million, net of $11 million for a minority interests share, were included in accumulated other comprehensive income in Dow Corning s consolidated balance sheet. The majority of Dow Corning s securities are collateralized by portfolios of student loans which are guaranteed by the U.S. government. Auctions for these securities have failed since the first quarter, reducing the immediate liquidity of these investments. Since Dow Corning does not know when a market will return or develop for these securities, Dow Corning classified these securities as non-current at June 30, 2008. While no other-than-temporary impairments of these securities existed at June 30, 2008, market conditions could lead to additional temporary impairments or a conclusion by Dow Corning that impairments are other-than-temporary. Corning s equity earnings from Dow Corning would be reduced by our 50% share of any impairment that is considered to be other-than-temporary.

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Dow Corning has borrowed the full amount under its $500 million revolving credit facility and believes it has adequate liquidity to fund operations, its capital expenditure plan, breast implant settlement liabilities, and shareholder dividends.

Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning. In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousands of breast implant product lawsuits. On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the Plan) which provided for the settlement or other resolution of implant claims. The Plan also includes releases for Corning and Dow Chemical as shareholders in exchange for contributions to the Plan.

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Inclusive of insurance, Dow Corning has paid approximately $1.5 billion to the Settlement Trust. As of June 30, 2008, Dow Corning had recorded a reserve for breast implant litigation of $1.6 billion and anticipates insurance receivables of $93 million. As a separate matter arising from the bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. On July 26, 2006, the U.S. Court of Appeals vacated the judgment of the District Court fixing the interest component, ruled that default interest and enforcement costs may be awarded subject to equitable factors to be determined, and directed that the matter be remanded for further proceedings. Dow Corning filed a petition for rehearing by the Court of Appeals, which was denied. It filed a petition of writ of certiorari with the U.S. Supreme Court, which has also been denied. As of June 30, 2008, Dow Corning has estimated the interest payable to commercial creditors to be within the range of $73 million to $251 million. As Dow Corning management believes no single amount within the range appears to be a better estimate than any other amount within the range, Dow Corning has recorded the minimum liability within the range. Should Dow Corning not prevail in this matter, Corning s equity earnings would be reduced by its 50% share of the amount in excess of $73 million, net of applicable tax benefits. There are a number of other claims in the bankruptcy proceedings against Dow Corning awaiting resolution by the U.S. District Court, and it is reasonably possible that Dow Corning may record bankruptcy-related charges in the future. There are no remaining tort claims against Corning, other than those that will be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

In 1995, Corning fully impaired its investment in Dow Corning after it filed for bankruptcy protection. Corning did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that Dow Corning s emergence from bankruptcy was probable. Corning considers the $249 million difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning s equity to be permanent.

Variable Interest Entities

Corning leases certain transportation equipment from a trust that qualifies as a variable interest entity under FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Revised (FIN 46R). The sole purpose of this entity is leasing transportation equipment to Corning. Since Corning is the primary beneficiary of this entity, the financial statements of the entity are included in Corning s consolidated financial statements. The entity s assets are primarily comprised of fixed assets which are collateral for the entity s borrowings. These assets, amounting to approximately $27 million as of June 30, 2008 and $28 million as of December 31, 2007, are classified as long-term assets in the consolidated balance sheet.

Corning leases certain transportation equipment from two additional trusts that qualify as variable interest entities under FIN 46R. The sole purpose of the entities is leasing transportation equipment to Corning. Corning has been involved with these entities as lessee since the inception of the trusts. Lease revenue generated by these trusts was $2 million for the six months ended June 30, 2008 and 2007. Corning s maximum exposure to loss as a result of its involvement with these two trusts is estimated at approximately $14 million at June 30, 2008 and December 31, 2007.

10. Goodwill and Other Intangible Assets

There were no changes in the carrying amount of goodwill for the six months ended June 30, 2008. Balances by segment are as follows (in millions):

	Telecom-munications	Display Technologies	Specialty Materials	Total
Balance at June 30, 2008	$ 118	$ 9	$ 150	$ 277

Other intangible assets follow (in millions):

	June 30, 2008			December 31, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortized intangible assets:						
Patents and trademarks	$ 129	$ 108	$ 21	$ 127	$ 102	$ 25
Non-competition agreements	112	110	2	109	107	2
Other	5	2	3	5	1	4
Total	$ 246	$ 220	$ 26	$ 241	$ 210	$ 31

Amortized intangible assets are primarily related to the Telecommunications segment.

Estimated amortization expense related to these intangible assets is $10 million annually for 2008, $10 million in 2009, and insignificant thereafter.

11. Customer Deposits

In 2005 and 2004, several of Corning s customers entered into long-term purchase and supply agreements in which Corning s Display Technologies segment will supply large-size glass substrates to these customers over periods of up to six years. As part of the agreements, these customers agreed to advance cash deposits to Corning for a portion of the contracted glass to be purchased. We received our last deposit of $105 million in July 2007 and do not expect to receive additional deposits related to these agreements.

Customer deposits received under these agreements were as follows (in millions):

	2004	2005	2006	2007	Total
Customer deposits received	$ 204	$ 457	$ 171	$ 105	$ 937

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

During the three and six months ended June 30, 2008, we issued $71 million and $137 million, respectively, in credit memoranda. During the three and six months ended June 30, 2007, we issued $33 million and $66 million, respectively, in credit memoranda.

Customer deposit liabilities were $437 million and $531 million at June 30, 2008 and December 31, 2007, respectively, of which $276 million and $222 million, respectively, were recorded in the current portion of other accrued liabilities in our consolidated balance sheets. Because these liabilities are denominated in Japanese yen, changes in the balances include the impact of movements in the Japanese yen U.S. dollar exchange rate.

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

12. Employee Retirement Plans

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

	Pension benefits				Postretirement benefits			
	Three months ended June 30,		Six months ended June 30,		Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 13	$ 13	$ 26	$ 27	$ 3	$ 4	$ 6	$ 7
Interest cost	38	37	75	73	12	11	24	23
Expected return on plan assets	(50)	(46)	(99)	(91)				
Amortization of net loss	4	8	8	15	2	1	4	3
Amortization of prior service cost	2	3	5	6	(1)	(1)	(2)	(2)
Total expense	$ 7	$ 15	$ 15	$ 30	$ 16	$ 15	$ 32	$ 31

Corning and certain of its domestic subsidiaries offer postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age and service requirements. In response to rising health care costs, we changed our cost-sharing approach for retiree medical coverage. For current retirees (including surviving spouses) and active employees eligible for the salaried retiree medical program, we placed a cap on the amount we will contribute toward retiree medical coverage in the future. The cap equals 120% of our 2005 contributions toward retiree medical benefits. Once our contributions toward salaried retiree medical costs reach this cap, impacted retirees will have to pay the excess amount in addition to their regular contributions for coverage. Further, employees hired or rehired on or after January 1, 2007 will be eligible for Corning retiree medical upon retirement; however, these employees will pay 100% of the cost.

In the first quarter of 2008, we made a voluntary cash contribution of $50 million to our domestic defined benefit pension plan.

13. Hedging Activities

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

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

Our most significant foreign currency exposures relate to the Japanese yen, Korean won, New Taiwan dollar, and the Euro. We selectively enter into foreign exchange forward and option contracts with durations generally 18 months or less to hedge our exposure to exchange rate risk on foreign source income and purchases. The hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. The objective of these contracts is to neutralize the impact of exchange rate movements on our operating results.

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

Corning is also exposed to movements in interest rates on its cash, cash equivalents, and debt obligations. Corning uses interest rate derivatives, where appropriate, to manage this exposure.

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

	June 30, 2008		December 31, 2007	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign exchange forward contracts	$ 1,484	$ (24)	$ 1,421	$ (8)
Foreign exchange option contracts	$ 472	$ 2		
Interest rate fixed to floating swaps	$ 500	$ 14	$ 500	$ 13

The forward and option contracts we use in managing our foreign currency exposures contain an element of risk in that the counterparties may be unable to meet the terms of the agreements. However, we minimize this risk by limiting the counterparties to a diverse group of highly-rated major domestic and international financial institutions with which we have other financial relationships. We are exposed to potential losses in the event of non-performance by these counterparties; however, we do not expect to record any losses as a result of counterparty default. Neither we nor our counterparties are required to post collateral for these financial instruments.

Corning excludes the impact of credit risk from the assessment of hedge effectiveness. The amount of ineffectiveness, related to derivatives, for the three and six months ended June 30, 2008 was immaterial.

Corning uses derivative instruments (forwards and options) to limit exposures to fluctuations related to certain monetary assets, monetary liabilities, and net earnings in foreign currencies. These derivative instruments are not designated as hedging instruments for accounting purposes and, as such, are referred to as undesignated derivatives. Changes in the fair value of undesignated derivatives are recorded in current period earnings in the other income, net component in the consolidated statements of income. The notional amount of the undesignated derivatives at June 30, 2008 and December 31, 2007 was $1.1 billion and $717 million, respectively.

Cash Flow Hedges

Corning typically has cash flow hedges that are comprised of foreign exchange forward and option contracts. The critical terms of each cash flow hedge are identical to the critical terms of the hedged item. Therefore, Corning utilizes the critical terms test under SFAS 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and the presumption is that there is no hedge ineffectiveness as long as the critical terms of the hedge and the hedged item do not change.

Corning defers net gains and losses from cash flow hedges into accumulated other comprehensive income on the consolidated balance sheet until such time as the hedged item impacts earnings. At that time, Corning reclassifies net gains and losses from cash flow hedges into the same line item of the consolidated statements of income as where the effects of the hedged item are recorded, typically sales, cost of sales, or royalty income. Amounts are reclassified from accumulated other comprehensive income when the underlying hedged item impacts earnings. At June 30, 2008, the amount of net losses expected to be reclassified into earnings within the next 12 months is $25 million.

Fair Value Hedges

In October of 2007, we entered into four interest rate swaps that are designated as fair value hedges and economically exchange a notional amount of $500 million of previously issued fixed rate long-term debt to floating rate debt. Under the terms of the swap agreements, we pay the counterparty a floating rate that is indexed to the three-month LIBOR rate.

No net gains or losses were recorded in the consolidated statements of income related to the Company s underlying debt and interest rate swap agreements. At June 30, 2008, the fair value of the interest rate swap agreements recorded in the other assets line item and offset in the long-term debt line item of the consolidated balance sheet, was $14 million.

Each fair value hedge (swap) was entered into subsequent to the initial recognition of the hedged item; therefore these swaps do not meet the criteria to qualify for the shortcut method. Therefore, Corning utilizes the long haul method for effectiveness analysis, both retrospectively and prospectively. The analysis excludes the impact of credit risk from the assessment of hedge ineffectiveness.

Corning records net gains and losses from fair value hedges into the same line item of the consolidated statements of income as where the effects of the hedged item are recorded.

Net Investment in Foreign Operations

We have issued foreign currency denominated debt that has been designated as a hedge of the net investment in a foreign operation. The effective portion of the changes in fair value of the debt is reflected as a component of other accumulated comprehensive income (loss) as part of the foreign currency translation adjustment. Net losses related to this investment included in the cumulative translation adjustment at June 30, 2008 and December 31, 2007, were $147 million and $143 million, respectively.

14. Fair Value Measurements

The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities as required. The adoption of SFAS 157 was not material to Corning s financial statements or results of operations. SFAS 157 defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement identifies 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, SFAS 157 requires companies to prioritize the inputs used to measure fair value into one of three broad levels (provided in the table below).

SFAS 157 applies whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement and requires the use of observable market data when available. As of June 30, 2008, the Company did not have any financial assets or liabilities that are measured using unobservable (or Level 3) inputs.

The following table provides fair value measurement information for the Company s major categories of financial assets and liabilities measured on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Short-term investments	$ 1,332	$ 1,332		
Derivatives (1)	$ 28		$ 28	
Liabilities				
Derivatives (1)	$ 36		$ 36	

(1) Derivative assets and liabilities include interest rate swaps and foreign exchange contracts which are measured using observable quoted prices for similar assets and liabilities. The calculation of fair value of Corning s derivatives in an asset position includes the counter party s credit risk. The calculation of fair value of Corning s derivatives in a liability position includes Corning s own credit risk.

Certain non-financial assets and liabilities are measured at fair value on a non-recurring basis and are not currently required to be presented on an interim basis. The FASB deferred implementation of SFAS 157 for these items until 2009.

15. Share-based Compensation

Stock Compensation Plans

Effective January 1, 2006, the Company adopted SFAS 123(R). SFAS 123(R) requires the measurement and recognition of compensation cost for all share-based payment awards made to employees and directors, including grants of employee stock options and employee stock purchases related to the Worldwide Employee Share Purchase Plan (WESPP), based on estimated fair values. The Company elected to use the modified prospective transition method upon adoption of SFAS 123(R).

Share-based compensation cost recognized under SFAS 123(R) was approximately $78 million and $70 million for the six months ended June 30, 2008 and 2007, respectively, and approximately $37 million and $34 million for the three months ended June 30, 2008 and 2007, respectively, and included (1) employee stock options, (2) time-based restricted stock, (3) performance-based restricted stock, and (4) the WESPP. No tax benefits were attributed to the share-based compensation cost because a valuation allowance was maintained for substantially all net deferred tax assets.

Stock Options

Our stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued or treasury shares at the market price on the grant date and generally become exercisable in installments from one to five years from the grant date. The maximum term of non-qualified and incentive stock options is 10 years from the grant date.

The following table summarizes information concerning options outstanding including the related transactions under the options plans for the six months ended June 30, 2008:

	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, 2007	88,010	$ 26.44		
Granted	5,879	$ 25.03		
Exercised	(7,607)	$ 10.20		
Forfeited and Expired	(285)	$ 29.80		
Options Outstanding as of June 30, 2008	85,997	$ 27.78	5.02	$ 536,060
Options Exercisable as of June 30, 2008	71,993	$ 28.43	4.25	$ 529,394

The aggregate intrinsic value (market value of stock less option exercise price) in the preceding table represents the total pretax intrinsic value, based on the Company s closing stock price on June 30, 2008, which would have been received by the option holders had all option holders exercised their options as of that date.

As of June 30, 2008, there was approximately $66 million of unrecognized compensation cost related to stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.18 years. Compensation cost related to stock options was approximately $39 million and $36 million for the six months ended June 30, 2008 and 2007, respectively, and approximately $19 million and $18 million for the three months ended June 30, 2008 and 2007, respectively.

Proceeds received from the exercise of stock options were $74 million and $69 million for the six months ended June 30, 2008 and 2007, respectively, and $56 million and $47 million for the three months ended June 30, 2008 and 2007, respectively. Proceeds received from the exercise of stock options were included in financing activities on the Company s Consolidated Statements of Cash Flows. The total intrinsic value of options exercised for the six months ended June 30, 2008 and 2007 was approximately $120 million and $141 million, respectively, and $88 million and $89 million for the three months ended June 30, 2008 and 2007, respectively, which is currently deductible for tax purposes. However, these tax benefits were not realized due to net operating loss carryforwards available to the Company. Refer to Note 5 (Income Taxes) to the consolidated financial statements.

A lattice-based valuation model is used to estimate the fair values of option and restricted stock grants and incorporates the assumptions (including ranges of assumptions) noted in the table below. Expected volatility is based on the blended short-term volatility (the arithmetic average of the implied volatility and the short-term historical volatility), and the long-term historical volatility of Corning s stock.

Corning also uses historical data to estimate future option exercise and employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected time to exercise of options granted is derived using a regression model and represents the period of time that options granted are expected to be outstanding. The range given below results from certain groups of employees exhibiting different behavior. The risk-free rates used in the lattice model are derived from the U.S. Treasury yield curve in effect from the grant date to the option s expiration date. Since period-by-period calculations are employed in the lattice model, Corning uses risk-free rates that apply from one period to the next, generally quarter to quarter. Such rates are typically referred to as forward rates. Being essentially marginal rates, forward rates both vary during the contractual term of the option and exhibit greater variation than the yield curve from which they are derived.

The following inputs for the lattice-based valuation model were used for option grants under our Stock Option Plans:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Expected volatility	32-54%	35-54%	32-54%	35-54%
Weighted-average volatility	51%	51%	51%	51%
Expected dividends	0.83%	0	0.83-0.85%	0
Risk-free rate	1.7-5.5%	4.4-5.1%	1.7-6.0%	4.4-5.2%
Average risk-free rate	4.0%	4.8%	3.9-4.0%	4.8%
Expected time to exercise (in years)	2.0-5.6	2.2-5.3	2.0-5.6	2.2-5.4
Pre-vesting departure rate	1.5-2.7%	1.6-2.5%	1.5-2.7%	1.6-2.5%
Post vesting departure rate	3.5-6.3%	3.9-6.6%	3.5-6.3%	3.8-6.7%

Incentive Stock Plans

The Corning Incentive Stock Plan permits stock grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration. Shares under the Incentive Stock Plan are generally granted at-the-money, contingently vest over a period of 1 to 10 years, and have contractual lives of 1 to 10 years.

The fair value of each restricted stock grant under the Incentive Stock Plans was estimated on the date of grant for performance based grants assuming that performance goals will be achieved. The expected term for grants under the Incentive Stock Plans is 1 to 10 years.

Time-Based Restricted Stock:

Time-based restricted stock is issued by the Company on a discretionary basis, and is payable in shares of the Company s common stock upon vesting. The fair value is based on the 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 nonvested time-based restricted stock as of December 31, 2007, and changes during the six months ended June 30, 2008:

Nonvested shares	Shares (000 s)	Weighted-Average Grant-Date Fair Value
Nonvested shares at December 31, 2007	1,065	$ 18.15
Granted	1,052	24.17
Vested	(137)	15.80
Forfeited		
Nonvested shares at June 30, 2008	1,980	$ 21.43

As of June 30, 2008, there was approximately $22 million of unrecognized compensation cost related to non-vested time-based restricted stock compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.24 years. Compensation cost related to time-based restricted stock was approximately $5 million and $2 million for the six months ended June 30, 2008 and 2007, respectively, and $3 million and less than a million for the three months ended June 30, 2008 and 2007, respectively.

Performance-Based Restricted Stock:

Performance-based restricted stock is earned upon the achievement of certain targets, and is payable in shares of the Company s common stock upon vesting typically over a three-year period. The fair value is based on the market price of the Company s stock on the grant date and assumes that the target payout level will be achieved. Compensation cost is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting. During the performance period, compensation cost may be adjusted based on changes in the expected outcome of the performance-related target.

The following table represents a summary of the status of the Company s nonvested performance-based restricted stock units as of December 31, 2007, and changes during the six months ended June30, 2008:

Nonvested shares	Shares (000 s)	Weighted-Average Grant-Date Fair Value
Nonvested shares at December 31, 2007	8,770	$ 18.80
Granted	799	22.86
Vested	(3,574)	13.51
Forfeited	(67)	23.08
Nonvested shares at June 30, 2008	5,928	$ 22.49

As of June 30, 2008, there was approximately $70 million of unrecognized compensation cost related to non-vested performance-based restricted stock compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2 years. Compensation cost related to performance-based restricted stock was approximately $32 million and $31 million for the six months ended June 30, 2008 and 2007, respectively, and approximately $15 million and $16 million for the three months ended June 30, 2008 and 2007, respectively.

Worldwide Employee Stock Purchase Plan

In addition to the Stock Option Plan and Incentive Stock Plans, we have a Worldwide Employee Share Purchase Plan (WESPP). Under the WESPP, substantially all employees can elect to have up to 10% of their annual wages withheld to purchase our common stock. The purchase price of the stock is 85% of the end-of-quarter closing market price. Compensation cost related to the WESPP for all periods presented is immaterial.

16. Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable, follow (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2008 (1)	2007 (1)	2008 (1)	2007 (1)
Net income	$ 3,211	$ 489	$ 4,240	$ 816
Other comprehensive income:				
Change in unrealized gain on investments, net		(2)	(22)	(2)
Change in unrealized gain on derivative hedging instruments, net	95	15	(4)	(22)
Reclassification adjustment relating to derivatives, net	(26)	(9)	6	19
Foreign currency translation adjustment, net	(274)	(73)	122	(54)
Defined benefit pension and postretirement plans, net		16	13	36
Other, net (2)	(16)		(16)	
Total comprehensive income	$ 2,990	$ 436	$ 4,339	$ 793

(1) Other comprehensive income items for the three and six months ended June 30, 2008 and 2007 include zero net tax effects. Refer to Note 5 (Income Taxes) for an explanation of Corning s tax paying position.
(2) Other, net includes an unrealized loss of $16 million related to the temporary impairment of auction rate securities held by Dow Corning Corporation. Refer to Note 9 (Investments).

17. Operating Segments

Effective January 1, 2008, Corning changed its internal reporting structure to better reflect the company s focus on new business development and later-stage research projects and to provide more transparency on our Specialty Materials operating segment. As a result, our segment reporting includes the following changes which are in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information:

We have provided separate financial information for the Specialty Materials operating segment. This operating segment was previously included in All Other.
Certain later-stage development projects, such as microreactors and green lasers, now meet the criteria for operating segments and are included in All Other. Spending for these projects was previously part of Exploratory Research and was reported in the reconciliation of reportable segment net income to total net income.
Certain other new product lines now meet the criteria for operating segments and are included in All Other. Spending related to these businesses was previously included in our Life Sciences and Display Technologies operating segments.

Our reportable operating segments are now as follows:

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

Telecommunications manufactures optical fiber and cable and hardware and equipment components for the telecommunications industry.

Environmental Technologies manufactures ceramic substrates and filters for automotive and diesel applications. This reportable operating segment is an aggregation of our Automotive and Diesel operating segments as these two segments share similar economic characteristics, products, customer types, production processes and distribution methods.
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 consumables for scientific applications.

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

Operating Segments (in millions)

	Display Technologies	Telecom-munications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
For the three months ended June 30, 2008							
Net sales	$ 809	$ 477	$ 209	$ 104	$ 87	$ 6	$ 1,692
Depreciation (1)	$ 92	$ 31	$ 24	$ 7	$ 4	$ 3	$ 161
Amortization of purchased intangibles		$ 3					$ 3
Research, development and engineering expenses (2)	$ 29	$ 25	$ 32	$ 11	$ 2	$ 42	$ 141
Income tax (provision) benefit	$ (61)	$ (2)	$ (2)		$ (1)	$ 3	$ (63)
Earnings (loss) before equity earnings (3)	$ 441	$ 23	$ 27	$ 4	$ 16	$ (52)	$ 459
Equity in earnings of affiliated companies	$ 244		$ 1			$ 15	$ 260
Net income (loss)	$ 685	$ 23	$ 28	$ 4	$ 16	$ (37)	$ 719
For the three months ended June 30, 2007							
Net sales	$ 610	$ 438	$ 191	$ 95	$ 78	$ 6	$ 1,418
Depreciation (1)	$ 79	$ 32	$ 22	$ 8	$ 4	$ 2	$ 147
Amortization of purchased intangibles		$ 2					$ 2
Research, development and engineering expenses (2)	$ 22	$ 21	$ 31	$ 13	$ 2	$ 28	$ 117
Restructuring, impairment and other credits (before-tax and minority interest)		$ (2)					(2)
Income tax (provision) benefit	$ (11)	$ (6)	$ (4)		$ (3)	$ 2	$ (22)
Earnings (loss) before minority interest and equity earnings (loss) (3)	$ 362	$ 41	$ 13	$ (2)	$ 11	$ (36)	$ 389
Minority interests						$ (1)	$ (1)
Equity in earnings (loss) of affiliated companies (4)	$ 132	$ 1	$ 1			$ (6)	$ 128
Net income (loss)	$ 494	$ 42	$ 14	$ (2)	$ 11	$ (43)	$ 516
For the six months ended June 30, 2008							
Net sales	$ 1,638	$ 898	$ 406	$ 187	$ 168	$ 12	$ 3,309
Depreciation (1)	$ 182	$ 58	$ 48	$ 15	$ 8	$ 6	$ 317
Amortization of purchased intangibles		$ 5					$ 5
Research, development and engineering expenses (2)	$ 53	$ 49	$ 65	$ 20	$ 4	$ 78	$ 269
Restructuring, impairment and other credits (before-tax and minority interest)		$ (1)					$ (1)
Income tax (provision) benefit	$ (118)	$ (7)	$ (7)		$ (6)	$ 5	$ (133)
Earnings (loss) before minority interest and equity earnings (loss) (3)	$ 917	$ 33	$ 39		$ 26	$ (97)	$ 918
Minority interests		$ 1					$ 1
Equity in earnings of affiliated companies	$ 447		$ 2			$ 33	$ 482
Net income (loss)	$ 1,364	$ 34	$ 41	$ 0	$ 26	$ (64)	$ 1,401
For the six months ended June 30, 2007							
Net sales	$ 1,134	$ 877	$ 370	$ 179	$ 154	$ 11	$ 2,725
Depreciation (1)	$ 160	$ 65	$ 43	$ 16	$ 8	$ 3	$ 295
Amortization of purchased intangibles		$ 5					$ 5
	$ 44	$ 40	$ 61	$ 22	$ 4	$ 54	$ 225

Research, development and engineering expenses (2)							
Restructuring, impairment and other credits (before-tax and minority interest)		$ (2)					$ (2)
Income tax (provision) benefit	$ (53)	$ (17)	$ (7)		$ (7)	$ 4	$ (80)
Earnings (loss) before minority interest and equity earnings (3)	$ 635	$ 72	$ 23	$ (2)	$ 21	$ (68)	$ 681
Minority interests						$ (1)	$ (1)
Equity in earnings of affiliated companies (4)	$ 245	$ 2	$ 1			$ 3	$ 251
Net income (loss)	$ 880	$ 74	$ 24	$ (2)	$ 21	$ (66)	$ 931

(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 expense includes direct project spending which is identifiable to a segment.

(3) Many of Corning s administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales. In the three and six months ended June 30, 2008, earnings (loss) before minority interest and equity earnings (loss) of the Display Technologies segment included a $12 million litigation settlement charge. In the three and six months ended June 30, 2007, earnings (loss) before minority interest and equity earnings (loss) of the Telecommunications segment included a $19 million gain on the sale of the European submarine cabling business.

(4) In the three and six months ended June 30, 2007, equity earnings (loss) of affiliated companies includes a charge of $15 million in All Other related to impairments for Samsung Corning Precision s non-LCD businesses.

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

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Net income of reportable segments	$ 756	$ 559	$ 1,465	$ 997
Non-reportable segments	(37)	(43)	(64)	(66)
Unallocated amounts:				
Net financing costs (1)	4	10	13	18
Stock-based compensation expense	(37)	(35)	(78)	(71)
Exploratory research	(17)	(16)	(35)	(33)
Corporate contributions	(7)	(6)	(18)	(20)
Equity in earnings of affiliated companies, net of impairments (2)	100	92	182	185
Asbestos settlement (3)	(9)	(76)	318	(186)
Other corporate items (4)	2,458	4	2,457	(8)
Net income	$ 3,211	$ 489	$ 4,240	$ 816

(1) Net financing costs include interest income, interest expense, and interest costs and investment gains associated with benefit plans.

(2) Includes the equity earnings of Dow Corning Corporation.

(3) In the three months ended June 30, 2008, Corning recorded a charge of $9 million to adjust the asbestos liability for the change in value of certain components of the Amended PCC Plan and the estimated liability for non-PCC asbestos claims. In the six months ended June 30, 2008, Corning reduced its liability for asbestos litigation as a result of the increase in the likelihood of a settlement under recently proposed terms and a corresponding decrease in the likelihood of a settlement under terms established in 2003. In the three and six months ended June 30, 2007, Corning recorded asbestos settlement expense under the terms of the 2003 Plan of $76 million and $186 million, respectively, to adjust the estimated fair value of the components of the proposed asbestos settlement at that time.

(4) Other corporate items include the tax impact of the unallocated amounts. In the three months ended June 30, 2008, Corning recorded a $2.4 billion tax benefit from the release of a valuation allowance on U.S. tax benefits due to sustained profitability and positive future earnings projections for the U.S. entities. In addition, the six months ended June 30, 2007 included a loss of $15 million from the repurchase of $223 million principal amount of our 6.25% Euro notes due 2010.

In the Display Technologies operating segment, assets increased from $5.8 billion at December 31, 2007 to $6.9 billion at June 30, 2008. The increase is due primarily to capital expenditures of $656 million and an increase in translation capital of $240 million for the six months ended June 30, 2008.

The sales of each of our reportable operating segments are concentrated across a relatively small number of customers. In the second quarter of 2008, this small number of customers, which individually accounted for 10% or more of each segment s sales, represented the following concentration of segment sales:

In the Display segment, three customers accounted for 65% of total segment sales.

In the Telecommunications segment, two customers accounted for 27% of total segment sales.

In the Environmental Technologies segment, three customers accounted for 81% of total segment sales.

In the Specialty Materials segment, one customer accounted for 10% of segment sales.

In the Life Sciences segment, one customer accounted for 44% of segment sales.

For the first half of 2008, the following number of customers, which individually accounted for 10% or more of each segment s sales, represented the following concentration of segment sales:

In the Display segment, three customers accounted for 65% of total segment sales.

In the Telecommunications segment, two customers accounted for 26% of total segment sales.

In the Environmental Technologies segment, three customers accounted for 81% of total segment sales.

In the Specialty Materials segment, one customer accounted for approximately 10% of segment sales.

In the Life Sciences segment, one customer accounted for 45% of segment sales.

A significant amount of specialized manufacturing capacity for our Display Technologies segment is concentrated in Taiwan and Japan. It is at least reasonably possible that the use of a facility located outside of an entity s home country could be disrupted. Due to the specialized nature of the assets, it would not be possible to find replacement capacity quickly. Accordingly, loss of these facilities would produce a near-term severe impact to our display business and the Company as a whole.

18. Subsequent Event

On July 30, 2008, Corning announced that its Board of Directors and Executive Committee had approved the repurchase of up to $1.0 billion of common stock between the date of the announcement and the end of 2009.

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

OVERVIEW

Our key priorities for 2008 remain unchanged from the previous four years: protect our financial health, improve our profitability, and invest in the future. During the second quarter of 2008, we made the following progress against these priorities:

Financial Health

Our balance sheet remains strong, and we generated significant positive cash flows from operating activities.

- Our debt to capital ratio of 10% at June 30, 2008 remains low, reflecting an improvement from 14% at December 31, 2007.
- Operating cash flow in the first half of 2008 was $985 million.
- We ended the second quarter of 2008 with $3.5 billion of cash and short-term investments.

Profitability

For the three months ended June 30, 2008, we generated net income of $3.2 billion or $2.01 per share compared to net income of $489 million or $0.30 per share for the same period in 2007. When compared to the same period last year, the improvement in net income was due largely to the following items:

- The release of $2.4 billion of valuation allowances. In the second quarter, we concluded that it is more likely than not that we will realize substantially all of our U.S. deferred tax assets because we expect to generate sufficient levels of income in the U.S. As a result, we released $2.4 billion of valuation allowances on our U.S. deferred tax assets. For additional information, refer to Note 6 (Income Taxes) to the consolidated financial statements.

- Higher net income in the Display Technologies segment driven by very strong sales volumes, an increase in equity earnings from Samsung Corning Precision, strong manufacturing performance, and the strength of the Japanese yen U.S. dollar exchange rate. Our manufacturing facilities continue to operate at or near capacity reflecting continuing strong demand for liquid crystal display (LCD) glass substrates in spite of economic uncertainty.

For the six months ended June 30, 2008, we reported net income of $4.2 billion or $2.65 per share which represented an increase of $3.4 billion over the same period in 2007. The increase was primarily attributable to the valuation allowance release described above, higher net income in the Display Technologies segment, and a credit to asbestos settlement expense of $318 million reflecting the change in the estimate of our asbestos settlement liability compared to expense of $186 million for the same period last year. In the first quarter of 2008, Corning reduced its liability for asbestos litigation as a result of the increase in the likelihood of a settlement under recently proposed terms and a corresponding decrease in the likelihood of a settlement under terms established in 2003. For additional information on this matter, refer to Note 3 (Commitments and Contingencies) to the consolidated financial statements and Part II Other Information, Item 1. Legal Proceedings.

Investing in Our Future

We continue to focus on the future and on what we do best creating and making keystone components that enable high-technology systems. We remain committed to investing in research, development, and engineering to drive innovation and continue to work on technologies for glass substrates for active matrix LCD glass substrates, diesel filters and substrates in response to tightening emissions control standards, and the optical fiber and cable and hardware and equipment that enable fiber-to-the-premises.

Our research, development and engineering expenses for the three and six months ended June 30, 2008, increased by $26 million and $47 million, respectively, when compared to the same period last year but remained relatively constant as percentage of net sales. The largest driver of this increase was spending on development projects such as green lasers and microreactors and baseline research for new business development. We believe our spending levels are adequate to support our technology and innovation strategies.

Capital spending totaled $864 million and $466 million for the six months ended June 30, 2008 and 2007, respectively. We remain committed to investing in manufacturing capacity to match increased demand in our businesses. As a result, capital expenditures in 2008 are expected to be heavily focused on expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and diesel products in the Environmental Technologies segment.

We expect our 2008 capital spending to be in the range of $1.8 billion to $2.0 billion, which is approximately $300 million higher than the estimate provided in our 2007 Form 10-K. The increase is driven primarily by the acceleration of LCD capacity in anticipation of a stronger 2010 display market and growing demand for Corning s Gorilla glass, an optical quality glass that is optimized for high-end portable devices and touch screens. Higher precious metals prices are also contributing to the increased capital spending. We expect approximately $1.2 billion to $1.4 billion will be directed toward our Display Technologies segment to meet the continued increase in demand for LCD glass.

RESULTS OF OPERATIONS

Selected highlights for the third quarter follow (dollars in millions):

	Three months ended		%	Six months ended		%
	June 30, 2008	2007	Change 08 vs. 07	June 30, 2008	2007	Change 08 vs. 07
Net sales	$ 1,692	$ 1,418	19%	$ 3,309	$ 2,725	21%
Gross margin	$ 852	$ 659	29%	$ 1,696	$ 1,250	36%
(gross margin %)	50%	46%		51%	46%	
Selling, general and administrative expenses	$ 260	$ 229	14%	$ 502	$ 443	13%
(as a % of net sales)	15%	16%		15%	16%	
Research, development and engineering expenses	$ 163	$ 137	19%	$ 314	$ 267	18%
(as a % of net sales)	10%	10%		9%	10%	
Restructuring, impairment and other (credits) and charges		$ (2)	(100)%	$ (1)	$ (2)	(50)%
(as a % of net sales)						
Asbestos settlement	$ 9	$ 76	(88)%	$ (318)	$ 186	(271)%
(as a % of net sales)	1%	5%		(10)%	7%	
Income before income taxes	$ 463	$ 289	60%	$ 1,253	$ 456	175%
(as a % of net sales)	27%	20%		38%	17%	
Benefit (provision) for income taxes	$ 2,388	$ (19)	(12,668)%	$ 2,322	$ (75)	(3,196)%
(as a % of net sales)	141%	(1)%		70%	(3)%	
Equity in earnings of affiliated companies, net of impairments	$ 360	$ 220	64%	$ 664	$ 436	52%
(as a % of net sales)	21%	16%		20%	16%	
Net income	$ 3,211	$ 489	557%	$ 4,240	$ 816	420%
(as a % of net sales)	190%	34%		128%	30%	

Net Sales

For the three and six months ended June 30, 2008, the net sales increase compared to the same periods in 2007 was primarily the result of year-over-year increased volumes in the Display Technologies segment and movements in foreign exchange rates. For the three and six months ended June 30, 2008, net sales were positively impacted by approximately $136 million and $255 million, respectively due to movements in foreign exchange rates, primarily the Japanese yen U.S. dollar exchange rate because sales of the Display Technologies segment are denominated in Japanese yen.

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

As a percentage of net sales, gross margin for the three and six months ended June 30, 2008, increased 4 and 5 percentage points, respectively, when compared to the same periods in 2007. The improvement in overall gross margin dollars for both periods presented was due primarily to volume gains and cost reduction in the Display Technologies segment.

Selling, General and Administrative Expenses

For the three and six months ended June 30, 2008, selling, general, and administrative expenses increased $31 million and $59 million, respectively, when compared to the same periods in 2007 due primarily to increased compensation-related costs and the impact of a $12 million litigation settlement in the second quarter of 2008. Selling, general, and administrative expenses as a percentage of sales decreased slightly for both periods presented when compared to the same periods last year.

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; depreciation and amortization, utilities, and rent for administrative facilities.

Research, Development and Engineering Expenses

For the three and six months ended June 30, 2008, research, development and engineering expenses increased by $26 million and $47 million, respectively, when compared to the same period last year but remained even as a percentage of net sales. Expenditures are currently focused on our Display Technologies, Environmental Technologies and Telecommunications segments as we strive to capitalize on growth opportunities in those segments. The largest driver of this increase was spending on development projects such as green lasers and microreactors and baseline research for new business development.

Asbestos Settlement

In the second quarter of 2008 and 2007, we recorded an increase to our asbestos settlement liability of $9 million and $76 million, respectively. In the six months ended June 30, 2008 we recorded a net decrease to the asbestos settlement liability of $318 million compared to a charge of $186 million in the same period last year. The net decrease in the first half of 2008 was due to a $327 million reduction to our estimated liability for asbestos litigation that was recorded in the first quarter of 2008 as a result of the increase in the likelihood of a settlement under more recently proposed terms and a corresponding decrease in the likelihood of a settlement under terms that had been established in 2003. The charge of $9 million, recorded in the second quarter of 2008, reflected a change in the settlement value of the liability under the terms being negotiated.

For additional information on this matter, refer to Note 3 (Commitments and Contingencies) to the consolidated financial statements and Part II Other Information, Item 1. Legal Proceedings.

Other Income, Net

Other income, net in Corning s consolidated statements of income includes items such as royalty income, foreign exchange gains and losses, and miscellaneous income and expense. Royalty income from Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision) represents the largest item included in Other income, net in Corning s consolidated statements of income. Significant amounts for the periods presented are as follows:

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Royalty income from Samsung Corning Precision	$ 50	$ 34	$ 93	$ 63
Foreign currency exchange and hedge (losses) / gains	(6)	13	(34)	27
Gain on sale of Corning s submarine cabling business		19		19

In the second quarter of 2008, Other income, net declined when compared to the same period last year due to the absence of a $19 million gain on the sale of Corning s European submarine cabling business which was recorded in the second quarter of 2007 and the impact of foreign currency exchange transactions offset by an increase in royalty income from Samsung Corning Precision.

In the six months ended June 30, 2008, the decline in Other income, net resulted from an increase in royalty income from Samsung Corning Precision that was more than offset by the impact of foreign currency exchange and hedging transactions along with the absence of the gain on the sale of Corning s European submarine cabling business when compared to the same period last year.

Income Before Income Taxes

Income before income taxes for the three and six months ended June 30, 2008, was positively impacted by $71 million and $109 million, respectively, due to movements in foreign exchange rates compared to the first quarter of 2007.

Provision for Income Taxes

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

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Provision (benefit) for income taxes	$ (2,388)	$ 19	$ (2,322)	$ 75
Effective tax (benefit) rate	(515.8)%	6.6%	(185.3)%	16.4%

For the three months ended June 30, 2008, the effective income tax rate differed from the U.S. statutory rate of 35% primarily due to the following items:

- The release of $2.4 billion of valuation allowances resulting from a change in judgment about the realizability of deferred tax assets in future years, described below.
- The impact of not recording net tax expense on income generated in the U.S.
- The benefit of tax holidays and investment credits in foreign jurisdictions.
- The impact of discrete items for which no tax benefit was recorded, including litigation-related items totaling $21 million. Refer to Note 3 (Commitments and Contingencies) for additional information about asbestos settlement litigation. Discrete items and the valuation allowance release decreased our effective tax rate by 529.2 percentage points.

In addition to the items noted above, the tax provision for the six months ended June 30, 2008, reflected the impact of additional discrete items for which no tax expense was recorded including an asbestos settlement credit of $327 million. For the six months ended June 30, 2008, discrete items and the valuation allowance release decreased our effective tax rate by 199.2 percentage points.

For the three months ended June 30, 2007, the effective tax rate reflected the following items:

The impact of not recording tax benefits (expenses) on losses (income) generated in the U.S. until management could determine that an appropriate level of profitability could be reached and sustained in the U.S.

The benefit of tax holidays and investment credits in Taiwan.

The release of a $17 million reserve related to a favorable tax ruling from the Taiwanese government received in the second quarter of 2007.

The impact of discrete items for which no tax benefit was recorded including asbestos settlement expense of $76 million and a gain on the sale of our European submarine cabling business. Refer to Note 3 (Commitments and Contingencies) for additional information about the asbestos settlement. Discrete items and the tax reserve release decreased our effective tax rate by 5.4 percentage points for the three months ended June 30, 2007.

In addition to the items noted above, the tax provision for the six months ended June 30, 2007, reflected the impact of additional discrete items for which no tax benefit was recorded including asbestos settlement expense of $110 million and a loss on the repurchase of debt of $15 million. For the six months ended June 30, 2007, discrete items increased our effective tax rate by 1.9 percentage points.

As more fully described in Note 6 (Income Taxes) to the consolidated financial statements in our 2007 Form 10-K, all of our U.S. deferred tax assets had full valuation allowances at December 31, 2007. In the second quarter, we concluded that it is more likely than not that we will realize substantially all of our U.S. deferred tax assets because we expect to generate sufficient levels of income in the U.S. As a result, we released $2.4 billion of valuation allowances on our U.S. deferred tax assets. In accordance with SFAS 109, Accounting for Income Taxes (SFAS 109), we considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed.

The evaluation of the realizability of deferred tax assets is inherently subjective. Following are the key items that provided positive evidence to support the release of the valuation allowance for a large portion of our deferred tax assets in the second quarter of 2008:

Positive pre-tax income in the U.S. for the first half of 2008 and the preceding year.

The impact of positive results in the Display Technologies operating segment and the royalty income generated from the foreign locations in this segment. A significant factor in our forecasts of future U.S. tax profitability is the amount of assumed royalties to be paid by our Display Technologies businesses to the U.S. At December 31, 2007, concerns about U.S. economic uncertainty led us to conclude that positive evidence supporting the realization of our U.S. deferred tax assets was not sufficient at that time. In spite of U.S. recessionary concerns, performance of our Display Technologies segment in 2008 has been very strong. Our manufacturing facilities in this segment have operated at or near capacity for the first half of 2008. We have also accelerated capital spending plans to increase capacity in anticipation of a stronger display market in future years.

The number of years remaining to utilize our net operating loss carryforwards. Corning has approximately 16 years remaining to utilize the majority of our net operating loss carryforwards.

Increased confidence in our forecasted income levels for the immediate year and future years which are supported by detailed sensitivity analyses. Our five-year planning process which is completed annually in the second quarter, considers a number of possible favorable and unfavorable scenarios which support the future realization of our U.S. deferred tax assets.

Certain shorter-lived deferred tax assets such as those represented by capital loss carry forwards and state tax net operating loss carry forwards as well as other federal and state tax credits will remain with a valuation allowance against them as of June 30, 2008, as it is not more likely than not that we will earn income of the character required to utilize these assets before they expire. The amount of valuation allowance that remains against these assets at June 30, 2008 was $234 million.

Refer to Note 5 (Income Taxes) to the consolidated financial statements for additional information.

Equity in Earnings of Affiliated Companies, Net of Impairments

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Samsung Corning Precision	$ 250	$ 132	$ 462	$ 245
Dow Corning Corporation	94	88	174	180
Samsung Corning		(17)		(18)
All other	16	17	28	29
Total equity earnings	$ 360	$ 220	$ 664	$ 436

Equity earnings for the second quarter of 2008 reflected earnings increases for Samsung Corning Precision and Dow Corning and the absence of restructuring and impairment charges from Samsung Corning when compared to the same period in 2007.

The increase in equity earnings for Samsung Corning Precision is explained in the discussion of the performance of our Display Technologies segment.

The increase in equity earnings from Dow Corning for the second quarter of 2008 when compared to the same period last year was due primarily to volume gains along with an increase in prices for certain silicone products. The decline in equity earnings from Dow Corning for the six months ended June 30, 2008, compared to the same period in 2007, was largely attributable to an increase in raw material prices offset somewhat by volume gains and price increases.

In the second quarter of 2007, equity earnings from Samsung Corning included $15 million for our share of restructuring and impairment charges. Until December 31, 2007, Corning had a 50% interest in Samsung Corning. Samsung Electronics Company, Ltd. and affiliates owned the remaining 50% interest in Samsung Corning. On December 31, 2007, Samsung Corning Precision acquired all of the outstanding shares of Samsung Corning. After the transaction, Corning retained its 50% interest in Samsung Corning Precision. Refer to Note 9 (Investments) to the consolidated financial statements for additional information relating to Samsung Corning Precision, Dow Corning, and Samsung Corning s operating results.

Net Income

As a result of the above, our net income and per share data follow (in millions, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	$ 3,211	$ 489	$ 4,240	$ 816
Basic earnings per common share	$ 2.05	$ 0.31	$ 2.71	$ 0.52
Diluted earnings per common share	$ 2.01	$ 0.30	$ 2.65	$ 0.51
Shares used in computing per share amounts				
Basic earnings per common share	1,569	1,567	1,567	1,564
Diluted earnings per common share	1,600	1,605	1,599	1,602

OPERATING SEGMENTS

Effective January 1, 2008, Corning changed its internal reporting structure to better reflect the company s focus on new business development and later-stage research projects and to provide more transparency on our Specialty Materials operating segment. As a result, our segment reporting includes the following changes which are in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information:

We have provided separate financial information for the Specialty Materials operating segment. This operating segment was previously included in All Other.

Certain later-stage development projects, such as microreactors and green lasers, now meet the criteria for operating segments and are included in All Other. Spending for these projects was previously part of Exploratory Research and was reported in the reconciliation of reportable segment net income to total net income.

Certain other new product lines now meet the criteria for operating segments and are included in All Other. Spending related to these businesses was previously included in our Life Sciences and Display Technologies operating segments.

Our reportable operating segments are now as follows:

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

Telecommunications manufactures optical fiber and cable and hardware and equipment components for the telecommunications industry.

Environmental Technologies manufactures ceramic substrates and filters for automotive and diesel applications. This reportable operating segment is an aggregation of our Automotive and Diesel operating segments as these two segments share similar economic characteristics, products, customer types, production processes and distribution methods.

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 consumables for scientific applications.

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

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

Display Technologies

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

	Three months ended June 30, 2008	2007	% Change 08 vs. 07	Six months ended June 30, 2008	2007	% Change 08 vs. 07
Net sales	$ 809	$ 610	33%	$ 1,638	$ 1,134	44%

Income before equity earnings	$	441	$	362	22%	$	917	$	635	44%
Equity earnings of affiliated companies	$	244	$	132	85%	$	447	$	245	82%
Net income	$	685	$	494	39%	$	1,364	$	880	55%

The increase in net sales for the second quarter of 2008 compared to the second quarter of 2007 reflects volume gains of 26% (measured in square feet of glass sold) as our manufacturing facilities continued to operate at or near capacity during the quarter and the positive impact of foreign exchange rate movement. Volume gains were offset somewhat by price declines of 8%. Year-over-year volume gains continue to be driven by increased TV market penetration, demand for large-size substrates (generation 5 and above), and continued strong demand for glass for notebook computers.

For the second quarter of 2008, large-size glass substrates accounted for 90% of total sales volumes, compared to 87% for the second quarter of 2007. Because the sales of the Display Technologies segment are denominated in Japanese yen, our sales are susceptible to movements in the U.S. dollar Japanese yen exchange rate. Sales in the second quarter of 2008 were positively impacted by $104 million due to movements in foreign exchange rates when compared to the second quarter of 2007.

For the six months ended June 30, 2008, net sales increased 44% when compared to the same period last year due to volume gains of 37% and the positive impact of foreign exchange rate movement offset somewhat by price declines. Sales for the six months ended June 30, 2008 were positively impacted by $198 million due to movements in foreign exchange rates when compared the same period last year.

For the three and six months ended June 30, 2008, income before equity earnings improved from the same period last year reflecting increased sales volumes and the positive impact of movements in foreign exchange rates. During the second quarter, results were negatively impacted by costs associated with an isolated manufacturing issue at one of our facilities and a $12 million litigation settlement charge. Income before equity earnings for the second quarter of 2008 also reflected an increase in royalty income from Samsung Corning Precision. Corning licenses certain of its patents and know-how to Samsung Corning Precision, as well as to third parties, which generate royalty income. Refer to Note 7 (Investments) to the consolidated financial statements for more information about related party transactions.

The increase in equity earnings from Samsung Corning Precision for the three and six months ended June 30, 2008, compared to the same periods last year was the result of continued strong sales volumes and improved manufacturing performance. In the second quarter of 2008, net sales at Samsung Corning Precision reflected volume gains of 40%, which were offset somewhat by the impact of price declines when compared to the same period last year. For the six months ended June 30, 2008, sales at Samsung Corning Precision reflected volume gains of 43% offset somewhat by price declines of approximately 8% when compared to 2007. Equity earnings for the three and six months of 2008 were positively impacted by $31 million and $55 million, respectively, due to movements in foreign exchange rates compared to the same periods in 2007. Equity earnings from Samsung Corning Precision are susceptible to movements in the U.S. dollar Japanese yen and U.S. dollar Korean won exchange rates.

Net income of this segment in the three and six months ended June 30, 2008 was positively impacted by $93 million and $166 million, respectively, due to movements in foreign exchange rates when compared to the same periods last year.

The Display Technologies segment has a concentrated customer base comprised of LCD panel and color filter makers primarily located in Japan and Taiwan. For the three and six months ended June 30, 2008, AUO, Chi Mei Optoelectronics Corporation, and Sharp Corporation, which individually accounted for more than 10% of segment net sales, accounted for 65% of segment sales.

In addition, Samsung Corning Precision s sales are concentrated across a small number of its customers. For the three and six months ended June 30, 2008, sales to two LCD panel makers located in Korea, Samsung Electronics Co., Ltd. and LG Phillips LCD Co., Ltd., accounted for approximately 93% of Samsung Corning Precision sales.

In 2005 and 2004, several of Corning s customers entered into long-term purchase and supply agreements in which Corning s Display Technologies segment will supply large-size glass substrates to these customers over periods of up to six years. As part of the agreements, these customers agreed to advance cash deposits to Corning for a portion of the contracted glass to be purchased. We received our last deposit of $105 million in July 2007 and do not expect to receive additional deposits related to these agreements. During the six months ended June 30, 2008 and 2007, we issued $137 million and $66 million, respectively, in credit memoranda. Refer to Note 11 (Customer Deposits) to the consolidated financial statements for additional information.

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

Outlook:

We expect to see a continuation of the overall industry growth and the trend toward large-size substrates driven by increased end market demand for LCD televisions. We continue to estimate that volume growth in the LCD glass market will be at the upper end of the 25% to 30% range in 2008.

For the third quarter of 2008, we expect glass volumes of Corning s wholly owned business to be flat to up 5% and volumes of Samsung Corning Precision to increase in the range of 8% to 13% when compared to the second quarter of 2008. Price declines in the third quarter of 2008 for Corning s wholly owned business are expected to be in the same range as the second quarter of 2008. Price declines at Samsung Corning are expected to be similar to those of Corning s wholly-owned business.

Although we believe that end market demand for LCD televisions, monitors, and notebooks remains strong, we are cautious about the potential negative impact that economic conditions and political tensions could have on consumer demand. There is no assurance that the end-market rates of growth will continue at the rates experienced in recent years, that we will be able to pace our capacity expansions to actual demand, or that the rate of cost declines will offset price declines in any given period. While the industry has grown rapidly, consumer preferences for panels of differing sizes; prices; or other factors may lead to pauses in market growth. Therefore, it is possible that glass manufacturing capacity may exceed demand from time to time. In addition, changes in foreign exchange rates, principally the Japanese yen, will continue to impact the sales and profitability of this segment.

Telecommunications

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

	Three months ended June 30, 2008	2007	% Change 08 vs. 07	Six months ended June 30, 2008	2007	% Change 08 vs. 07
Net sales:						
Optical fiber and cable	$ 248	$ 219	13%	$ 462	$ 430	7%
Hardware and equipment	229	219	5%	436	447	(2)%
Total net sales	$ 477	$ 438	9%	$ 898	$ 877	2%
Net income	$ 23	$ 42	(45)%	$ 34		