

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

	For the three months ended		For the year ended	
	December 31,		December 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 736	\$ 917	\$ 3,164	\$ 6,047
Cost of sales	<u>631</u>	<u>896</u>	<u>2,562</u>	<u>4,227</u>
Gross margin	105	21	602	1,820
Operating expenses:				
Selling, general and administrative expenses	183	296	716	1,090
Research, development and engineering expenses	113	145	483	622
Amortization of purchased intangibles	10	40	43	76
Amortization of goodwill		35		363
Restructuring, impairment and other charges	<u>1,461</u>	<u>606</u>	<u>2,080</u>	<u>5,717</u>
Operating loss	(1,662)	(1,101)	(2,720)	(6,048)
Interest income	7	18	41	68
Interest expense	(43)	(48)	(179)	(153)
Gain on repurchases of debt	86		176	
Other (expense) income, net	<u>(28)</u>	<u>1</u>	<u>(38)</u>	<u>(28)</u>
Loss from continuing operations before income taxes	(1,640)	(1,130)	(2,720)	(6,161)
Benefit for income taxes	<u>(401)</u>	<u>(411)</u>	<u>(726)</u>	<u>(468)</u>
Loss from continuing operations before minority interests and equity earnings	(1,239)	(719)	(1,994)	(5,693)
Minority interests	81	24	98	13
Equity in earnings of associated companies, net of impairments	<u>19</u>	<u>29</u>	<u>116</u>	<u>148</u>
Loss from continuing operations	(1,139)	(666)	(1,780)	(5,532)
Income from discontinued operations, net of income taxes	<u>430</u>	<u>11</u>	<u>478</u>	<u>34</u>
Net loss	(709)	(655)	(1,302)	(5,498)
Dividend requirements of preferred stock	<u>          </u>	<u>(1)</u>	<u>(128)</u>	<u>(1)</u>
Loss attributable to common shareholders	<u>\$ (709)</u>	<u>\$ (656)</u>	<u>\$ (1,430)</u>	<u>\$ (5,499)</u>
Basic and diluted (loss) earnings per common share from:				
Continuing operations	\$ (0.96)	\$ (0.71)	\$ (1.85)	\$ (5.93)
Discontinued operations	<u>0.36</u>	<u>0.02</u>	<u>0.46</u>	<u>0.04</u>
Net loss per common share	<u>\$ (0.60)</u>	<u>\$ (0.69)</u>	<u>\$ (1.39)</u>	<u>\$ (5.89)</u>
Shares used in computing per share amounts for basic and diluted loss per common share	<u>1,188</u>	<u>944</u>	<u>1,030</u>	<u>933</u>

The accompanying notes are an integral part of these statements.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited; in millions)

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,471	\$ 1,037
Short-term investments, at fair value	<u>619</u>	<u>1,182</u>
Total cash and short-term investments	2,090	2,219
Trade accounts receivable, net of doubtful accounts and allowances - \$59 and \$60	470	593
Inventories	559	725
Deferred income taxes	296	347
Other current assets	<u>410</u>	<u>223</u>
Total current assets	<u>3,825</u>	<u>4,107</u>
Restricted cash and investments	82	
Investments:		
Associated companies, at equity	746	636
Others, at cost or fair value	<u>23</u>	<u>142</u>
Total investments	<u>769</u>	<u>778</u>
Property, net of accumulated depreciation - \$3,375 and \$3,101	3,705	5,097
Goodwill, net of accumulated amortization - \$661	1,715	1,937
Other intangible assets, net of accumulated amortization - \$104 and \$90	261	352
Deferred income taxes	887	313
Other assets	<u>304</u>	<u>209</u>
<b>Total Assets</b>	<b><u>\$ 11,548</u></b>	<b><u>\$ 12,793</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Loans payable	\$ 204	\$ 477
Accounts payable	339	441
Other accrued liabilities	<u>1,137</u>	<u>1,076</u>
Total current liabilities	<u>1,680</u>	<u>1,994</u>
Long-term debt	3,963	4,463
Postretirement benefits other than pensions	617	608
Pensions	455	92
Other liabilities	83	96
Commitments and contingencies		
Minority interests	59	119
Series B Convertible preferred stock		7
Shareholders' equity:		
Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million		
Series C mandatory convertible preferred stock - Shares issued: 5.75 million; Shares outstanding: 1.55 million	155	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,267 million and 1,023 million	634	512
Additional paid-in capital	9,695	9,532
Accumulated deficit	(4,921)	(3,610)
Treasury stock, at cost: 70 million and 79 million	(702)	(827)
Accumulated other comprehensive loss	<u>(170)</u>	<u>(193)</u>
Total shareholders' equity	<u>4,691</u>	<u>5,414</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 11,548</u></b>	<b><u>\$ 12,793</u></b>

The accompanying notes are an integral part of these statements.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited; in millions)

	For the year ended	
	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
<b>Cash Flows from Operating Activities:</b>		
Loss from continuing operations	\$ (1,780)	\$ (5,532)
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:		
Amortization of purchased intangibles	43	76
Amortization of goodwill		363
Depreciation	618	621
Restructuring, impairment and other charges	2,080	5,717
Inventory write-down		333
Gain on repurchases of debt	(176)	
Stock compensation charges		130
Equity in earnings of associated companies in excess of dividends received	(25)	(94)
Minority interests, net of dividends paid	(98)	(22)
Deferred tax benefit	(624)	(511)
Interest expense on convertible debentures	38	41
Tax benefit on stock options		27
Restructuring payments	(276)	(77)
Increases in restricted cash	(53)	
Changes in certain working capital items	(43)	240
Other, net	<u>(28)</u>	<u>70</u>
<b>Net cash (used in) provided by operating activities</b>	<u>(324)</u>	<u>1,382</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(357)	(1,741)
Acquisitions of businesses, net of cash acquired	(56)	(66)
Proceeds from sale or disposal of assets, net	92	67
Net increase in long-term investments and other long-term assets	(31)	(113)
Proceeds from sale of precision lens business, net	787	
Short-term investments - acquisitions	(2,177)	(1,320)
Short-term investments - liquidations	2,742	853
Restricted investments - acquisitions	(117)	
Restricted investments - liquidations	88	
Other, net	<u>(2)</u>	<u>4</u>
<b>Net cash provided by (used in) investing activities</b>	<u>969</u>	<u>(2,316)</u>
<b>Cash Flows from Financing Activities:</b>		
Net (decrease) increase in loans payable	(490)	181
Proceeds from issuance of long-term debt	11	735
Repayments of long-term debt	(325)	(104)
Redemption of Series B preferred stock	(7)	
Proceeds from issuance of Series C preferred stock, net	557	
Proceeds from issuance of common stock, net	52	247
Repurchases of common stock	(23)	
Redemption of common stock for income tax withholding	(1)	(42)
Cash dividends paid to preferred and common shareholders	<u>(88)</u>	<u>(113)</u>
<b>Net cash (used in) provided by financing activities</b>	<u>(314)</u>	<u>904</u>
Effect of exchange rates on cash	<u>43</u>	<u>(7)</u>
Cash provided by (used in) continuing operations	374	(37)
Cash provided by (used in) discontinued operations	<u>60</u>	<u>(5)</u>
Net increase (decrease) in cash and cash equivalents	434	(42)
Cash and cash equivalents at beginning of year	<u>1,037</u>	<u>1,079</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,471</u>	<u>\$ 1,037</u>

The accompanying notes are an integral part of these statements.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Quarter 4, 2002**  
**(Unaudited)**

**1. Discontinued Operations**

On December 13, 2002, Corning completed the sale of its precision lens business based in Cincinnati, OH to 3M Company. The cash proceeds from the sale approximated \$800 million and the gain on the sale is approximately \$415 million, net of tax. Also, in 2003 Corning could receive approximately \$50 million of additional proceeds related to this transaction.

The precision lens business is accounted for as a discontinued operation and therefore, its results of operations and cash flows have been removed from Corning's results of continuing operations for all periods presented.

Summarized selected financial information related to the precision lens business is as follows:

(Dollars in millions)

	<b>For the</b>		<b>For the</b>	
	<b>three months ended</b>		<b>year ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<u><b>2002</b></u>	<u><b>2001</b></u>	<u><b>2002</b></u>	<u><b>2001</b></u>
Net sales	\$ 65	\$ 57	\$ 268	\$ 225
Income (loss) before taxes	\$ 26	\$ (1)	\$ 100	\$ 50
Gain on sale before taxes	652		652	
Income tax expense (benefit)	<u>248</u>	<u>(12)</u>	<u>274</u>	<u>16</u>
Net income	<u>\$ 430</u>	<u>\$ 11</u>	<u>\$ 478</u>	<u>\$ 34</u>

**2. Restructuring Actions**

*Fourth Quarter*

On October 30, 2002, Corning announced its intent to take additional measures to attain profitability in 2003. The continued decline in demand in the Telecommunications Segment required further restructuring to bring capacity in line with current revenues. The fourth quarter actions included:

- closings of two fiber manufacturing facilities and the mothballing of another,
- reductions in capacity and employment in Corning's cabling and hardware and equipment locations worldwide, and
- permanent closure of the photonic technologies thin film filter manufacturing facility in Marlborough, MA.

In addition, Corning decided to divest its portfolio of cost investments in private telecommunications related businesses.

As a result of these actions, Corning recorded a charge of \$652 million (\$516 million after-tax) impacting approximately 2,500 employees which included a restructuring charge of \$190 million, a charge to impair plant and equipment of \$415 million and a \$47 million write-down of cost investments. Approximately one quarter of this charge is expected to be paid in cash. Corning recorded \$1,271 million (\$929 million after-tax and minority interest) for restructuring actions for the full year.

### Restructuring Charges

During the fourth quarter, Corning recorded restructuring charges of \$190 million. The charge included employee separation costs of \$137 million (including curtailment losses related to pension and health care plans) and exit costs of \$62 million offset by a \$9 million reduction in the 2001 restructuring reserves. During the fourth quarter Corning paid employee related separation costs of \$78 million and other exit costs of \$5 million. For the full year Corning recorded charges of \$376 million for employee separation costs and \$85 million of exit costs offset by a \$14 million reduction in reserves from the 2001 Restructuring Actions. As of December 31, 2002, approximately 5,100 of the 7,100 employees had been separated under the plans.

### Impairment of Plant and Equipment

Corning recorded \$421 million in the fourth quarter to impair plant and equipment relating to facilities to be shutdown or disposed, offset by a \$6 million reduction in the impairments resulting from the 2001 Restructuring Actions. For the full year, Corning recorded \$712 million for impairment charges related to plant and equipment, offset by an \$11 million reduction in impairments related to 2001 Restructuring Actions.

## **3. Impairment of Long-Lived Assets Other Than Goodwill**

### *Photonic Technologies Business*

The photonic technologies business is a manufacturer of photonic modules and components for the worldwide telecommunications industry and is reported in the Telecommunications Segment. The telecommunications market is undergoing a dramatic decline in demand for telecommunication products as major buyers of network equipment in this industry have reduced their capital spending plans over the past two years and are expected to continue in the near future. This negative trend is expected to continue into the foreseeable future. Corning continues to evaluate strategic alternatives for this business.

In the fourth quarter, Corning determined that a test for impairment of long-lived assets in this business was appropriate and that the carrying value of the long-lived assets of this business are not recoverable. As a result, Corning recorded a \$269 million (\$195 million after-tax) write-down of the assets, which was reflected in the line item "Restructuring, impairment and other charges" in the income statement.

### *Conventional Video Components Business*

Corning Asahi Video Products Company, a 51% owned consolidated subsidiary, (conventional video components business) is a manufacturer of glass panels and funnels for use in conventional tube televisions and is reported in the Technologies Segment. The conventional tube television segment of the market in North America is very mature and the conventional tube market is undergoing intense competition and price pressure at this time.

This market trend combined with cash losses in this business in the short-term indicated an evaluation for the recoverability of the long-lived assets of the business was required and management determined that the long-lived assets of the business have been impaired. This evaluation resulted in a \$140 million (\$44 million after-tax and minority interest) write-down of the assets, which was reflected in the line item "Restructuring, impairment and other charges" in the income statement.

## **4. Impairment of Goodwill**

Corning adopted Statement of Financial Accounting Standards (SFAS) No. 142, which requires that goodwill be reviewed for impairment upon adoption of SFAS No. 142 (January 1, 2002) and annually thereafter. Corning performed an initial benchmark assessment upon adoption at January 1, 2002, and determined that a transition charge was not required. Corning chose the fourth quarter to conduct its annual test for impairment.

Upon completion of the annual assessment, Corning recorded an impairment charge of \$400 million (\$294 million after-tax) to reduce the carrying value of goodwill in the telecommunications reporting unit to its estimated fair value of \$1.6 billion. The impairment charge is non-cash in nature.

## 5. Gain on Repurchases of Debt

During the fourth quarter of 2002, Corning repurchased and retired a portion of its zero coupon convertible debentures with an accreted value of \$215 million in exchange for cash of \$125 million in a series of open-market repurchases. Corning recorded a gain of \$86 million (\$53 million after-tax) on these transactions, net of the write-off of the unamortized issuance costs.

Corning repurchased and retired zero-coupon convertible debentures with an accreted value of \$493 million in exchange for cash of \$308 million for the year ended December 31, 2002. Corning has recorded gains of \$176 million (\$108 million after-tax) on these transactions for the year ended December 31, 2002.

Through January 23, 2003, Corning spent \$158 million of cash to repurchase and retire additional zero-coupon convertible debentures.

## 6. Income Taxes

Corning's effective income tax benefit rate for the three and twelve month periods ended December 31, 2002, was 24.4% and 26.7%, respectively. The income tax benefit rate in the fourth quarter and the year end 2002 was impacted by restructuring, impairment and other charges and the gain on repurchases of debt. The effective income tax benefit rate without consideration of these items for the fourth quarter and the year end 2002 was 33.9% and 30.0%. The effective income tax benefit rate in the fourth quarter and the year ended is lower than the U.S. federal statutory income tax rate of 35% due to the impact of nondeductible expenses and losses.

The effective income tax benefit rate for the three and twelve months ended December 31, 2001, was 36.4% and 7.6%. The effective income tax benefit rate for the full year is much lower than the U.S. federal statutory income tax rate primarily due to non-tax deductible impairment and amortization of acquired intangibles and goodwill.

## 7. Equity in Earnings of Associated Companies

Equity earnings in the fourth quarter included charges of \$20 million primarily due to an equity investee incurring restructuring and impairment charges. Equity earnings for the full year included \$34 million of impairments as Corning impaired an international cabling venture for \$14 million in the second quarter. These charges are included in the results of the Telecommunications Segment.

## 8. Supplementary Statement of Cash Flows Data

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
Changes in certain working capital items:		
Trade accounts receivable	\$ 153	\$ 666
Inventories	135	(47)
Other current assets	(171)	92
Accounts payable and other current liabilities, net of restructuring payments	<u>(160)</u>	<u>(471)</u>
Total	<u>\$ (43)</u>	<u>\$ 240</u>

## **9. Operating Segments**

Corning previously grouped its products into three operating segments: Telecommunications, Advanced Materials and Information Display. Beginning in the fourth quarter of 2002, Corning's reportable segments consist of the following: Telecommunications and Technologies. As a result of the fourth quarter sale of the precision lens business and the reduced significance of the conventional video components business, management realigned the remainder of the Information Display Segment with the businesses previously reported in the Advanced Materials Segment to create the Technologies Segment. The precision lens business is reported as a discontinued operation and therefore its results have been excluded from segment reporting. Also, in the second quarter of 2002, Corning revised its definition of segment net income. Prior to the second quarter, Corning disclosed restructuring and impairment charges and acquisition-related charges by segment but excluded this from quantitative segment results. These charges have now been included in the segment net income and historical periods have been conformed to this presentation. Corning also includes the earnings of equity affiliates that are closely associated with Corning's operating segments in segment net income. Segment amounts exclude revenues, expenses and equity earnings not specifically identifiable to segments.

Corning prepared the financial results for its operating segments on a basis that is consistent with the manner in which Corning management internally disaggregates financial information to assist in making internal operating decisions. Corning has allocated certain common expenses among segments differently than it would for stand alone financial information prepared in accordance with generally accepted accounting principles. These expenses include interest, taxes and corporate functions. Segment net income may not be consistent with measures used by other companies.

(\$ in millions)

	<b>For the</b>		<b>For the</b>	
	<b>three months ended</b>		<b>year ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Telecommunications</b>				
Net sales	\$ 363	\$ 543	\$ 1,631	\$ 4,458
Research, development and engineering expenses	\$ 65	\$ 108	\$ 308	\$ 474
Restructuring, impairment and other charges (related tax benefit, \$299, \$119, \$452, \$282, respectively)	\$ 1,263	\$ 293	\$ 1,722	\$ 5,404
Interest expense	\$ 15	\$ 32	\$ 99	\$ 104
Income tax benefit	\$ (376)	\$ (249)	\$ (722)	\$ (336)
Segment loss before minority interests and equity earnings	\$ (1,123)	\$ (451)	\$ (1,838)	\$ (5,215)
Minority interests	1		1	
Equity in (losses) earnings of associated companies, net of impairments (a)	<u>(34)</u>	<u>(3)</u>	<u>(60)</u>	<u>12</u>
Segment net loss	<u>\$ (1,156)</u>	<u>\$ (454)</u>	<u>\$ (1,897)</u>	<u>\$ (5,203)</u>
<b>Technologies</b>				
Net sales	\$ 367	\$ 367	\$ 1,513	\$ 1,568
Research, development and engineering expenses	\$ 50	\$ 40	\$ 177	\$ 151
Restructuring, impairment and other charges (related tax benefit, \$27, \$48, \$30, \$48, respectively)	\$ 141	\$ 122	\$ 150	\$ 122
Interest expense	\$ 19	\$ 15	\$ 71	\$ 48
Income tax benefit	\$ (33)	\$ (53)	\$ (28)	\$ (38)
Segment loss before minority interests and equity earnings	\$ (132)	\$ (126)	\$ (145)	\$ (53)
Minority interests (includes \$68, \$0, \$70, \$0, respectively, related to impairment and restructuring charges)	80	24	96	13
Equity in earnings of associated companies	<u>51</u>	<u>32</u>	<u>168</u>	<u>132</u>
Segment net (loss) income	<u>\$ (1)</u>	<u>\$ (70)</u>	<u>\$ 119</u>	<u>\$ 92</u>
<b>Total Segments</b>				
Net sales	\$ 730	\$ 910	\$ 3,144	\$ 6,026
Research, development and engineering expenses	\$ 115	\$ 148	\$ 485	\$ 625
Restructuring, impairment and other charges (related tax benefit, \$326, \$167, \$482, \$330, respectively)	\$ 1,404	\$ 415	\$ 1,872	\$ 5,526
Interest expense	\$ 34	\$ 47	\$ 170	\$ 152
Income tax benefit	\$ (409)	\$ (302)	\$ (750)	\$ (374)
Segment loss before minority interests and equity earnings	\$ (1,255)	\$ (577)	\$ (1,983)	\$ (5,268)
Minority interests	81	24	97	13
Equity in earnings of associated companies, net of impairments (a)	<u>17</u>	<u>29</u>	<u>108</u>	<u>144</u>
Segment net loss	<u>\$ (1,157)</u>	<u>\$ (524)</u>	<u>\$ (1,778)</u>	<u>\$ (5,111)</u>

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements is as follows (in millions):

	<b>For the</b>		<b>For the</b>	
	<b>three months ended</b>		<b>year ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>Net Sales</b>				
Total segment net sales	\$ 730	\$ 910	\$ 3,144	\$ 6,026
Non-segment net sales (b)	<u>6</u>	<u>7</u>	<u>20</u>	<u>21</u>
<b>Total net sales</b>	<u>\$ 736</u>	<u>\$ 917</u>	<u>\$ 3,164</u>	<u>\$ 6,047</u>
<b>Loss from Continuing Operations</b>				
Total segment net loss (c)	\$ (1,157)	\$ (524)	\$ (1,778)	\$ (5,111)
<i>Unallocated items:</i>				
Non-segment income (loss) and other (b)	(12)	(43)	4	(33)
Amortization of goodwill (d)		(35)		(363)
Non-segment restructuring, impairment and other charges (e)	(57)	(191)	(208)	(191)
Interest income (f)	7	18	41	68
Gain on repurchases of debt (f)	86		176	
Income tax (expense) benefit (g)	(8)	109	(24)	94
Minority interests			1	
Equity in earnings of associated companies (b)	<u>2</u>	<u>      </u>	<u>8</u>	<u>4</u>
<b>Loss from continuing operations</b>	<u>\$ (1,139)</u>	<u>\$ (666)</u>	<u>\$ (1,780)</u>	<u>\$ (5,532)</u>

- (a) Equity losses in 2002 include \$20 million of charges primarily related to restructuring and impairments recorded in the fourth quarter. See Note 7.
- (b) Includes amounts derived from corporate investments and activities.
- (c) Includes royalty, interest and dividend income.
- (d) Amortization of goodwill relates primarily to the Telecommunications Segment.
- (e) Amount includes special termination benefits and pension and postretirement benefit curtailment charges of \$5 million and \$40 million recorded in the fourth quarter and full year of 2002, respectively. The balance of the charge relates to restructuring and impairment charges in the corporate research and administrative staff organizations.
- (f) Corporate interest income and gain on repurchases of debt is not allocated to reportable segments.
- (g) Includes tax associated with unallocated items.

## 10. Accounting Change

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." Among other provisions, goodwill will no longer be amortized but will be subject to impairment tests at least annually. SFAS No. 142 was effective for Corning on January 1, 2002. Corning completed its initial impairment review during the first quarter and concluded a transitional impairment charge from the adoption of the standard was not required.

Corning has selected the fourth quarter to conduct annual impairment tests. See Note 4 for the results of the impairment test. The goodwill related to the Telecommunications Segment is \$1.6 billion at December 31, 2002.

The following table presents a reconciliation of reported net loss and loss per share to adjusted net loss and loss per share, as if SFAS No. 142 had been in effect as follows:

(In millions, except per share amounts)	<b>For the three months ended December 31, 2001</b>	<b>For the year ended December 31, 2001</b>
Reported net loss	\$ (655)	\$ (5,498)
Addback: Amortization of goodwill, net of income taxes	<u>31</u>	<u>345</u>
Adjusted net loss	<u>\$ (624)</u>	<u>\$ (5,153)</u>
Reported loss per share - basic and diluted	\$ (0.69)	\$ (5.89)
Addback: Amortization of goodwill, net of income taxes	<u>0.03</u>	<u>0.37</u>
Adjusted loss per share - basic	<u>\$ (0.66)</u>	<u>\$ (5.52)</u>

## 11. Reclassifications

Certain amounts in 2001 have been reclassified to conform with 2002 classifications.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**RESTATED FOR PRESENTATION OF PRECISION LENS AS A DISCONTINUED OPERATION**  
(Unaudited; in millions, except per share amounts)

	<b>For the three months ended March 31, 2002</b>	<b>For the three months ended June 30, 2002</b>	<b>For the three months ended Sept. 30, 2002</b>	<b>For the nine months ended Sept. 30, 2002</b>
Net sales	\$ 839	\$ 827	\$ 762	\$ 2,428
Cost of sales	<u>655</u>	<u>643</u>	<u>633</u>	<u>1,931</u>
Gross margin	184	184	129	497
Operating expenses:				
Selling, general and administrative expenses	188	188	157	533
Research, development and engineering expenses	126	131	113	370
Amortization of purchased intangibles	11	11	11	33
Restructuring, impairment and other charges	<u>          </u>	<u>494</u>	<u>125</u>	<u>619</u>
Operating loss	(141)	(640)	(277)	(1,058)
Interest income	14	10	10	34
Interest expense	(48)	(44)	(44)	(136)
Gain on repurchases of debt		68	22	90
Other expense, net	<u>(9)</u>	<u>          </u>	<u>(1)</u>	<u>(10)</u>
Loss from continuing operations before income taxes	(184)	(606)	(290)	(1,080)
Income tax benefit	<u>(50)</u>	<u>(184)</u>	<u>(91)</u>	<u>(325)</u>
Loss from continuing operations before minority interests and equity earnings	(134)	(422)	(199)	(755)
Minority interests	6	6	5	17
Equity in earnings of associated companies, net of impairments	<u>30</u>	<u>25</u>	<u>42</u>	<u>97</u>
Loss from continuing operations	(98)	(391)	(152)	(641)
Income from discontinued operations, net of income taxes	<u>8</u>	<u>21</u>	<u>19</u>	<u>48</u>
Net loss	(90)	(370)	(133)	(593)
Dividend requirements of preferred stock	<u>          </u>	<u>          </u>	<u>(128)</u>	<u>(128)</u>
Loss attributable to common shareholders	<u>\$ (90)</u>	<u>\$ (370)</u>	<u>\$ (261)</u>	<u>\$ (721)</u>
Basic and diluted (loss) earnings per common share				
Continuing operations	\$ (0.10)	\$ (0.41)	\$ (0.27)	\$ (0.79)
Discontinued operations	<u>          </u>	<u>0.02</u>	<u>0.02</u>	<u>0.05</u>
Net loss per common share	<u>\$ (0.10)</u>	<u>\$ (0.39)</u>	<u>\$ (0.25)</u>	<u>\$ (0.74)</u>
Shares used in computing per share amounts for basic and diluted loss per common share	<u>945</u>	<u>948</u>	<u>1,036</u>	<u>977</u>

The accompanying notes are an integral part of these statements.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**OPERATING SEGMENTS**  
**RESTATED FOR NEW SEGMENT AND DISCONTINUED OPERATIONS PRESENTATION**  
(Unaudited, in millions)

	<b>For the three months ended March 31, 2002</b>	<b>For the three months ended June 30, 2002</b>	<b>For the three months ended Sept. 30, 2002</b>	<b>For the nine months ended Sept. 30, 2002</b>
<b>Telecommunications</b>				
Net sales	\$ 465	\$ 437	\$ 366	\$ 1,268
Research, development and engineering expenses	\$ 86	\$ 86	\$ 71	\$ 243
Restructuring, impairment and other charges (related tax benefit, \$0, \$125, \$28 and \$153, respectively)		\$ 369	\$ 90	\$ 459
Interest expense	\$ 32	\$ 25	\$ 27	\$ 84
Income tax benefit	\$ (64)	\$ (191)	\$ (91)	\$ (346)
Segment loss before equity earnings	\$ (138)	\$ (384)	\$ (193)	\$ (715)
Equity in losses of associated companies	(4)	(17)	(5)	(26)
Segment net loss	<u>\$ (142)</u>	<u>\$ (401)</u>	<u>\$ (198)</u>	<u>\$ (741)</u>
<b>Technologies</b>				
Net sales	\$ 369	\$ 385	\$ 392	\$ 1,146
Research, development and engineering expenses	\$ 40	\$ 45	\$ 42	\$ 127
Restructuring, impairment and other charges (related tax benefit, \$0, \$1, \$2 and \$3, respectively)		\$ 3	\$ 6	\$ 9
Interest expense	\$ 16	\$ 17	\$ 19	\$ 52
Income tax (benefit) expense	\$ (1)	\$ 5	\$ 1	\$ 5
Segment loss before minority interests and equity earnings	\$ (4)	\$ (4)	\$ (5)	\$ (13)
Minority interests	6	5	5	16
Equity in earnings of associated companies	33	41	43	117
Segment net income	<u>\$ 35</u>	<u>\$ 42</u>	<u>\$ 43</u>	<u>\$ 120</u>
<b>Total Segments</b>				
Net sales	\$ 834	\$ 822	\$ 758	\$ 2,414
Research, development and engineering expenses	\$ 126	\$ 131	\$ 113	\$ 370
Restructuring, impairment and other charges (related tax benefit, \$0, \$126, \$30 and \$156, respectively)		\$ 372	\$ 96	\$ 468
Interest expense	\$ 48	\$ 42	\$ 46	\$ 136
Income tax benefit	\$ (65)	\$ (186)	\$ (90)	\$ (341)
Segment loss before minority interests and equity earnings	\$ (142)	\$ (388)	\$ (198)	\$ (728)
Minority interests	6	5	5	16
Equity in earnings of associated companies	29	24	38	91
Segment net loss	<u>\$ (107)</u>	<u>\$ (359)</u>	<u>\$ (155)</u>	<u>\$ (621)</u>

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**OPERATING SEGMENTS**  
**RESTATED FOR NEW SEGMENT AND DISCONTINUED OPERATIONS PRESENTATION**  
(Unaudited, in millions)

	<b>For the three months ended March 31, 2002</b>	<b>For the three months ended June 30, 2002</b>	<b>For the three months ended Sept. 30, 2002</b>	<b>For the nine months ended Sept. 30, 2002</b>
<b>Reconciliation:</b>				
<b>Net sales</b>				
Total segment net sales	\$ 834	\$ 822	\$ 758	\$ 2,414
Non-segment net sales	<u>5</u>	<u>5</u>	<u>4</u>	<u>14</u>
<b>Total net sales</b>	<b><u>\$ 839</u></b>	<b><u>\$ 827</u></b>	<b><u>\$ 762</u></b>	<b><u>\$ 2,428</u></b>
<b>Loss from Continuing Operations</b>				
Total segment loss	\$ (107)	\$ (359)	\$ (155)	\$ (621)
<i>Unallocated items:</i>				
Non-segment income (loss) and other	9	12	(5)	16
Non-segment restructuring, impairment and other charges		(122)	(29)	(151)
Interest income	14	10	10	34
Gain on repurchases of debt		68	22	90
Income tax (expense) benefit	(15)	(2)	1	(16)
Minority interests		1		1
Equity in earnings of associated companies	<u>1</u>	<u>1</u>	<u>4</u>	<u>6</u>
<b>Loss from continuing operations</b>	<b><u>\$ (98)</u></b>	<b><u>\$ (391)</u></b>	<b><u>\$ (152)</u></b>	<b><u>\$ (641)</u></b>

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**QUARTERLY SEGMENT SALES INFORMATION**  
(Unaudited; in millions)

	<b>2002</b>				<b>Total</b>
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	
<b>Telecommunications</b>					
Fiber and cable	\$ 255	\$ 212	\$ 195	\$ 197	\$ 859
Hardware and equipment	135	153	136	128	552
Photonic technologies (a)	36	39	17	19	111
Controls and connectors	39	33	18	19	109
Segment net sales	<u>\$ 465</u>	<u>\$ 437</u>	<u>\$ 366</u>	<u>\$ 363</u>	<u>\$ 1,631</u>
<b>Technologies</b>					
Display technologies	\$ 93	\$ 102	\$ 106	\$ 104	\$ 405
Environmental	94	102	102	96	394
Life sciences	70	74	71	65	280
Conventional video components	43	41	47	35	166
Other technologies businesses	69	66	66	67	268
Segment net sales	<u>\$ 369</u>	<u>\$ 385</u>	<u>\$ 392</u>	<u>\$ 367</u>	<u>\$ 1,513</u>
<b>2001</b>					
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
<b>Telecommunications</b>					
Fiber and cable	\$ 875	\$ 939	\$ 779	\$ 296	\$ 2,889
Hardware and equipment	248	231	187	151	817
Photonic technologies	250	168	76	53	547
Controls and connectors	60	55	47	43	205
Segment net sales	<u>\$ 1,433</u>	<u>\$ 1,393</u>	<u>\$ 1,089</u>	<u>\$ 543</u>	<u>\$ 4,458</u>
<b>Technologies</b>					
Display technologies	\$ 62	\$ 87	\$ 79	\$ 95	\$ 323
Environmental	108	96	90	85	379
Life sciences	70	69	65	63	267
Conventional video components	86	73	47	46	252
Other technologies businesses	104	86	79	78	347
Segment net sales	<u>\$ 430</u>	<u>\$ 411</u>	<u>\$ 360</u>	<u>\$ 367</u>	<u>\$ 1,568</u>

(a) Optical network devices business has been combined with photonics technologies for all periods presented.

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited; in millions, except per share amounts)  
**Q4 '02 vs. Q3 '02**

	<b>For the three months ended</b>	
	<b>December 31,</b>	<b>September 30,</b>
	<b>2002</b>	<b>2002</b>
Net sales	\$ 736	\$ 762
Cost of sales	<u>631</u>	<u>633</u>
Gross margin	105	129
Operating expenses:		
Selling, general and administrative expenses	183	157
Research, development and engineering expenses	113	113
Amortization of purchased intangibles	10	11
Restructuring, impairment and other charges	<u>1,461</u>	<u>125</u>
Operating loss	(1,662)	(277)
Interest income	7	10
Interest expense	(43)	(44)
Gain on repurchases of debt	86	22
Other expense, net	<u>(28)</u>	<u>(1)</u>
Loss from continuing operations before income taxes	(1,640)	(290)
Benefit for income taxes	<u>(401)</u>	<u>(91)</u>
Loss from continuing operations before minority interests and equity earnings	(1,239)	(199)
Minority interests	81	5
Equity in earnings of associated companies, net of impairments	<u>19</u>	<u>42</u>
Loss from continuing operations	(1,139)	(152)
Income from discontinued operations, net of income taxes	<u>430</u>	<u>19</u>
Net loss	(709)	(133)
Dividend requirements of preferred stock	<u>          </u>	<u>(128)</u>
Net loss attributable to common shareholders	<u>\$ (709)</u>	<u>\$ (261)</u>
Basic and diluted loss per common share		
Continuing operations	(0.96)	(0.27)
Discontinued operations	0.36	0.02
Net loss per common share	<u>\$ (0.60)</u>	<u>\$ (0.25)</u>
Shares used in computing per share amounts for basic and diluted loss per common share	<u>1,188</u>	<u>1,036</u>

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited; in millions)  
**Q4 '02 vs. Q3 '02**

	<u>December 31,</u> <u>2002</u>	<u>September 30,</u> <u>2002</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,471	\$ 983
Short-term investments, at fair value	<u>619</u>	<u>618</u>
Total cash and short-term investments	2,090	1,601
Trade accounts receivable, net of doubtful accounts and allowances - \$59 and \$48	470	541
Inventories	559	619
Deferred income taxes	296	380
Other current assets	<u>410</u>	<u>374</u>
Total current assets	<u>3,825</u>	<u>3,515</u>
Restricted cash and investments	82	70
Investments:		
Associated companies, at equity	746	696
Others, at cost or fair value	<u>23</u>	<u>74</u>
Total investments	<u>769</u>	<u>770</u>
Property, net of accumulated depreciation - \$3,375 and \$3,405	3,705	4,592
Goodwill, net of accumulated amortization - \$661	1,715	2,113
Other intangible assets, net of accumulated amortization - \$104 and \$120	261	378
Deferred income taxes	887	478
Other assets	<u>304</u>	<u>266</u>
<b>Total Assets</b>	<b><u>\$ 11,548</u></b>	<b><u>\$ 12,182</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Loans payable	\$ 204	\$ 213
Accounts payable	339	286
Other accrued liabilities	<u>1,137</u>	<u>976</u>
Total current liabilities	1,680	1,475
Long-term debt	3,963	4,173
Postretirement benefits other than pensions	617	618
Pensions	455	287
Other liabilities	83	94
Commitments and contingencies		
Minority interests	59	138
Series B convertible preferred stock		
Shareholders' equity:		
Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million		
Series C mandatory convertible preferred stock - Shares issued: 5.75 million; Shares outstanding: 1.55 million and 2.45 million	155	245
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,267 million and 1,222 million	634	611
Additional paid in capital	9,695	9,620
Accumulated deficit	(4,921)	(4,212)
Cost of 70 million and 74 million shares of common stock in treasury	(702)	(736)
Accumulated other comprehensive loss	<u>(170)</u>	<u>(131)</u>
Total shareholders' equity	<u>4,691</u>	<u>5,397</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 11,548</u></b>	<b><u>\$ 12,182</u></b>

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited; in millions)

**Q4 '02 vs. Q3 '02**

	<b>For the three months ended</b>	
	<b>December 31,</b>	<b>September 30,</b>
	<b>2002</b>	<b>2002</b>
<b>Cash Flows from Operating Activities:</b>		
Loss from continuing operations	\$(1,139)	\$ (153)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Amortization of purchased intangibles	10	11
Depreciation	147	154
Restructuring, impairment and other charges	1,461	125
Gain on repurchases of debt	(86)	(22)
Equity in earnings of associated companies in excess of dividends received	(21)	(32)
Minority interests, net of dividends paid	(81)	(5)
Deferred tax benefit	(479)	(20)
Interest expense on convertible debentures	8	9
Restructuring payments	(83)	(77)
Increases in restricted cash	(33)	(20)
Changes in certain working capital items	148	(4)
Other, net	45	5
<b>Net cash used in operating activities</b>	<b>(103)</b>	<b>(29)</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(78)	(69)
Acquisitions of businesses, net of cash acquired	(27)	(29)
Proceeds from sale or disposal of assets, net	30	26
Net increase in long-term investments and other long-term assets	(13)	(9)
Proceeds from sale of precision lens business, net	787	
Short-term investments - acquisitions	(620)	(710)
Short-term investments - liquidations	619	475
Restricted investments - acquisitions		(117)
Restricted investments - liquidations	21	67
<b>Net cash provided by (used in) investing activities</b>	<b>719</b>	<b>(366)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in loans payable	12	(28)
Repayments of long-term debt	(135)	(35)
Redemption of Series B preferred stock		(7)
Proceeds from issuance of Series C preferred stock, net	(1)	558
Proceeds from issuance of common stock, net	5	14
Redemption of common stock for income tax withholding		(1)
Repurchases of common stock		(23)
Cash dividends paid to preferred shareholders	(21)	(67)
<b>Net cash (used in) provided by financing activities</b>	<b>(140)</b>	<b>411</b>
Effect of exchange rate changes on cash and cash equivalents	20	
Cash provided by continuing operations	496	16
Cash (used in) provided by discontinued operations	(8)	27
Net increase in cash and cash equivalents	488	43
Cash and cash equivalents at beginning of period	983	940
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,471</b>	<b>\$ 983</b>

**CORNING INCORPORATED AND SUBSIDIARY COMPANIES**  
**OPERATING SEGMENTS**  
(Unaudited; in millions)  
**Q4 '02 vs. Q3 '02**

	<u>For the three months ended December 31, 2002</u>	<u>For the three months ended September 30, 2002</u>
<b>Telecommunications</b>		
Net sales	\$ 363	\$ 366
Research, development and engineering expenses	\$ 65	\$ 71
Restructuring, impairment and other charges (related tax benefit, \$299, \$28, respectively)	\$ 1,263	\$ 90
Interest expense	\$ 15	\$ 27
Income tax benefit	\$ (376)	\$ (91)
Segment loss before minority interests and equity losses	\$ (1,123)	\$ (193)
Minority interests	1	
Equity in losses of associated companies, net of impairments	<u>(34)</u>	<u>(5)</u>
Segment net loss	<u>\$ (1,156)</u>	<u>\$ (198)</u>
<b>Technologies</b>		
Net sales	\$ 367	\$ 392
Research, development and engineering expenses	\$ 50	\$ 42
Restructuring, impairment and other charges (related tax benefit, \$27, \$2, respectively)	\$ 141	\$ 6
Interest expense	\$ 19	\$ 19
Income tax (benefit) expense	\$ (33)	\$ 1
Segment loss before minority interests and equity earnings	\$ (132)	\$ (5)
Minority interests (includes \$68, \$2 related to impairment and restructuring charges)	80	5
Equity in earnings of associated companies	<u>51</u>	<u>43</u>
Segment net (loss) income	<u>\$ (1)</u>	<u>\$ 43</u>
<b>Total Segments</b>		
Net sales	\$ 730	\$ 758
Research, development and engineering expenses	\$ 115	\$ 113
Restructuring, impairment and other charges (related tax benefit, \$326, \$30, respectively)	\$ 1,404	\$ 96
Interest expense	\$ 34	\$ 46
Income tax benefit	\$ (409)	\$ (90)
Segment loss before minority interests and equity earnings	\$ (1,255)	\$ (198)
Minority interests	81	5
Equity in earnings of associated companies, net of impairments	<u>17</u>	<u>38</u>
Segment net loss	<u>\$ (1,157)</u>	<u>\$ (155)</u>